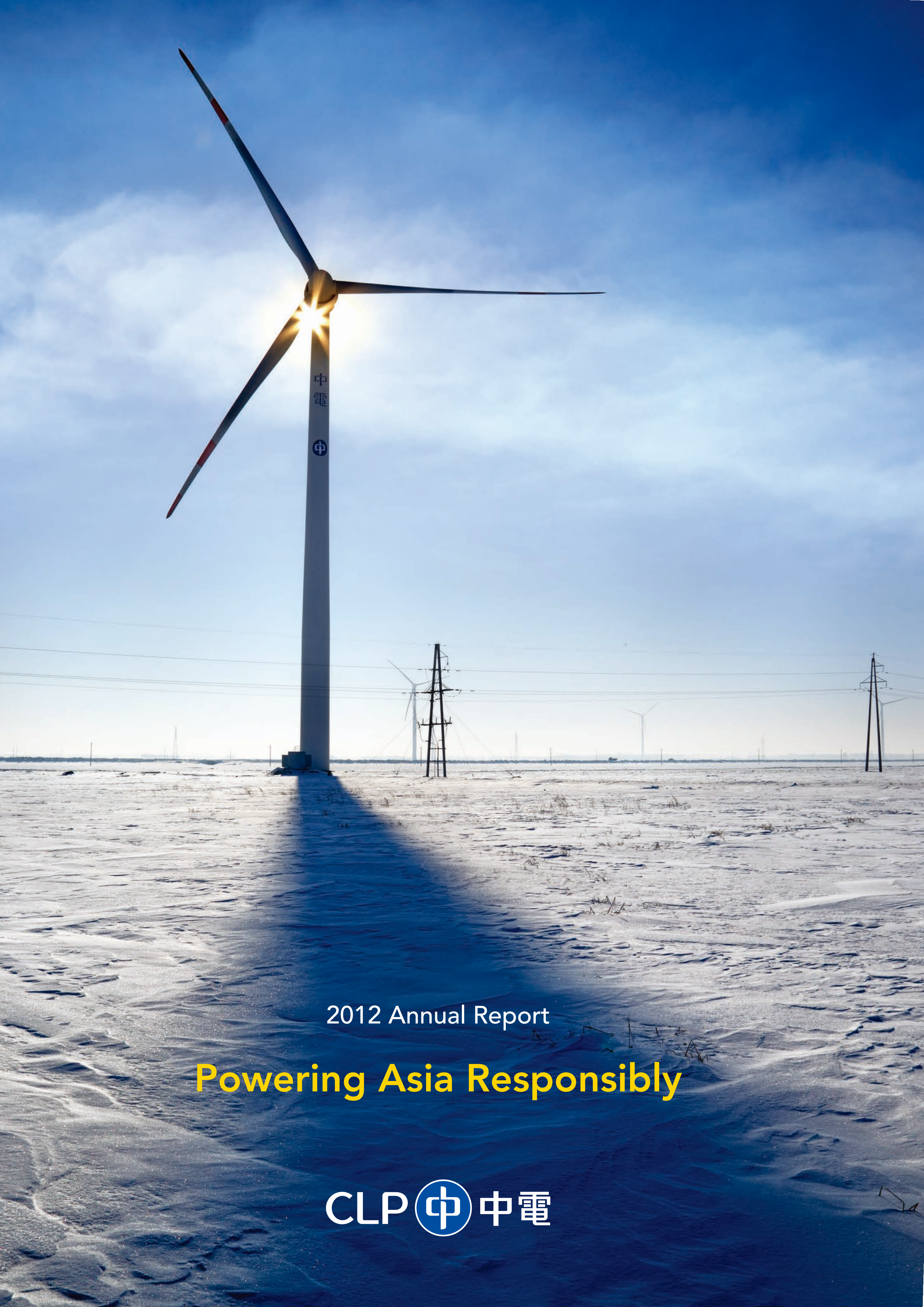


2012 Annual Report

Powering Asia Responsibly

CLP 中電

CONTENTS

Want to see more? →

Strategic focus and orientation

Insight into CLP's strategy and how that relates to its ability to create value.

The CEO's Strategic Review (page 10) is an example of our openness about CLP's strategy and how this aims to enhance future value for our shareholders.

Connectivity of information

The connections between the elements which are material to CLP's ability to create value over time.

For CLP "integrated reporting" means linking this Annual Report with all other information available to our stakeholders, including our online Sustainability Report and the wealth of information available on our website (www.clpgroup.com) and in our other publications. These give you a connected view of our performance on economic, social and environmental aspects of our activities. To help readers, we have highlighted those areas of this Annual Report where further information is available in the online Sustainability Report or on our website, by using the symbols SR and .

Stakeholders' responsiveness

The quality of CLP's relationships with key stakeholders.

We make a point of explaining CLP relationships with key stakeholders such as shareholders, lenders, employees, customers and the wider community in which we operate. The nature of our business requires effective engagement with governments, politicians and key decision makers – the importance of this is recognised in the presentation of each of our key business streams (pages 38 to 63) of this Annual Report.

Integrated Reporting

In last year's Annual Report we moved towards the concept of integrated reporting, as envisaged by the International Integrated Reporting Council (IIRC – www.theiirc.org). The IIRC described Integrated Reporting as that which "brings together material information about an organisation's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates. It provides a clear and concise representation of how an organisation demonstrates stewardship and how it creates and sustains value".

CLP's mission is to produce and supply energy with minimal environmental impact to create value for shareholders, employees and the wider community. Given this, we believe that integrated reporting is appropriate as a means to explain to our stakeholders, especially our capital providers, how our strategy, governance, performance and prospects are intended to create value over the short, medium and long term.

In November 2012, the IIRC published a "Prototype Framework" to help businesses determine the best way to explain how they create value and to do so in a meaningful and transparent way. This Annual Report has been guided by the Prototype Framework. We have not followed the Framework rigidly. Instead we have adopted an approach contemplated by the Hong Kong Institute of Certified Public Accountants by identifying and focusing our reporting on matters that are material to our long-term sustainability and drawing what is necessary from the Framework to facilitate that reporting. For example, we have used the six "Guiding Principles", set out on this page, which the IIRC suggests should underpin the preparation of an integrated report. We have also followed the Prototype Framework by describing the various "capitals" on which our business depends: manufactured, financial, intellectual, relationship, human and environmental. These are all, in one form or another, inputs to CLP's business model.

Reliability

The information we give should be reliable.

Our governance processes, which are described in the Corporate Governance Report in this Annual Report (page 93) are essential to ensuring the honesty, accuracy and reliability of the information set out in the Annual Report and our online Sustainability Report. We apply the same level of discipline and quality control to the environmental and social information we disclose, as we do to our Financial Statements, since all are important to our stakeholders. SR

Materiality and conciseness

Providing concise information that is material to assessing our ability to create value.

It is a challenge to describe a business of the size, geographic range, technological diversity and complexity of CLP in a succinct manner. In addition to this Annual Report, we use the online Sustainability Report and the information on our website to help stakeholders make their own choice about the breadth of information which they wish to access in order to make informed decisions about their capital allocation (in the case of investors and lenders) and their wider dealings with CLP. SR

Comparability and consistency

Information is presented in a way that enables comparison with other organisations and on a basis which is consistent over time.

We use widely recognised benchmarks (such as in respect of our safety performance). We measure CLP's performance on matters such as tariff, customer turnover, investment returns and many other elements against wider market references whenever this creates a better understanding of our performance.

2012 — Our 5-Minute Annual Report

• Business Description

> Major Events in 2012

Hong Kong

- Electricity supplier since 1903.
- We own and operate an electricity supply business.
  - Generation: 6,908 megawatts (MW), representing 100% of generating capacity owned by Castle Peak Power Company Limited and operated by CLP Power
  - Energy Delivery: over 14,200 kilometres (km) of transmission and high voltage distribution lines
  - Customer Service: 2.4 million customer accounts, representing over 80% of Hong Kong's population
- We're regulated under a Scheme of Control (SoC) Agreement.

> Continued to deliver world-class reliability, environmental performance and customer service.
> Held basic tariff levels down with stringent cost management, but rising fuel costs caused an average net tariff increase of 5.9% in 2013.
> Natural gas from the Second West-East Gas Pipeline arrived in Hong Kong at the end of 2012, a reliable long-term source of gas for Black Point Power Station.
> Good progress in constructing key infrastructure to receive new gas supplies.

Australia

- As EnergyAustralia, we operate an integrated energy business.
  - We're the largest privately held supplier of electricity to the National Electricity Market, with generation of 2,103MW from our wholly-owned coal and gas-fired power stations, and 3,366MW from long-term hedge and GenTrader contracts
  - We're Australia's third largest energy retailer with 2.8 million customer accounts (gas and electricity), holding a market share of 21% across Eastern Australia
  - We own Victoria's only underground gas storage facility, with long-term gas supply contracts

> EnergyAustralia focused on the fundamentals of the business, while positioning to provide for the future needs of our customers.
> We rebranded the business – combining the best of the legacy brands in Victoria and New South Wales (NSW) under the EnergyAustralia brand.
> We implemented a new billing system for our legacy retail business to provide customers with better billing information and improve our retail capabilities.
> We delivered strong advocacy positions to ensure that regulatory regimes which impact us balance the needs of all stakeholders.
> We implemented the carbon price across our business – a massive change to our industry which affected all aspects of our organisation.
> We responded with resourcefulness to the breach of the Morwell River Diversion at Yallourn in June to minimise disruptions to our operations.

Chinese Mainland

- We have been in the Chinese mainland power industry since 1985.
- We're the largest external investor in the Mainland's power sector, with 5,911 equity MW.
- We have interests in nuclear, pumped storage, coal, hydro, wind, solar and biomass power generation in Guangdong, Beijing, Hebei, Tianjin, Shandong, Shanghai, Shaanxi, Liaoning, Inner Mongolia, Guangxi, Sichuan, Jilin, Yunnan and Gansu.

> Fangchenggang Power Station performed well. Construction of two further 660MW units on the same site will commence as soon as final approval is granted by the Central Government.
> We completed the commissioning of Penglai Phase I (48MW) and the construction of Chongming (48MW) wind projects. We commenced construction of Laiwu Phase I (49.5MW) in January 2013.
> We signed a framework agreement to take a 51% equity interest in the Jinchang Solar Project (100MW) in Gansu Province, our first solar project in China. Construction is targeted to complete in the second quarter of 2013.
> The PRC Government's comprehensive nuclear safety review confirmed that Daya Bay Nuclear Power Station has adequate guidelines to manage severe accidents.
> CLP continued to work with China Guangdong Nuclear Power Holding Company, Limited (CGNPC) to obtain approval for the acquisition of a 17% shareholding in the 6 x 1,080MW Yangjiang nuclear project.

India

- We have been in the power business in India since 2002.
- We're one of the largest foreign investors in the Indian power sector with 2,947 equity MW in power projects.
- We're the largest private sector investor in wind energy in India with 972MW of wind projects in operation or under construction.

> Our 1,320MW coal-fired power plant based on supercritical technology at Jhajjar was commissioned on schedule.
> Subsequently, the operating and financial performance of the Jhajjar power station has been severely affected by inadequate, irregular and poor quality coal supplies.
> Our Paguthan gas-fired plant maintained high levels of availability and high standards of technical, safety, health and environmental performance, but securing long-term competitively-priced gas supplies remains a challenge.
> Our wind energy portfolio increased in size and improved in performance – we added 78MW and another 451MW is under active development or construction.

Southeast Asia and Taiwan

- We have been engaged in the Southeast Asia power business since 1994.
- We have a 20% interest in the 1,320MW Ho-Ping power station in Taiwan and a 33% interest in the 63MW Lopburi solar project in Thailand.
- We're co-developing two coal-fired projects in Vietnam.

> Ho-Ping achieved additional generation following a major overhaul to one of its two units.
> We are adding an additional 8MW to the Lopburi solar project.
> Significant progress was made by CLP and its joint venture partners in the development of the Vung Ang II (1,320MW) and Vinh Tan III (1,980MW) coal-fired projects in Vietnam.

Generating Power

131,147
million kWh

was sent out from power stations in which CLP has invested (enough to run the Hong Kong MTR system for 95 years or to power China for 10 days)

Total Earnings

HK$8,312 million

down 10.5% from 2011

Enhancing our Balance Sheet

5%

placement of additional shares in December 2012 with net proceeds to CLP Holdings of HK$7,556 million

Developing Careers

6,581

women and men are employed by CLP across the Asia-Pacific region

Serving Customers

5.2 million

customer accounts are serviced by CLP (2.4 million in Hong Kong and 2.8 million in Australia)

Investing in Communities

27,607 people

directly engaged through CLP's community investment initiatives in 2012

Total Dividends

HK$2.57

increased from HK$2.52 in 2011

Tackling Climate Change

0.77

kg CO_2 / kWh

carbon emission intensity of CLP's electricity generation, down from 0.84 kg CO_2 / kWh in 2007 when we launched our Climate Vision 2050

Focusing on Safety

Zero fatality and 0.26 DIIR

Disabling Injury Incidence Rate (DIIR), a key measure of safety performance, was better than 2011 (but zero incidents is our goal)

Committed to Renewable Energy

20.2 %

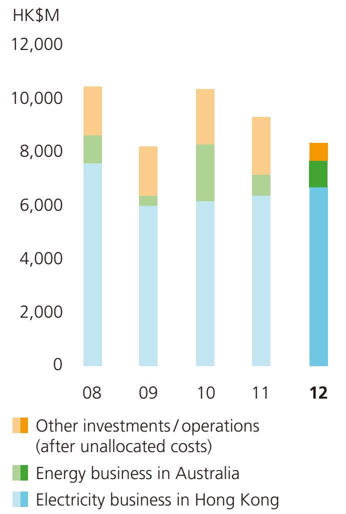
of CLP's generating capacity came from renewable energy sources in 2012, compared to less than 1% in 2004

Financial Highlights

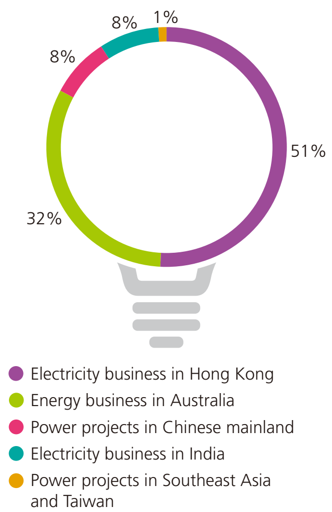
Operating earnings down 8.8% to HK$9.4 billion. Total earnings reduced 10.5% to HK$8.3 billion largely due to Yallourn mine flooding and Jhajjar impairment.

	2012	2011	Increase/ (Decrease) %
For the year *(in HK$ million)*			
Revenue			
Electricity business in Hong Kong (HK)	33,643	31,518	6.7
Energy business in Australia	66,843	56,325	18.7
Others	4,375	3,791	
Total	104,861	91,634	14.4
Earnings			
Electricity business in HK	6,654	6,339	5.0
Energy business in Australia	1,685	2,911	(42.1)
Other investments / operations	1,631	1,581	
Unallocated net finance costs	(74)	(48)	
Unallocated Group expenses	(490)	(471)	
Operating earnings	9,406	10,312	(8.8)
Yallourn mine flooding	(790)	–	
Impairment provisions for Jhajjar and Boxing Biomass / Yallourn	(409)	(1,933)	
Gain on sale of EGCO	–	876	
Valuation gain on Hok Un redevelopment	–	225	
Other one-off items from Australia	105	(192)	
Total earnings	8,312	9,288	(10.5)
Net cash inflow from operating activities	23,915	18,062	32.4
At 31 December *(in HK$ million)*			
Total assets	228,756	214,288	6.8
Total borrowings	66,198	65,521	1.0
Shareholders' funds	91,127	81,259	12.1
Per share *(in HK$)*			
Earnings per share	3.45	3.86	(10.7)
Dividends per share	2.57	2.52	2.0
Shareholders' funds per share	36.07	33.77	6.8
Ratios			
Return on equity [1] (%)	10.1	11.5	
Total debt to total capital [2] (%)	42.1	44.6	
Net debt to total capital [3] (%)	36.8	43.1	
Interest cover [4] (times)	4	4	
Price / Earnings [5] (times)	19	17	
Dividend yield [6] (%)	4.0	3.8	

Total Earnings



Total Assets in 2012



Notes:
1 Return on equity = Total earnings / Average shareholders' funds. The 2012 figure excludes the effect of the 5% share placement on 20 December 2012 to give a more accurate average shareholders' funds in 2012.
2 Total debt to total capital = Debt / (Equity + debt). Debt = Bank loans and other borrowings.
3 Net debt to total capital = Net debt / (Equity + net debt). Net debt = Debt – bank balances, cash and other liquid funds.
4 Interest cover = Profit before income tax and interest / (Interest charges + capitalised interest)
5 Price / Earnings = Closing share price on the last trading day of the year / Earnings per share
6 Dividend yield = Dividends per share / Closing share price on the last trading day of the year

Chairman's Statement

Dear Shareholders,

My remarks in the 2012 Interim Report noted that, although our business was well-balanced and operating well, the scale, nature and diversity of our portfolio could not safeguard CLP against all of the risks and challenges inherent in our business and the markets in which we operate. CLP's performance over the past year bears this out and illustrates the volatility of the Asia Pacific power sector due to the increasing velocity of economic, social, political, regulatory and technological change.

The Group's operating earnings were HK$9,406 million, a decline of 8.8% compared with HK$10,312 million in 2011. Group total earnings, which include non-recurring items, were HK$8,312 million, 10.5% lower than that in the previous year.

This has been a difficult year for some of our overseas operations. For that reason, I have asked Andrew Brandler, our Chief Executive Officer, in his Strategic Review (which forms an important component of this Annual Report) to describe the various factors which lie behind the Group's earnings across our diversified portfolio. I suggested that Andrew might do this in similar terms to the briefing which the Board and I received in December during our review of CLP's performance and outlook, so that shareholders have a clear picture of their Company's strategy and the value that it creates as well as the prospects for further growth in the years ahead. In this Chairman's Statement I wish to focus on the performance and outlook of our Hong Kong electricity business, which remains at the core of the Group's operations and provides the majority of our earnings. In doing so, I also wish to further develop some of the themes and issues which I canvassed in my remarks in last year's Annual Report and which I also addressed at our Annual General Meeting in May.

I believe it entirely appropriate for me once again to discuss the qualities of Hong Kong's electricity supply in this Chairman's Statement. Over the past 10 years, CLP's shareholders and lenders have invested almost HK$72 billion in ensuring that Hong Kong has the electricity infrastructure it needs. Our capital providers are entitled to expect that this investment is made carefully and that CLP's assets are operated and maintained to the highest standards. Similarly, in the ongoing debate about our industry, our customers are entitled to expect outstanding levels of performance and service in return for the reasonable and carefully monitored tariffs they are asked to pay.

Energy for Life

In the past year, as in previous years, we have maintained excellence in the delivery of electricity to power the social and economic life of our community. CLP has continued to offer outstanding performance in all the respects by which the quality of the supply of electricity should be measured.

- Reliability – once again, the reliability of our electricity supply is amongst the best of any city in the world – more reliable than New York, London and Sydney and greatly superior to that delivered to customers in other major cities of China, such as Beijing, Shanghai or Shenzhen. The strength of our network and the commitment of our staff was tested during the night of 23 July 2012 when typhoon signal No. 10 was hoisted as Severe Typhoon Vicente passed over Hong Kong. Supply to only 36,500 customers was affected. Despite hurricane-force winds and heavy rainfall, by around 10:00 a.m. the following morning supply had been restored to all except 4,000 customers, whose supply was restored during the day. The scale of outages was around one-tenth of that experienced the last time typhoon signal No. 10 had been hoisted, during the passage of Typhoon York in 1999. This demonstrated the reinforcement of our system strength and our increased organisational capability over the past decade. Whilst weather events and supply networks are never identical, I am aware that comparisons have been drawn between the almost inconsequential impact of Severe Typhoon Vicente on electricity supplies in Hong Kong and the major disruption experienced in New York during and after the passage of Hurricane Sandy in November 2012.

- Efficiency – the reliability of our generating assets, transmission network and retail services rests on effective cost management and carefully targeted investment. For example, our reserve margin (the extent to which the maximum potential output of all our available generating capacity exceeds the previous maximum demand for electricity – which reached a new level of 6,769MW on 28 August 2012) now stands at 31%, well within the reserve margin recommended by the International Energy Agency at 20% to 35%. By comparison, Singapore adopts a reserve margin of 50%.
- Environmental performance – due to the depleted gas reserves in the Yacheng field, which supplies gas for power generation at Black Point, less natural gas was available for use in 2012. Despite this, we were still able to keep emissions within regulated limits. Although experiencing a slight increase compared to 2011, total emissions are down by more than 80% compared to 1990, even though electricity demand actually increased by 81% over the same period.
- Customer service – while we always aim to do better, the benchmarking of our customer service against electricity utilities around the world demonstrates the quality of our service. We believe that our service compares favourably with that available to consumers anywhere in the world, including the most developed economies.
- Tariff – as explained elsewhere in this Annual Report (pages 42 and 43) CLP raised tariffs by an average of 5.9% with effect from 1 January 2013. We have done all we can to minimise the scale of this increase. However some increase is unavoidable, given the higher cost of fuel that we must pay to generate electricity to supply our customers. This is especially the case as the price and volume of natural gas we buy increases whilst we implement the Government's drive towards the lower use of coal and the greater use of gas, as part of Hong Kong's transition to cleaner generation. Even after the January tariff increase, CLP's tariffs, on average, remain amongst the most competitive in the world. To take a single example, residential electricity tariffs in Singapore (which has moved towards predominantly gas-fired generation and has competition between different generating companies) are 76% higher than the average tariffs paid by CLP's customers in Hong Kong.
- Affordability – since 1991, Hong Kong's GDP has grown by about 190% and average household incomes by over 100%. Electricity has become more, not less, affordable over the past 20 years. In fact, taking into account inflation, CLP's customers are paying almost 20% less in real terms today than they were in 1990.

Going Forwards

We will continue to build on the existing excellence of our Hong Kong electricity business for the benefit of our shareholders, our customers and the community at large.

Environmental Improvement

On environmental matters, the Government has announced plans to broadly achieve new air quality objectives (known as "AQOs") by 2020. I welcome the new Administration's commitment to pursue improvement in air quality on all fronts through better coordination of relevant policies on environmental protection, energy, transport and planning, as well as cooperation with Guangdong. I also welcome the remarks of the Chief Executive of the Hong Kong SAR in his recent Policy Address to the effect that Government and the community must make choices and take responsibility to make the right decisions, for the well-being of future generations. Such an approach by Government, with clear objectives and a roadmap to achieve cleaner air backed by the community as a whole, will support the efficient and timely long-term planning of CLP's generating capacity and key power supply infrastructure, which is essential to making sure that we can continue to do our part.

The Government completed a public consultation process on Hong Kong's climate change strategy and action agenda at the end of 2010. Its consultation document proposed to change Hong Kong's fuel mix for electricity generation to 50% nuclear, 40% gas, 3 to 4% renewable energy, and no more than 10% coal, by 2020. In 2012, following consideration of the lessons from the Fukushima nuclear accident, Government reactivated the public engagement process. Such engagement is important as I do not yet see any clear community consensus around issues such as the increased import of nuclear energy, or the extent to which energy users are prepared to pay higher tariffs for low carbon generation. As with improvements to our air quality, clear objectives shared by Government and the community, and a timely roadmap, will allow CLP to make its contribution in the most efficient and effective way possible.

Reliability and Customer Service

I see no uncertainty about the overwhelming importance which the community, and those who speak for them, will always place on outstanding levels of reliability. We will maintain the world-class levels of supply reliability which our community demands and expects. This will involve ongoing investment in Hong Kong's electricity infrastructure, including that necessary to power the substantial new developments underway in our supply area, such as at Kai Tak and in West Kowloon. This investment will also support further improvements in customer services. I believe that our role will increasingly become one of helping our customers use their energy wisely and efficiently, as opposed to merely being a supplier of power. The extensive work that we are already doing in researching and testing smart grid technologies is an example of the way in which, through innovation and investment, our relationship with our customers will evolve over the remainder of this decade.

Tariffs

As regards tariffs, our commitment to tight cost control and operational efficiency will remain. Our longstanding record in holding down tariffs speaks clearly to this commitment and our determination to continue to do so in the future. However, Government's decisions (whether those already taken or those in prospect) to move towards cleaner generation and place greater weight on improvements in environmental performance have direct consequences on the cost of power generation and, therefore, tariffs. Like all of us in Hong Kong, I would welcome a significant improvement in local air quality. I also recognise that further changes in local power generation form part of a much wider range of measures which Government needs to take towards this objective. In the power sector, as much as in any other part of our economy, measures to achieve environmental improvement must be paid for.

I have previously suggested that, as a result of gas supply agreements with Mainland suppliers required by the Memorandum of Understanding (MOU) signed between the SAR Government and the Central People's Government in 2008, fuel costs alone will increase by around 250% between

Visiting Black Point Power Station

2011 and 2015. This is because CLP will be required to use twice the current volume of natural gas, and the cost of this gas will be three times the price of the gas which was secured 20 years ago. This is the equivalent of a 40% increase in overall costs to consumers and will require regular and, at times, substantial tariff increases over several years.

The tariff increase with effect from 1 January 2013 is an example of this underlying trend. The actual trajectory of tariff increases over the next few years will be determined by factors such as the cost and availability of fuel in the energy markets, the speed, scale and direction of the implementation of Government's energy policies and the future level of energy demand. These factors cannot be predicted with certainty. I cannot, therefore, forecast the precise timing and levels of ongoing increases in electricity costs. I can foresee that these will be significant, in comparison to past trends (which, for example, saw CLP's tariffs frozen between 2000 and 2007). I can promise that CLP will make every effort to minimise the impact of these unavoidable pressures on future tariff levels.

Constructive Engagement and Transparency

I can also promise that CLP will work constructively with the SAR Government in managing and explaining these tariff pressures, as well as on the other important issues on which we must work together over the next five to six years. These include the Development Plan, which will set out the approved programme for CLP's investment in Hong Kong's electricity infrastructure between 2014 and 2018, and the Interim Review in 2013, where changes to the existing SoC Agreement can be mutually agreed by Government and CLP. In considering both issues, to ensure that Hong Kong can continue to enjoy an excellent electricity service into the future, Government must move forwards in a structured, balanced and fair manner, setting out its expectations for Hong Kong's electricity supply and how these expectations should best be met. Public attention is overwhelmingly paid to tariffs, which is understandable, whereas the other qualities of CLP's electricity service are taken for granted. In its consideration of the Development Plan it is vital that Government takes into account not only the cost implications of investment, but also the manner in which this will contribute to safeguarding, and where appropriate enhancing, the other critical aspects of a balanced electricity service, including reliability, security of supply, environmental performance and customer service.

Looking further ahead, the current SoC Agreement is due to expire in 2018 if Government decides not to exercise the option to extend it for another five years. The duration of arrangements for gas and nuclear supply, as well as the operational life of new generation and transmission facilities, is 20 years or more. In other words, clarity on the post-2018 regulatory framework will be increasingly important if timely investment is to be made to ensure the continuation of Hong Kong's world-class electricity supply and the early and effective implementation of Government policies on environmental improvement.

I recognise that Government, legislators, the media and the community will expect CLP to be even more transparent in explaining the implications and costs of decisions about energy policy, the future direction of the power sector and the efficiency with which CLP conducts its business. We have nothing to fear from a frank and intelligent discussion about our business. On the contrary, an informed and open debate will contribute to informed and open decision-making about the future shape of Hong Kong's power sector.

I am confident that the outstanding quality of our Hong Kong electricity business, our capability to enhance that business in line with our customers' expectations and our willingness to engage in a constructive dialogue with our society about the future shape of this business mean that the supply by CLP of power to Hong Kong will remain central to the development and well-being of our community and to the delivery of value to our shareholders for many years to come.

Although CLP's operating earnings were down in 2012, the Board's confidence in our business and in its prospects for continued growth has been expressed in the decision to increase the dividends for the year by a fourth interim dividend of HK$0.98 per share.

The Hon. Sir Michael Kadoorie
Hong Kong, 25 February 2013

CEO's Strategic Review

In December 2012, as in each year, I presented to our Board the CLP Group Business Plan and Budget for the coming five years, in this case the period from 2013 to 2017. In this Strategic Review I share the key messages from that briefing with shareholders so that, in exercising their rights and pursuing their interests as shareholders, they have a similar overview of CLP's strategy, performance and prospects to that of the Board in its stewardship of the Company's affairs.

Our Strategy

CLP's business model is simple. CLP is an investor and operator in the energy sector of the Asia-Pacific region. CLP does not intend to conduct any other activity, nor extend our business beyond that region. Our strategy is equally straightforward:

- a strong focus on continually enhancing the performance of our Hong Kong electricity business, which will remain at the core of the CLP Group's activities for the foreseeable future; and
- outside Hong Kong, a flexible, market-by-market approach, with a focus on a balanced portfolio which reflects our long-term move towards a low-carbon business.

Our present and future direction is aligned with this business model and fundamental strategic precepts. We have consistently disclosed to shareholders and other stakeholders the progress CLP has made in realising its strategy. We have explained that this strategy points towards a "2020 Vision" of CLP 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 minority positions in conventional coal-fired generation in the Chinese mainland; and
- is one of Asia's largest investors in clean and renewable energy.

CLP remains on track towards this "2020 Vision", except for the aspiration to become the controlling shareholder of a listed energy company in Southeast Asia. Having regard to a number of factors, including capital constraints, the availability of investments elsewhere and the lack of opportunities in Southeast Asian energy markets for private sector participants such as CLP, we no longer consider that this is an objective to which CLP should aspire. We have not yet advanced our presence in the transmission and distribution sectors of the power industry in India and the Chinese mainland. This is due to limited scope for private sector investment in these sectors. If these markets do open up for investment on suitable terms, we have the capability to make and manage such investments.

We are also on course to deliver on our Climate Vision 2050, our commitment made in 2007 to make deep reductions in the carbon emissions intensity of our power generation capacity and to embark on a wide range of actions and other initiatives to reduce the carbon footprint of our business and to help stakeholders reduce their own impact.

2012

Implicit in CLP's strategy are two judgments. The first is that the slowdown in growth in electricity demand in Hong Kong, coupled with increasing regulatory risk, means that it is prudent and in the long-term interests of shareholders, to diversify CLP's business beyond reliance on a single business in Hong Kong. Secondly, that CLP's core operating, commercial and financial capabilities permit CLP, over time, to invest effectively and profitably in markets in Asia Pacific beyond Hong Kong, even if those markets may be more volatile than our existing Hong Kong electricity business.

CLP's performance in 2012 reflected both these identified risks, namely regulatory pressure in Hong Kong and the unpredictability of earnings elsewhere. For the Hong Kong business, CLP has always recognised the priority to be given to the ongoing management of the interface with the HKSAR Government, both to protect shareholders' interests under the current SoC and to position the business for any changes that might occur if the initial term of the SoC ends in 2018. The controversy associated with the implementation of the January 2012 tariff increase, the intense political, media and public criticism to which CLP was subject and the close and critical scrutiny of CLP's position as the sole supplier of an essential public service in Kowloon and the New Territories was a prominent aspect of our Hong Kong business in 2012.

The volatility and unpredictability of earnings from our investments outside Hong Kong was also illustrated in 2012. During 2011, our non-Hong Kong businesses contributed 34.3% of Group operating earnings, before unallocated expenses, HK$3,711 million out of HK$10,831 million. This was the highest contribution that those non-Hong Kong businesses have ever made to Group operating earnings. In contrast, during 2012, the earnings from CLP's non-Hong Kong businesses were only HK$2,565 million, a decrease of 30.9% compared to the corresponding period in 2011 and constituting only 25.7% of Group operating earnings, before unallocated expenses, for 2012. The decline in operating earnings outside Hong Kong was further exacerbated by the impact on total earnings of both the Yallourn mine flooding, HK$790 million, and the impairment of our investment at Jhajjar and Boxing Biomass of HK$409 million.

2012 has, therefore, proved to be a difficult year for the CLP Group with total operating earnings of HK$9,406 million, 8.8% below those of 2011. The major challenges which CLP has faced in 2012 include:

- a difficult political and regulatory environment in Hong Kong;
- the negative effect on EnergyAustralia of an overall slowdown in electricity demand growth in the National Electricity Market leading to suppressed wholesale energy prices;
- operational and financial problems at Jhajjar, principally the result of insufficient, erratic and poor quality of coal supply from Coal India Limited (CIL);
- notwithstanding improved performance, slower than expected delivery of earnings from CLP India's wind portfolio; and
- a delay in the approval of CLP's proposed investment in the Yangjiang nuclear plant, as well as the implications of the Mainland authorities' assessment and implementation of the outcome of the National Nuclear Safety Review, following the Fukushima nuclear accident in March 2011.

CLP Management has already given clear priority to addressing the challenges that have weighed on the Group during 2012. One of the underlying themes of this Annual Report is the progress which CLP will continue to make in addressing the issues, so as to deliver the upwards earnings trajectory which our shareholders expect of us.

Looking Ahead

In the following paragraphs I offer an outline of the key factors which may impact, positively or negatively, the performance of the CLP Group's various business activities over the coming years.

Hong Kong

As noted above, the ongoing management of the interface with our regulator, the HKSAR Government, is a priority for this business. The experience of recent years, especially around the January 2012 tariff increase, has demonstrated the extent to which decision-making related to the Hong Kong power sector rests not merely with the HKSAR Government, but is strongly influenced by others, such as legislators, the media and concern groups. One implication of this for CLP is that management of the relationship with the Government encompasses the broader task of the effective establishment and ongoing maintenance of relationships with all the stakeholders whose views influence Government policy.

CLP has already reinforced the resources devoted to stakeholder management in Hong Kong. The effectiveness of this work is particularly important for the successful outcome of a number of issues, including:

- Tariff management, including increases to basic tariff and the fuel clause charge. CLP will do everything possible to control costs and enhance business efficiency. However, further tariff increases are inevitable due to rising fuel costs and to avoid further substantial increase in the deficit in the fuel clause account (which arises when customers are billed less than the actual cost of the fuel paid by CLP to generate the electricity they consume).
- The Development Plan 2014-2018 which will set out CLP's approved capital expenditure over the remainder

of the current SoC. We expect close scrutiny of planned capital expenditure during the Development Plan period. As remarked in the Chairman's Statement, in this Annual Report, whilst Government will place significant weight on the tariff implications of additional investment, it is important that due regard is paid to system and operational needs, benefits or consequences.

- Interim Review. The current SoC Agreement provides for an Interim Review in 2013. Under this Review, changes to the SoC can be made by mutual agreement between CLP and Government. As with previous interim reviews, CLP will approach any discussions with Government in a constructive and open-minded spirit. We will not be ready to accept amendments which are unfair or one-sided and which run counter to the fundamental character of the SoC Agreement as a binding contract between its parties.
- The Government-to-Government MOU on Energy Cooperation signed in 2008 provided the basis on which CLP must enter into long-term commercial agreements and invest in the necessary infrastructure, within both the HKSAR and Guangdong Province, to support Hong Kong's transition to cleaner energy. Those agreements and the associated investments will need approval from the SAR Government.
- Air Quality. Government policy on improving local air quality will impact the emissions control targets set for power generation in Hong Kong, the fuel mix required to meet those targets and the capital expenditure on additional, replacement or improved generating capacity.

Aside from the effective management of the interface with the SAR Government, CLP's "social franchise" in Hong Kong depends on the continued quality of our operations and the recognition by Government and the community of CLP's performance on tariff, reliability, environmental impact and customer service levels. Supported by ongoing, targeted capital and operating expenditure we will improve the quality of our electricity service, wherever possible.

In March 2012, CLP announced that negotiations were taking place with ExxonMobil for the acquisition by CLP, in joint venture with China Southern Grid (CSG), of the entirety of ExxonMobil's 60% shareholding in CAPCO. The negotiations with ExxonMobil have been protracted and there has been a considerable gap between CLP/CSG and ExxonMobil on the valuation and terms of any such acquisition. At present I can add nothing to the announcement previously made nor offer any indication of whether or when an agreement might be reached with ExxonMobil. I would, nonetheless, emphasise that if any agreement did materialise, the terms of this will be openly disclosed to shareholders and must be such that the Board and I are satisfied will deliver future value to them.

Australia

It was an exceptionally challenging business environment, with a number of external market factors influencing the business during 2012. These included the introduction of a carbon tax, reduced wholesale energy prices, consumer concern about rising energy prices, declining energy demand and a significant downward revision of future demand projections, all combined with continuing high retail competition in our key markets and regulatory uncertainty around price setting by NSW and Queensland. These factors impacted the industry as a whole, providing difficult trading conditions for ourselves and our major competitors alike.

Against this background, we focused on the fundamentals of the business while positioning ourselves to meet the future needs of our customers. We rebranded the business, implemented a new retail billing system, introduced new retail products, defended our market share and optimised the profitability of generation across our portfolio. We also continued to develop and deliver strong advocacy positions particularly around gas market transparency and retail price regulation. We responded with commitment, resourcefulness and ingenuity when faced with the breach of the Morwell River Diversion which temporarily disrupted operations at our Yallourn Power Station.

EnergyAustralia is placing particular emphasis on an ongoing programme of operational improvements, including:

- a comprehensive review of costs and processes and a series of management initiatives intended to improve business performance across the portfolio;
- managing the implications of reducing growth in energy demand leading to suppressed wholesale prices. This requires EnergyAustralia to pursue strategies which optimise the manner in which the availability of its generating capacity and energy trading activities are conducted;
- completion of the long-term remediation works at Yallourn, in a cost-effective and durable manner, following the Morwell River Diversion failure in June 2012;
- reducing delays in customer billing and collections;
- maintaining retail customer accounts in a competitive market while improving efficiency; and
- completion of the integration of the retail customer base acquired in the NSW privatisation with those of the legacy TRUenergy business. This includes the roll-off in early 2014 of the Transition Services Agreement (TSA) (under which Ausgrid, the NSW State-owned entity and previous owner of the retail business, continues to provide customer support) which should lead to significant reductions in the cost to serve the NSW retail customers.

Whilst no decision has been taken regarding the principle, timing or terms of any listing of EnergyAustralia, this was an option to which we gave serious consideration in 2012. We decided not to proceed as we believe that with the operational imperatives and general economic environment described above, the current earnings performance of the business falls short of the level which we believe the company can deliver on a longer term and sustainable basis. This suggested that a listing of the EnergyAustralia business in 2012 was unlikely to deliver full value to CLP's shareholders from their investment in Australia.

In the meantime, Management continues to prepare EnergyAustralia for an IPO, including the implementation of governance arrangements, such as the appointment to the Board of EnergyAustralia in October 2012 of an independent Chairman and a majority of independent directors, as would be required upon listing. The steps required to bring EnergyAustralia to IPO-readiness are in any event those which will be in the interests of CLP's shareholders, irrespective of whether and when the IPO was undertaken.

In the short term I do not envisage substantial investment in new assets or projects in Australia, with the exception of a limited amount of wind generating capacity and possible participation in the planned privatisation by the NSW Government of its remaining interests in State-owned power generation assets. We have strengthened the senior management resources and organisational capability of EnergyAustralia in the past two years. The organisation has the capability and clarity of focus to deliver improved performance.

Chinese Mainland

CLP's investments in conventional and renewable energy in the Chinese mainland performed well in 2012. This reflects the continuation of CLP's "niche" strategy of selective investments in coal-fired generation and renewable energy in China, accompanied by the divestment of minority stakes in joint ventures (predominantly coal-fired generation) where CLP has no significant measure of control and growth prospects appear limited. The timing of any such divestments is at our option and will be dependent on market conditions, as evidenced by satisfactory prices and terms.

The major investment which I foresee in the Mainland is the commencement and commissioning of an additional 1,320MW generating capacity at Fangchenggang II (in which CLP will hold a 70% interest). Fangchenggang I has proved a successful investment. Whilst the investment case of Fangchenggang II must be judged on its own merits, the performance of Fangchenggang I provides grounds for confidence in this expansion project, even taking into account the possibility of lower utilisation hours than has previously been the case at Fangchenggang I.

We aim for steady growth in CLP's wholly-owned wind energy portfolio. This will be characterised by a broad focus on projects in Southern China. Compared to Inner Mongolia and other northern provinces, these are less affected by grid restrictions, even if the wind resource may be inferior. With

Fangchenggang Power Station Phase I – a base for further expansion the exception of a 45% shareholding in a 49.5MW project at Laizhou Phase II, CLP does not envisage additional investment in wind energy projects which are not wholly-owned.

CLP's move towards renewable energy will also include majority-owned solar energy projects, where CLP envisages exploiting the opportunity, which may be temporary, to benefit from the combination of reduced solar panel prices and tariff support that has not yet been adjusted downwards in line with the fall in project costs. Further investment in small to medium-size hydro projects in China has been slowed by a tariff regime which is not supportive of such projects, relative to other renewable energy sources. CLP's successful experience at Huaiji and Jiangbian would allow us to pursue such projects if they came forward.

Nuclear

CLP has reached an agreement in principle with CGNPC for the acquisition of a 17% shareholding in the Yangjiang Nuclear Power Station. However, the completion of the six units at Yangjiang was delayed, awaiting the completion of the National Comprehensive Nuclear Safety Review Report following the Fukushima accident. Following the recent approvals by the State Council of the Plans for Nuclear Power Safety and Nuclear Power Development (2011–20), CLP is assessing the overall cost impact of possible design changes for the Yangjiang Project and the technology choice for Units 5 and 6 before proceeding with the regulatory approval process to complete the acquisition of the 17% shareholding in Yangjiang. Although our decision remains open, my current expectation is that CLP's review of project costs, equipment choices and investment returns would confirm our in-principle decision to invest in Yangjiang, subject to the necessary approvals for that investment being forthcoming.

India

The poor operating and financial performance of the newly commissioned Jhajjar Power Station remains the major priority for CLP India. Each link in the project chain presents substantial challenges, be it:

- the adequacy, reliability and quality of coal supplied by CIL;
- the effect the poor quality coal has on the reliable and efficient operation of the plant;
- the credit-worthiness of the Haryana State off-takers and their willingness to honour their contractual obligations in the face of the impact, on both cost and reliability, of the inadequate coal deliveries to Jhajjar; and
- the resilience of the project finance arrangements in light of the poor financial performance of Jhajjar following commissioning.

All these challenges result, directly or indirectly, from the problems of coal supply. There is no single step or "silver bullet" which can rapidly and effectively cure the issues faced by this project. However, a series of measures are already underway, including the use of imported coal (initially of an amount representing 15% of plant requirements, with in-principle support obtained on 16 January 2013 and since

Coal Train approaching Jhajjar – we need five to six each day confirmed in a meeting with the Chief Minister of Haryana, to increase this in the Indian fiscal year 1 April 2013 to 31 March 2014) and improvements to the coal handling equipment.

The technical performance of the plant has improved tremendously, despite a commissioning period which was badly disrupted by coal shortage. Technical plant availability in January 2013 was 96.7% – if coal is delivered, we will generate electricity reliably and to the full capacity of the power station. Through intensive effort, CLP expects an improvement in the financial and operating performance of Jhajjar over the next 6 to 18 months, largely attributable to slow but steady increases to the level of coal supplied to Jhajjar from both domestic and international sources. It may, however, take two to three years before Jhajjar reaches a point where its operations might be regarded as stable and predictable and on track to deliver returns close to the investment case. In all the circumstances we have considered it appropriate to make a provision for Jhajjar in this year's financial statements in the amount of HK$350 million (HK$315 million after tax). Nonetheless, the fundamentals of the project are good. We built the plant well and will operate it efficiently, Haryana desperately needs electricity and Jhajjar is a highly-competitive electricity generator. In the end, these fundamentals will play out to a positive outcome, but it will take time, effort, resources and patience to arrive there. The problems at Jhajjar are an example of those afflicting the coal-fired generation sector in India as a whole. We have pressed the Indian authorities at all levels to intervene to ensure the proper implementation of national and state energy policies. As part of the Association of Power Producers, I have met the Prime Minister and expressed our concerns directly to him and his ministerial colleagues.

CLP's longstanding investment in the 655MW gas-fired power station at Paguthan continues to perform satisfactorily. Under the current Power Purchase Agreement (PPA), a substantial measure of protection is afforded against difficulties in both the volume and pricing of gas supplies. Efforts have been underway for some years to obtain secure, stable and competitively-priced gas for Paguthan, failing which the economic performance of the plant risks to be adversely affected upon the conclusion of the existing PPA in 2018.

Against this background, I do not contemplate further investment by CLP India in thermal power generation for the time being. Our focus is on improving the performance of Jhajjar and securing the longer-term economic prospects of Paguthan.

New investment in India will centre on continued growth of CLP's wind energy portfolio. Some solar and hydro investments may be contemplated, having regard to the quality of the relevant projects, in the interests of a balanced renewable energy portfolio. With respect to wind, the performance of certain of the earlier wind energy investments made by CLP was unsatisfactory, relative to the original investment case. This was primarily due to shortcomings in the assessment of the local wind resources at the sites of certain of our earlier projects, as well as wind conditions which appear to have been inferior to the long-term average (particularly having regard to the substantial impact of seasonal monsoon wind conditions on annual wind resources). However, the financial performance of the Indian wind portfolio has been improving as a result of:

- improved wind resource measurement of new projects;
- higher output as a result of a series of improvements we have made in our oversight and active management of the operations and maintenance of the wind turbines by the suppliers; and
- wind resources which have indicated some movement back to forecast levels.

These positive developments have encouraged us to look for further growth in CLP India's wind energy investments, possibly around 200 to 300MW per year. The pace of growth may vary in light of the ongoing performance of the wind energy portfolio as a whole, the maintenance of supportive tariff and regulatory frameworks, the creditworthiness of state off-takers and the overall demands and priorities of capital allocation across the CLP Group.

Southeast Asia and Taiwan

We do not contemplate additional investment in these markets, other than the possibility of one or both of the greenfield coal-fired power station development projects in Vietnam coming to fruition. Over the next 12 to 18 months, these projects, which have been under development for a number of years, may advance to a point where CLP will have to decide whether to proceed or to monetise the value of the development work which has been completed.

CLP's remaining 20% stake in the Ho-Ping Power Station in Taiwan might be regarded as a legacy investment, in the sense of being a minority shareholding with little expansion potential. However, Ho-Ping has provided a regular and stable contribution to Group earnings, whilst making few demands on management time and resources.

Funding

Over the past five years, CLP has invested substantially in the implementation of its strategy. Whilst our balance sheet remained healthy, we needed to consider options to support the financing requirements of our business in light of:

- investment opportunities across our various business streams in line with strategy;
- the maintenance of a strong and stable dividend;
- safeguarding our good investment credit rating; and
- presenting a prudent capital position.

This led to a decision to proceed with a placement in December 2012 of new shares representing an additional 5% of CLP's existing issued share capital. The net proceeds from the placement of HK$7.56 billion will be used for expected investment needs across CLP's business, notably ongoing investment in the Hong Kong electricity business, such as in infrastructure related to gas supply from the Mainland and additional generating capacity in those markets where CLP is already present, such as the expansion of Fangchenggang and development of renewable energy projects.

Controlling Costs

I am conscious of the contribution that careful control of costs can make to increased operating earnings. In recent years, in line with the growing maturity and capability of the individual business units, the Group has devolved functional responsibilities and associated resources away from the centre towards the business units. I expect this trend to continue. In addition to greater autonomy at business unit level, this should contribute to reducing Group level costs and unallocated expenses.

Head Office Redevelopment

I am also aware of the importance of realising the potential value of assets within our portfolio and optimising the benefit of under-utilised assets. The move of our Hong Kong head office in 2012 is an example of this. In 2011 the Town Planning Board approved a modified scheme for CLP to develop part of its head office at Argyle Street, Kowloon for residential purposes, whilst preserving the Clock Tower building for community use. Demolition work on part of the site was completed in early February 2013. Whilst we will be starting foundation works for the residential development during 2013, there is not yet a timetable for the development and the receipt of sale proceeds. Discussions with the relevant Government departments on issues related to lease modification and possible premium have been difficult and slow. This experience reflects the challenges to the development of privately-owned sites in Hong Kong which appear to be faced by the property development sector as a whole. The proposals CLP has submitted to the Government, which were the subject of the Town Planning Board's approval, represent a balanced outcome to the legitimate interest of CLP's shareholders in the development of the site and the community's interest, supported by Government policy, in the preservation of Hong Kong's built heritage, in the form of the Clock Tower. We look for substantial progress on this over the next 12 months.

The Argyle Street site has been available for redevelopment since May 2012 when we relocated our head office to premises in Hung Hom. These premises were formerly part of an under-performing shopping mall in which CLP already held a 50% interest in joint venture with Cheung Kong. CLP has now taken over the top two floors of the mall and converted these to office use – a highly cost-effective use of an otherwise under-employed asset.

Delivering Growth

I have been CEO of the CLP Group since 2000. Experience has taught me to be realistic about the challenges we face, but confident in our ability to overcome these and to deliver on our vision to be the leading responsible energy provider in the Asia-Pacific region, from one generation to the next. Whilst the past year was not easy, the business which I described to the Board in December, and which I have presented to you in this Strategic Review, is one which is in good shape, possesses a healthy balance sheet and is highly capable of delivering growth in earnings through the years ahead in line with a strategy which is clear and widely disclosed.

Andrew Brandler

Andrew Brandler
Hong Kong, 25 February 2013

Shareholder Value and Engagement

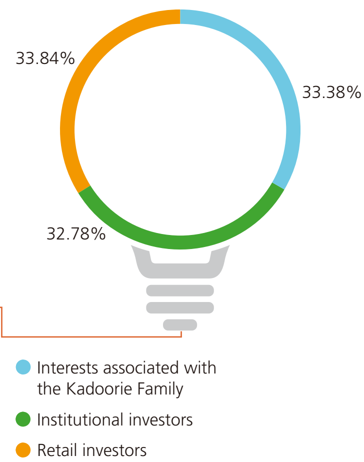
At the end of 2012, CLP had over 20,000 registered shareholders. The actual number of investors in CLP shares will be much greater, taking into account those people and organisations who have an indirect interest in our shares through intermediaries such as nominees, investment funds and the Central 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 33.38%. Even so, CLP is not a family-controlled company. The remaining 66.62% 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 2012

Size of Registered Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares	% of Issued Share Capital
500 or below	2,275	10.88	686,990	0.03
501 – 1,000	3,750	17.93	2,948,170	0.12
1,001 – 10,000	9,894	47.32	42,501,443	1.68
10,001 – 100,000	4,453	21.30	129,828,191	5.14
100,001 – 500,000	436	2.09	89,197,667	3.53
Above 500,000	101(1)	0.48	2,261,288,109	89.50
Total	**20,909**	**100.00**	**2,526,450,570(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) 51.24% of all our issued shares were held through CCASS.

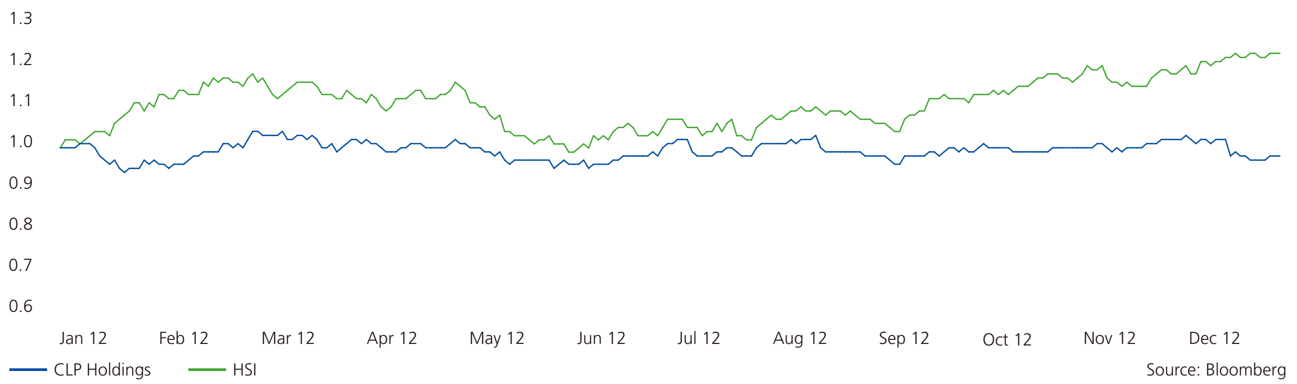
The scale of our shareholders' investment is reflected in a market capitalisation of CLP Holdings of HK$164 billion as at 31 December 2012. This ranks us as the 29th largest of the 1,368 issuers listed on the Main Board of the Hong Kong Stock Exchange. Our shares are part of the Hang Seng Index (HSI) – the index of Hong Kong's leading listed companies, representing 1.74% by weighting of that Index.

Our shareholders own the Company. They have placed their trust and confidence in its Board, Management and staff. We have a duty to communicate to them openly and honestly on the performance of their investment, listen to their views and address their concerns. We have a duty to deliver value to them through capital appreciation (the performance of CLP's share price over time) and the payment of dividends.

Shareholder Value through Share Price Performance

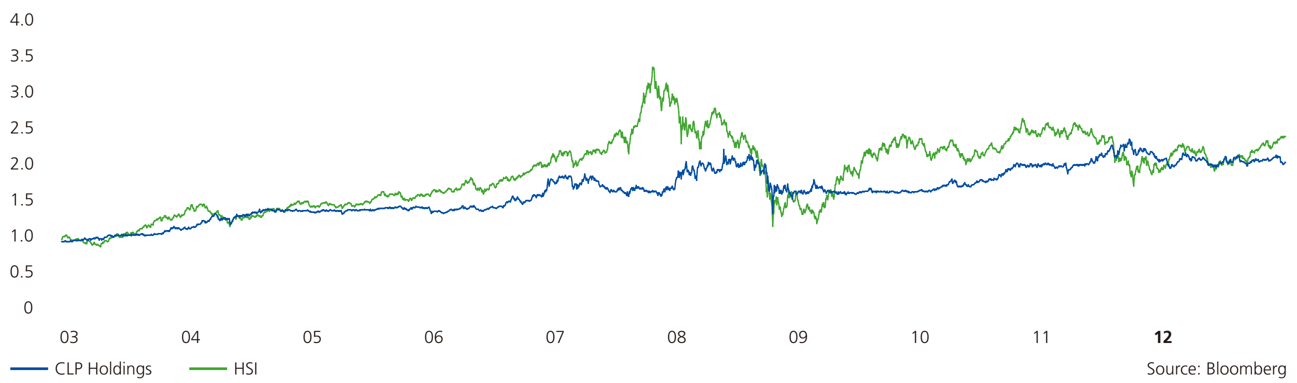
Over the past 10 years, CLP shares have enjoyed a relatively stable price appreciation, reflecting CLP's characteristics as a defensive stock, often held on a long-term basis by shareholders seeking reliable and stable returns. In 2012, CLP's share price remained fairly stable and traded in a narrow range, whilst the HSI experienced a volatile year, largely resulting from continuing market concerns over the spread of the Eurozone debt crisis to the United States' economy, as well as the potential slowdown in economic growth in China. The average closing price of CLP Holdings' shares was HK$65.60, with the highest closing price of HK$68.95 recorded on 8 March 2012 and the lowest closing price of HK$62.30 recorded on 19 January 2012. The share placing announced on 13 December 2012 followed a closing price of HK$67.20 the previous day, 97.5% of the 12-month closing high.

1-year Relative Performance – CLP vs HSI (1 Jan 2012 – 31 Dec 2012) (Base: 31 December 2011 = 1.0)



Source: Bloomberg

10-year Relative Performance – CLP vs HSI (1 Jan 2003 – 31 Dec 2012) (Base: 31 December 2002 = 1.0)

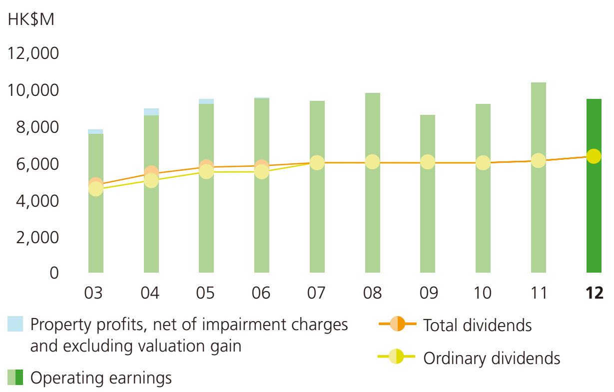


Source: Bloomberg

Shareholder Value through Dividend Payments

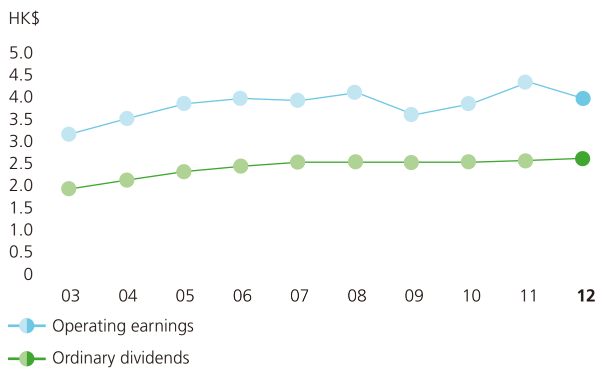
Our longstanding policy is to provide consistent increases in ordinary dividends, linked to the underlying earnings performance of the business. Our shareholders, whether institutional or retail investors, have repeatedly emphasised to us the importance they attach to a consistent and substantial dividend 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 maintained over the past 50 years. Our policy on dividends is unchanged by the recent share placing.

Earnings and Dividends (2003 – 2012)



Note: Earnings for 2003 to 2005 have been restated for the effect of the adoption of HK(IFRIC)-Int 4.

Earnings and Dividends Per Share (2003 – 2012)



Note: Earnings for 2003 to 2005 have been restated for the effect of the adoption of HK(IFRIC)-Int 4.

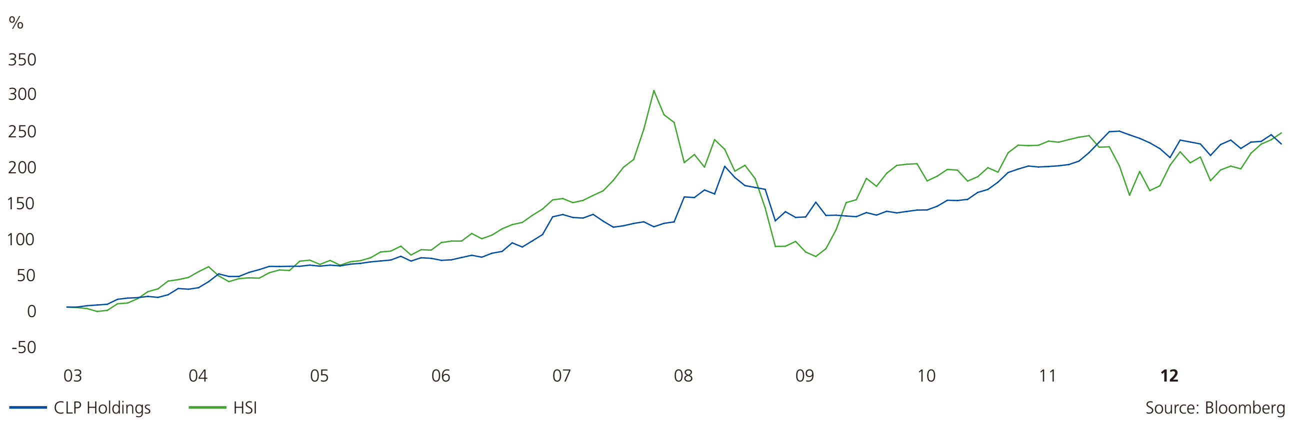
From 2003 to 2012, CLP's ordinary dividend payments were between 60% and 66% of operating earnings, except for 2009 when our payout ratio rose to 70% of operating earnings, due to a significant decline in earnings caused by the substantial reduction in the permitted return under the SoC. Earnings from the property development at Hok Un and the other property disposals were generally paid out as special dividends.

This year, the Board declared a fourth interim dividend payable on 21 March 2013 of HK$0.98 per share, an increase of HK$0.02 over the fourth interim dividend paid in 2012. Together with three interim dividends per share of HK$0.53 each paid during 2012, the total ordinary dividend for the year will be HK$2.57 per share, compared to HK$2.52 in respect of the previous year. This represents a dividend payout ratio for the year of 66% of operating earnings.

Shareholder Value through 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 the HSI. During the 10-year period from 2003 to 2012, CLP provided an annualised rate of return of 12.56%, as compared to 13.08% for the HSI.

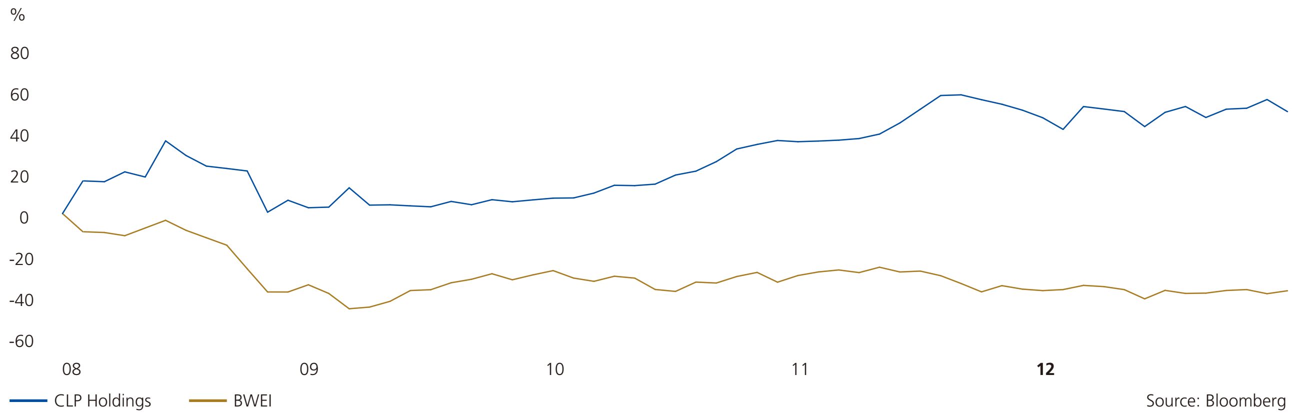
Total Returns – CLP vs HSI (2003 – 2012) (Base: 31 December 2002 = 0%)



Source: Bloomberg

CLP is included in a number of global utilities / electricity indices. CLP has consistently outperformed these indices. For instance, CLP represents 1.64% of the Bloomberg World Electric Index (BWEI), which comprises 116 worldwide electricity stocks. In recent years CLP has outperformed the BWEI in terms of price and total returns.

Total Returns – CLP vs BWEI (2008 – 2012) (Base: 31 December 2007 = 0%)



Total Investment Worth of Different Types of Investment

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 with every other investment choice available to our shareholders. However, the majority of our registered shareholders have a Hong Kong presence of some sort (97.89% have their registered address in Hong Kong), and will tend to hold CLP shares as a conservative component within their investment portfolio. In this year's Annual Report, as in previous years, we look at the performance of some comparable investments which our shareholders might make. We have assumed that during the period of 1, 5 and 10 years prior to 31 December 2012, an investor has put HK$1,000 into each of these investments every year. We have then compared the total worth of these investments (including bonus shares and with dividends or interest reinvested) at the end of each of the three periods. For long-term investors, CLP's shares have remained an attractive investment.

Investment Returns

	Total Investment Worth at 31 December 2012		
	1-Year Period HK$	5-Year Period HK$	10-Year Period HK$
CLP Shares	1,020	6,470	17,817
Tracker Fund of Hong Kong Shares	1,267	6,147	17,123
Power Assets Holdings Shares	1,200	8,069	22,352
Hong Kong and China Gas Shares	1,330	8,396	23,193
HK$ 1-Year Fixed Deposits	1,008	5,160	11,017

Adapted from Bloomberg / Reuters

Shareholders will expect that the quality of the information they receive and CLP's commitment to the ongoing delivery of shareholder value are supported by strong and comprehensive systems and processes. Our Corporate Governance Report, from pages 93 to 110, explains how we fulfill this duty.

Share Placing

A number of shareholders have expressed concern that the 5% share placing in December 2012 did not give them an opportunity to subscribe for the new shares and that their existing shareholdings have been diluted by the issue of new shares. One shareholder, for example, asked if this was the way CLP rewarded its long-term supporters (in response, we sent a personal reply and invited her to meet). These concerns are entirely understandable and ones we took carefully into account when deciding to proceed with the placing. As regards the first of these points, we used a placing rather than a rights issue (which would have given every shareholder an opportunity to subscribe for shares) because of the small percentage of new shares which was being issued and to achieve certainty of proceeds within a relative short timeframe by making use of the stable price performance of our shares and a reasonably supportive market.

The issue of 5% new shares results in only a fractional dilution of the holdings of existing investors. It is also worth noting, given that many of our shareholders are long-term investors in CLP, that between 1998 and 2008 CLP reduced its share capital in issue through share repurchases representing 5.45% of its issued share capital. Moreover, the average price for share repurchases was HK$30.92, compared with the share placement price of HK$63.25.

The placing of an additional 5% of CLP Holdings' existing issued share capital announced on 13 December 2012 has generally been well received by our shareholders and the market as a whole. The placement price of HK$63.25 represented a discount of only 5.88% to the closing price of the previous trading day of HK$67.20 per share (or a discount of 5.96% to the average closing price over the previous five trading days of HK$67.26 per share).

The general mandate to issue shares equal to up to 5% of the share capital of CLP Holdings in issue has always received strong support from our shareholders (76% of shareholders voted in favour of the mandate at our 2012 AGM). In return for that support, we have consistently undertaken to use the general mandate sparingly. This remains our intention. We have reaffirmed this commitment in our briefings to investors following the placement.

On 13 December 2012, CLP announced a share placement with an expected dilutive effect on minority interests. What action will CLP take to safeguard the interests of small shareholders? What will the proceeds from this issue be used for?

Your concerns have been shared by other shareholders. However, we only undertook the placing because we believed that it was in the interests of all CLP's shareholders, whether or not they could purchase additional shares in the placing. The proceeds, which amount to HK$7.56 billion, are intended to be used to meet expected investment needs across our business in line with our strategy, including, but not limited to:

- ongoing investment in the Hong Kong electricity business, such as in infrastructure related to gas supply from the Mainland; and
- additional generating capacity in those markets where CLP is already present, such as the expansion of Fangchenggang and the development of renewable energy projects.

The productive investment of the money raised by the placing will support future business growth. This will benefit all shareholders, including our many long-term individual investors.

Q

Mr. Iu Chap Pun Patrick
Shareholder

A

Andrew Brandler
Chief Executive Officer

Communication with Shareholders

The importance to CLP of an effective dialogue with shareholders and investors has been recognised by the establishment by the Board of a Shareholders' Communication Policy, which is published on our website. This Policy forms the basis for extensive and ongoing engagement with our shareholders and the investment community.

This Annual Report itself is one of our major channels of communication to our shareholders and the investment community. There are many others; some of those we used in 2012 are listed below.

Providing information to our shareholders and the investment community through means such as

- Our Annual Report, online Sustainability Report and Quarterly Statements – all of which provide information far in excess of legal and regulatory requirements.
- Our AGM – in the past 5 years, the attendance of shareholders at our AGMs has averaged about 900 (923 in 2012). This is an unusually high number for a Hong Kong company, including by comparison with other companies having a much larger number of registered shareholders.
- Management attended over 220 investor meetings, including participation in 11 investor conferences, and 12 non-deal roadshows to North America, Europe, Australia and Asia.
- Analysts briefings on the Company's interim and annual results, as well as on our overseas businesses. Presentation materials are available on our website.
- Financial statistics for the recent years, latest investor information (such as share price, dividend information, calendar of important dates, etc.) are posted on our website and regularly updated.
- 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 and updating latest industry development from the investment community 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.
- Comments, queries and research reports from analysts.
- Shareholders' hotline, investor relations' hotline and email 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 will seek to address this in subsequent corporate communications to all our shareholders.
- Shareholders' visits to our facilities. We believe that our Shareholders' Visit Programme, initiated in 2003, is unique amongst Hong Kong companies. Between November 2012 and April 2013 we expect to welcome about 3,000 shareholders and their guests, during 80 tours to our facilities at Black Point Power Station, Nuclear Resources Centre, Eco Home and Smart Grid Experience Centre. About 150 CLP colleagues, including our Chairman and most of our Directors, have volunteered to participate as lunch hosts and ambassadors of the programme.

Communication with our shareholders is a two-way process. We listen carefully to the views and feedback we receive. Over the past year, the issues which have been the main subjects of shareholders' queries and concerns have been:

- tariff increases and the regulatory environment for our Hong Kong electricity business;
- the performance, outlook and potential listing of EnergyAustralia;
- our investment strategy in the Chinese mainland;
- coal supply issues affecting our Jhajjar Power Station in India;
- the implications of the 5% share placing we undertook in December 2012; and
- the ongoing delivery of value to shareholders, in particular our dividend policy.

In this Annual Report we have made a particular effort to address each of these areas. For example, the Chairman's Statement focuses on our Hong Kong electricity business, whilst the CEO's Strategic Review, and the coverage of our Australian, Chinese mainland and Indian investments from pages 45 to 61, offer an extensive description of the performance and outlook for these three markets. In this section of the Annual Report, we have discussed the two remaining areas of primary investor interest, namely the share placing and future delivery of shareholder value.

This year marked the 10th anniversary of our Shareholders' Visit Programme – Mr. Vernon Moore, Independent Non-executive Director, hosting one of the visits

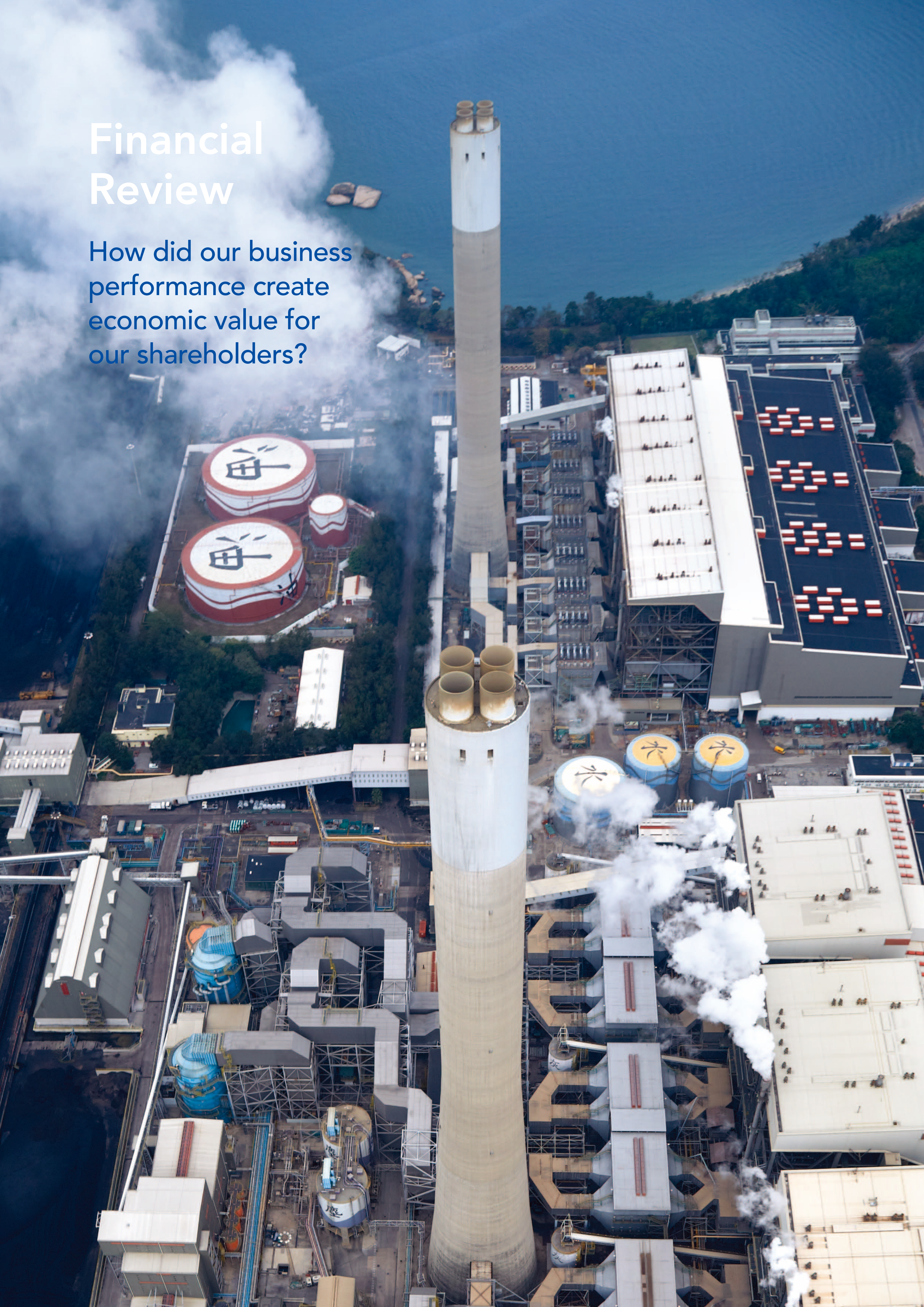
Shareholders' Dates 2013

13 DEC	2013 Third Interim Dividend payable
4 DEC	2013 Third Interim Dividend Book Close Day
28 OCT	2013 Third Interim Dividend announced
13 SEP	2013 Second Interim Dividend payable
4 SEP	2013 Second Interim Dividend Book Close Day
12 AUG	2013 Interim Results and Second Interim Dividend announced
14 JUN	2013 First Interim Dividend payable
4 JUN	2013 First Interim Dividend Book Close Day
20 MAY	2013 First Interim Dividend announced
30 APR	2013 AGM
29–30 APR	Voting at AGM Book Close Days
21 MAR	2012 Fourth Interim Dividend payable
12 MAR	2012 Fourth Interim Dividend Book Close Day
11 MAR	2012 Annual Report uploaded on website
25 FEB	2012 Annual Results and Fourth Interim Dividend announced

Any changes to these dates will be published on our website.

Financial Review

How did our business performance create economic value for our shareholders?



Financial Review

CLP Group's Financial Results and Position at a Glance

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, the results of which then translate into a set of numbers in the financial statements. This chart summarises how we delivered economic value in 2012.

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.

Outcome

- As a result of the tariff uplifts (both in Hong Kong and Australia) and higher generation revenue on higher pool prices in Australia, Group revenue[1] increased 14.4% to HK$104.9 billion. Revenue from Hong Kong and Australia represented 32.1% and 63.7% of total revenue respectively.
- The decrease in operating earnings[2] was primarily due to lower earnings from Australia and India. EnergyAustralia's operating earnings were adversely affected by lower demand, higher operating costs and unfavourable mark-to-market movements. The loss from India was largely attributable to the operating loss from Jhajjar as a result of a shortage in coal supply. On the other hand, earnings from coal-fired projects in the Chinese mainland improved as a result of tariff increases and falling coal prices. Higher generation and energy tariff at Ho-Ping resulted in higher earnings from Southeast Asia and Taiwan. The earnings from Hong Kong grew steadily.
- One-off items[3] mainly included costs associated with the Yallourn mine flooding in June (HK$790 million) and impairment provisions for Jhajjar (HK$315 million) and Boxing Biomass (HK$94 million).
- The translation gain resulting from the appreciation of Australian dollar (+2.0%); partly offset by the translation loss from the decrease in the closing rate of Indian rupee (-2.7%) and unfavourable mark-to-market movements charged to hedging reserve, lead to a slight movement in the other comprehensive income[4] for the year.
- In this year's Consolidated Statement of Financial Position, the diversification of our investments was demonstrated by the increase in fixed assets, goodwill and other intangible assets arising from our businesses outside Hong Kong. Out of the fixed assets, leasehold land and land use rights[5] of HK$134,329 million, 67.5% relates to our electricity business in Hong Kong. Goodwill and other intangible assets[6] of HK$28,479 million relate wholly to our businesses outside Hong Kong.
- Share capital, premium and reserves increased from HK$23,694 million to HK$31,407 million[7] as a result of the share placement in December 2012.

Last Year's Consolidated Statement of Financial Position

	HK$M
Assets	
Fixed assets, leasehold land and land use rights under operating leases	130,382
Goodwill and other intangible assets	27,369
Interests in jointly controlled entities	18,226
Interest in an associated company	1,465
Derivative financial instruments	7,185
Trade and other receivables	17,103
Cash and cash equivalents	3,104
Restricted cash	762
Bank balances, cash and other liquid funds	3,866
Other assets	8,692
	214,288
Equity and Liabilities	
Share capital, premium and reserves	23,694
Retained profits	57,565
Shareholders' funds	81,259
Non-controlling interests	93
Derivative financial instruments	7,294
Trade and other payables	16,990
Borrowings	65,521
Obligations under finance leases	27,396
SoC reserve accounts	643
Other liabilities	15,092
	214,288
Closing exchange rate	
Australian dollar / Hong Kong dollar	7.8894
Indian rupee / Hong Kong dollar	0.1457

Beyond Last Year's Statement of Financial Position

	HK$M
Charges on assets	18,063
Contingent liabilities	1,366
Operating lease commitments	10,449
Capital commitments	24,415

Consolidated Statement of Comprehensive Income for Two Years

		2011 HK$M	2012 HK$M
Revenue	(1)	91,634	**104,861**
Expenses		(76,461)	**(91,760)**
Other income		776	**–**
Other charge		(2,761)	**–**
Operating profit		13,188	**13,101**
Share of results of jointly controlled entities and associated companies, net of tax		3,610	**2,984**
Net finance costs		(5,859)	**(6,101)**
Income tax expense		(1,650)	**(1,692)**
(Earnings) / loss attributable to non-controlling interests		(1)	**20**
Earnings attributable to shareholders		9,288	**8,312**
Analysed into:			
Electricity business in Hong Kong		6,339	**6,654**
Energy business in Australia		2,911	**1,685**
Other investments / operations		1,581	**1,631**
Unallocated net finance costs		(48)	**(74)**
Unallocated Group expenses		(471)	**(490)**
Operating earnings	(2)	10,312	**9,406**
One-off items	(3)	(1,024)	**(1,094)**
Earnings attributable to shareholders		9,288	**8,312**
Other comprehensive (loss) / income	(4)	(1,723)	**135**
Total comprehensive income		7,565	**8,447**
Average exchange rate			
Australian dollar / Hong Kong dollar		8.1105	**8.0400**
Indian rupee / Hong Kong dollar		0.1667	**0.1451**

Consolidated Profits Retained for This Year

	HK$M
Retained profits at 31.12.2011	57,565
Earnings attributable to shareholders	8,312
Dividends paid for the year	
2011 fourth interim (HK$0.96 per share)	(2,310)
2012 first to third interim (HK$1.59 per share)	(3,825)
Other movements within equity	(22)
Retained profits at 31.12.2012	59,720
Fourth interim dividend declared for 2012, HK$ per share	0.98

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

		HK$M
Operating profit		13,101
Depreciation and amortisation		7,021
Impairment charge		1,429
SoC items		738
Changes in working capital		1,534
Others		92
Cash inflow from operating activities	(8)	23,915

Consolidated Statement of Cash Flows for This Year

		HK$M
Operating activities		
Cash inflow from operating activities		23,915
Investing activities		
Dividends received		2,270
Capital expenditure		(9,056)
Acquisition of a subsidiary		(207)
Investments in and advances to jointly controlled entities and an associated company		(272)
Additions of other intangible assets		(985)
Other net outflow		(676)
Financing activities		
Net increase in borrowings		584
Repayment of finance lease obligations		(2,302)
Interest and other finance costs paid		(5,928)
Dividends paid		(6,135)
Issue of shares	(12)	7,556
Net increase in cash and cash equivalents		8,764
Cash and cash equivalents at 31.12.2011		3,104
Effect of exchange rate changes		22
Cash and cash equivalents at 31.12.2012		11,890

Breakdown of Capital Investments

		HK$M
Capital expenditure		9,056
Acquisition of a subsidiary		207
Investments in and advances to jointly controlled entities and an associated company		272
Additions of other intangible assets		985
Acquisition of leased assets		1,960
Accrual adjustments		280
		12,760
By business activity:		
Coal and gas assets		5,022
Renewables	(15)	1,007
Transmission, distribution and retail		6,700
Others		31
		12,760
By region:		
Hong Kong	(9)	7,873
Australia	(10)	2,789
Chinese mainland		51
India	(11)	1,935
Southeast Asia and Taiwan		112
		12,760

Today's Consolidated Statement of Financial Position

		HK$M
Assets		
Fixed assets, leasehold land and land use rights under operating leases	(5)	134,329
Goodwill and other intangible assets	(6)	28,479
Interests in jointly controlled entities		19,197
Interest in an associated company		1,856
Derivative financial instruments	(13)	5,044
Trade and other receivables		18,552
Cash and cash equivalents		11,890
Restricted cash		1,136
Bank balances, cash and other liquid funds		13,026
Other assets		8,273
		228,756
Equity and Liabilities		
Share capital, premium and reserves	(7)	31,407
Retained profits		59,720
Shareholders' funds		91,127
Non-controlling interests		74
Derivative financial instruments	(14)	5,846
Trade and other payables		21,732
Borrowings		66,198
Obligations under finance leases		27,055
SoC reserve accounts		1,245
Other liabilities		15,479
		228,756
Closing exchange rate		
Australian dollar / Hong Kong dollar		8.0469
Indian rupee / Hong Kong dollar		0.1417

Beyond Today's Statement of Financial Position

	HK$M
Charges on assets	19,291
Contingent liabilities	1,566
Operating lease commitments	11,308
Capital commitments	21,805

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.

Outcome

- Operating activities: The operating cash flows[8] from the Hong Kong SoC business and the expanded Australia business post-NSW acquisition are the main sources for dividend payments and future business growth.
- Investing activities: In Hong Kong, we continued development and enhancement of the power system network and generating plants[9]. In Australia, capital investments of HK$2,789 million[10] mainly related to the enhancement works at Yallourn, investment in Pine Dale coal mine and development of a new billing system. The completion of Jhajjar and construction of wind projects in India represented capital investments of HK$1,935 million[11].
- Financing activities: In December, the Company completed a placement of 120,307,170 shares and raised HK$7,556 million[12]. The proceeds will be used for expected investment needs across CLP's business. Our total debt to total capital ratio decreased from 44.6% to 42.1% at 2012 year end. CLPH's credit ratings of A- by Standard & Poor's and A2 by Moody's were maintained.

Strategy to Manage Risks

CLP's philosophy is to mitigate financial risks through the use of financial instruments to hedge our exposures to interest rate, foreign currency and energy price risks.

Outcome

The derivative assets[13] and liabilities[14] refer to the fair value gains and losses of the financial instruments respectively at year end. At 31 December 2012, the Group had net derivative liabilities of HK$802 million which represents the net amount we would pay if these contracts were closed out at year end. The increase in net derivative liabilities is primarily due to the depreciation of Japanese yen and lower floating interest rate for Australian dollar against our cross-currency interest rate swaps and interest rate swaps respectively.

Strategy to Reduce Carbon Intensity

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

Outcome

- Renewable energy contributed HK$389 million to operating earnings in 2012.
- Investment of HK$1,007 million[15] during the year mostly in wind farms across India and the Chinese mainland.
- Renewable energy sources increased from 2,424MW to 2,734MW and represent over 20% of our total generating capacity.

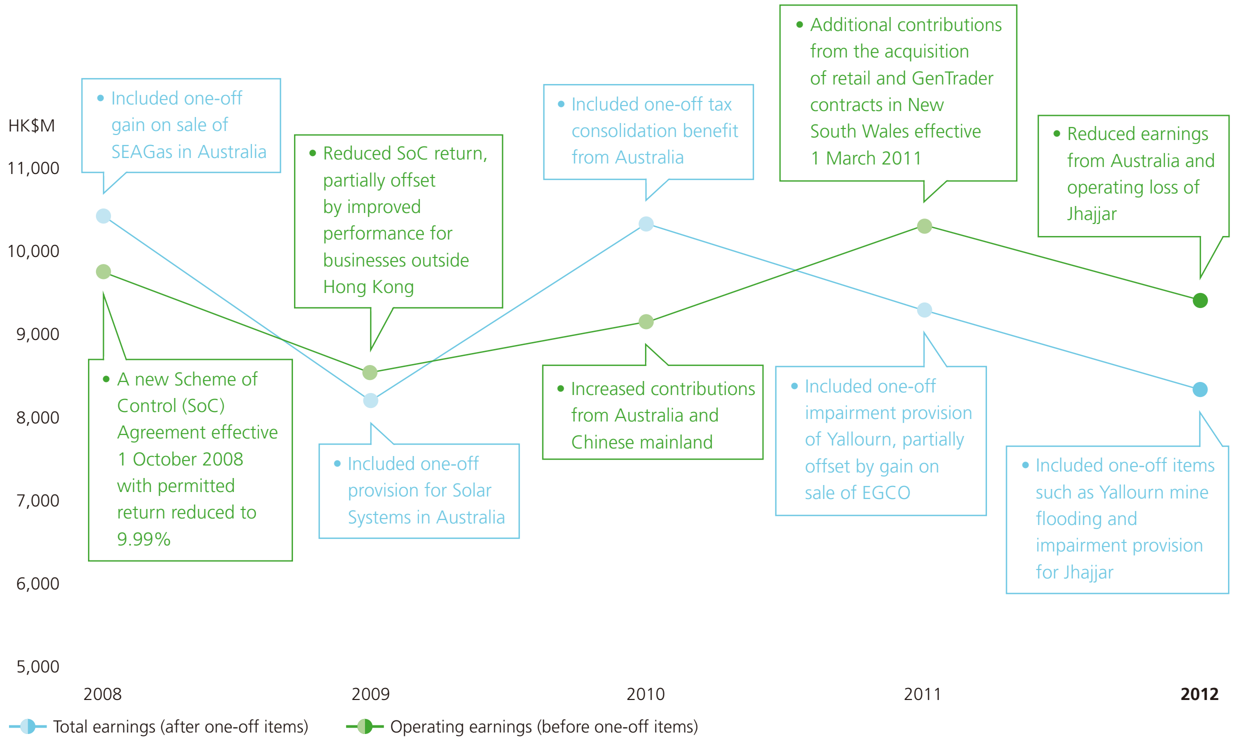
A Broader Perspective

An Annual Report necessarily concentrates on only one year's financial performance, with a comparison against the previous year. A broader perspective on CLP's financial performance can be helpful.

	2008	2009	2010	2011	**2012**
Performance Indicators					
Return on equity [1], %	16.4	12.3	13.7	11.5	**10.1**
Fixed assets turnover [2], %	61.1	53.9	54.0	73.9	**79.2**
Financial Health Indicators					
EBITDA interest cover [3], times	13.5	13.6	10.8	8.2	**7.0**
Debt over EBITDA [4], times	1.3	2.2	2.2	2.6	**2.8**
Investors' Return Indicators					
Total investor return [5], %	12.5	8.2	12.4	13.7	**12.6**
Dividend yield [6], %	4.7	4.7	3.9	3.8	**4.0**

1. Return on equity = Total earnings / Average shareholders' funds. The 2012 figure excludes the effect of the 5% share placement on 20 December 2012 to give a more accurate average shareholders' funds in 2012.
2. Fixed assets turnover = Total sales / Average fixed assets
3. EBITDA interest cover = Earnings before interest, tax, depreciation and amortisation / (Interest charges + capitalised interest)
4. Debt over EBITDA = Bank loans and other borrowings / EBITDA
5. Total investor return represents the 10-year annualised rate of return from the combination of share price appreciation and dividend payments.
6. Dividend yield = Dividends per share / Closing share price on the last trading day of the year

Total Earnings and Operating Earnings



Financial Analysis

Group's Financial Results

Financial results	*Notes to the Financial Statements*	2012 HK$M	2011 HK$M	Increase/(Decrease) HK$M	%
Revenue	*2*	**104,861**	91,634	13,227	14.4
Expenses		**(91,760)**	(76,461)	15,299	20.0
Finance costs	*5*	**(6,423)**	(6,005)	418	7.0
Share of results of jointly controlled entities	*13*	**(2,405)**	(2,929)	(524)	(17.9)
Earnings attributable to shareholders		**8,312**	9,288	(976)	(10.5)

Earnings Attributable to Shareholders

	2012 HK$M	2012 HK$M	2011 HK$M	2011 HK$M	Increase/(Decrease) HK$M	%
Electricity business in Hong Kong (HK)		**6,654**		6,339	315	5.0
Energy business in Australia		**1,685**		2,911	(1,226)	(42.1)
PSDC and sales to Guangdong from HK	**108**		116			
Nuclear power business	**592**		595			
Other power projects in Chinese mainland	**819**		560			
Electricity business in India	**(182)**		154			
Power projects in Southeast Asia and Taiwan	**243**		86			
Other earnings	**51**		70			
Earnings from other investments/operations		**1,631**		1,581	50	3.2
Unallocated net finance costs		**(74)**		(48)		
Unallocated Group expenses		**(490)**		(471)		
Operating earnings		**9,406**		10,312	(906)	(8.8)
Yallourn mine flooding		**(790)**		–		
Impairment provisions for Jhajjar and Boxing Biomass/Yallourn		**(409)**		(1,933)		
Tax consolidation benefit from Australia		**105**		–		
Gain on sale of EGCO		**–**		876		
Valuation gain on Hok Un redevelopment		**–**		225		
Stamp duty for NSW Acquisition		**–**		(640)		
Gain on reorganisation of Roaring 40s		**–**		300		
Gain on sale of 3.8% interest in ESG		**–**		148		
Total earnings		**8,312**		9,288	(976)	(10.5)

Whilst earnings from our Hong Kong electricity business grew moderately, the volatility of the Australia business significantly affected our operating earnings. The operating loss from India was largely attributable to the severe coal shortages experienced at Jhajjar. Taking into account the costs of the Yallourn mine flooding (HK$790 million), impairment provisions for Jhajjar and Boxing Biomass (HK$409 million) and other one-off items, total earnings declined 10.5% to HK$8,312 million. The performance of individual businesses is analysed on pages 38 to 63.

Finance Costs

The increase in finance costs was mainly due to the commissioning of Jhajjar and renewable projects in India and the Chinese mainland since mid-2011 (thus lower capitalisation of finance costs), and higher average borrowings during 2012.

Revenue and Expenses

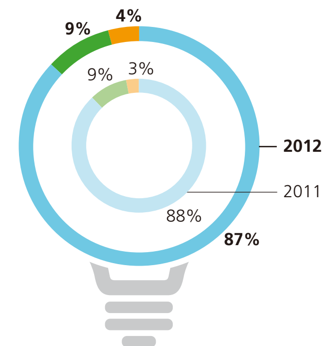
As a result of the NSW acquisition and inclusion of revenues from both retail and generation in Australia (only retail revenue is recognised by our SoC operation in Hong Kong due to differences in the energy market structure), EnergyAustralia surpassed CLP Power Hong Kong as the largest contributor to Group revenue since 2011.

The increase in revenue from EnergyAustralia was attributable to retail electricity and gas tariff uplifts in January and July 2012, and higher generation revenue on higher pool prices due to the effect of the carbon tax from 1 July 2012. In addition, cash assistance received under the Energy Security Fund (ESF) of HK$1,035 million (A$129 million) was recognised as revenue during the year. Revenue from Hong Kong grew slightly due to more units being sold to local customers and higher fuel clause revenue to recoup part of the rise in fuel costs. The commissioning of Jhajjar and other renewable projects in India and the Chinese mainland since mid-2011 also contributed to the increase.

Expenses in Australia, such as transmission and distribution charges, fuel costs, depreciation and other operating costs also increased. The costs of the Yallourn mine flooding (HK$1,129 million (A$144 million)), the carbon cost under the Clean Energy Legislative Package, and mark-to-market losses on energy contracts further increased expenses. There were also impairment provisions for Jhajjar (HK$350 million (after tax: HK$315 million)) and Boxing Biomass (HK$119 million (after non-controlling interests' share: HK$94 million)).

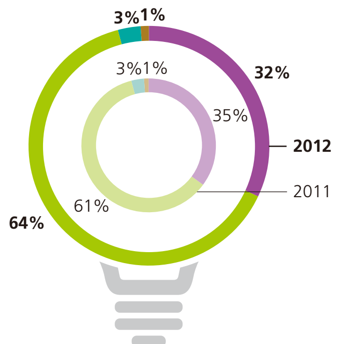
Analysis of Revenue

By Nature



Sales of electricity | Sales of gas | Others

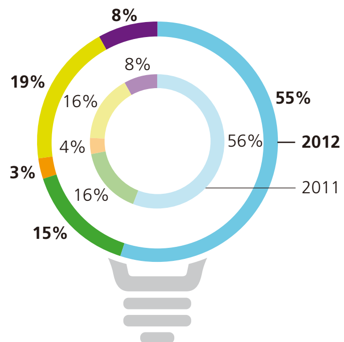
By Region



Hong Kong | Australia | India | Others

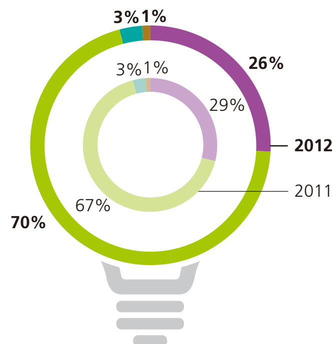
Analysis of Expenses

By Nature



Purchases of electricity, gas and distribution services | Operating lease and lease service payments | Staff expenses | Fuel and other operating expenses | Depreciation and amortisation

By Region



Hong Kong | Australia | India | Others

Share of Results of Jointly Controlled Entities

Excluding the one-off gains on the sale of EGCO and Hok Un revaluation in 2011, the share of results of jointly controlled entities increased by HK$406 million this year compared to last year. The performance of our Chinese mainland projects improved. In particular, Shandong Zhonghua, benefited from tariff rises in April and December 2011 and falling coal prices in 2012. Earnings from Ho-Ping in Taiwan were also higher due to higher generation and energy tariff.

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).

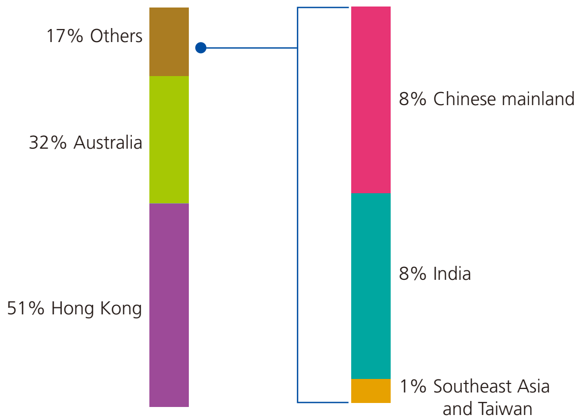
Non-current assets	*Notes to the Financial Statements*	2012 HK$M	2011 HK$M	Increase HK$M	%
Fixed assets	*10(A)*	**132,463**	128,571	3,892	3.0
Leasehold land and land use rights under operating leases	*10(B)*	**1,866**	1,811	55	3.0
Goodwill and other intangible assets	*11*	**28,479**	27,369	1,110	4.1
Interests in jointly controlled entities	*13*	**19,197**	18,226	971	5.3
Total assets		**228,756**	214,288	14,468	6.8
Net assets (total assets less total liabilities)		**91,201**	81,352	9,849	12.1

Total Assets and Net Assets

Net assets and total assets are further analysed as follows:

Net Assets	2012 HK$M	2011 HK$M	Increase / (Decrease) %
Hong Kong	**31,056**	30,429	2.1
Australia	**35,928**	35,075	2.4
Chinese mainland	**14,024**	14,197	(1.2)
India	**7,303**	7,167	1.9
Southeast Asia and Taiwan	**1,828**	1,467	24.6
Unallocated	**1,062**	(6,983)	n/a
	91,201	81,352	

Total Assets by Geographical Location in 2012



The acquisition of the NSW operations in Australia and the development of the India business altered the Group's total assets and net assets mix significantly in the past two years. About 49% and 65% of our total assets and net assets respectively are now located outside Hong Kong.

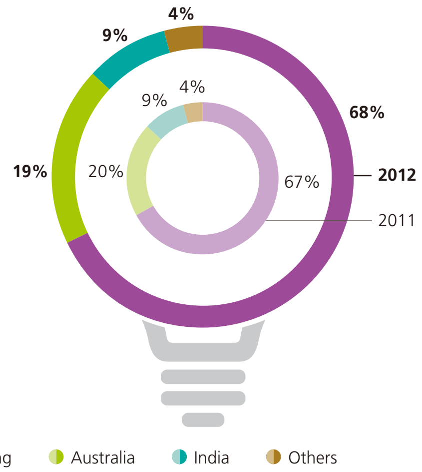
Fixed Assets, Leasehold Land and Land Use Rights under Operating Leases

The capital-intensive nature of the power business means that CLP needs to invest continuously in fixed assets in order to sustain high quality electricity supply.

During 2012, we invested HK$7,586 million on our transmission and distribution network, customer services facilities and generating plants in Hong Kong. In India, the completion of Jhajjar power plant and the construction of wind farms added HK$1,935 million of fixed assets. In Australia, capital expenditure of HK$1,531 million was mainly incurred on regular capital works on the power stations, in particular, Yallourn.

Capital commitments at 31 December 2012 stood at HK$21.8 billion, representing mainly capital works in Hong Kong and Australia, and the ongoing construction of wind farms in India.

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



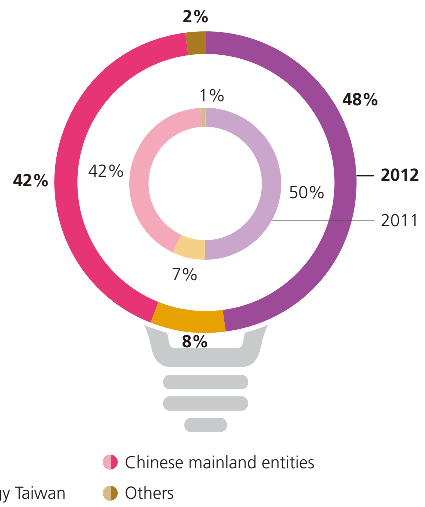
Goodwill and Other Intangible Assets

Goodwill and other intangible assets relate mostly to our Australia business. In June, the strategic acquisition of a coal mine in Australia gave rise to goodwill of HK$171 million (A$23 million). The additions attributable to Project Odyssey (the new retail customer service and billing platform in Australia), and the higher closing rate of the Australian dollar also resulted in a higher balance at year end.

Interests in Jointly Controlled Entities

Interests in jointly controlled entities increased as the performance of our joint ventures in the Chinese mainland and Southeast Asia and Taiwan improved.

The Group's Major Jointly Controlled Entities



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).

Working capital, Debts and other non-current liabilities and Equity	*Notes to the Financial Statements*	2012 HK$M	2011 HK$M	Increase / (Decrease) HK$M	%
Derivative financial instruments assets*	*16*	5,044	7,185	(2,141)	(29.8)
Derivative financial instruments liabilities*	*16*	(5,846)	(7,294)	(1,448)	(19.9)
Bank balances, cash and other liquid funds	*19*	13,026	3,866	9,160	236.9
Trade and other receivables	*18*	18,552	17,103	1,449	8.5
Trade and other payables	*20*	(21,732)	(16,990)	4,742	27.9
Bank loans and other borrowings*	*21*	(66,198)	(65,521)	677	1.0
Shareholders' funds		91,127	81,259	9,868	12.1

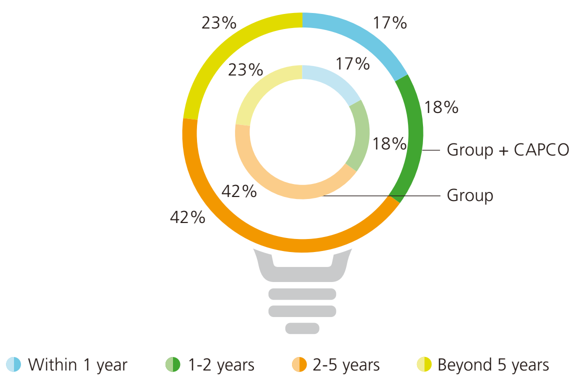
* Including current and non-current portions

Derivative Financial Instruments and Hedging

Except for limited energy trading activities by EnergyAustralia, 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		Fair Value Gain / (Loss)	
	2012 HK$M	2011 HK$M	2012 HK$M	2011 HK$M
CLP Group				
Foreign exchange forward contracts and options	106,490	104,624	1,454	1,699
Interest rate swaps / cross currency & interest rate swaps	44,790	36,598	(448)	413
Energy contracts	23,092	32,210	(1,808)	(2,221)
	174,372	173,432	(802)	(109)
CAPCO				
Forward foreign exchange contracts	160	48	(3)	(3)
Interest rate swaps	–	477	–	(5)
Total	174,532	173,957	(805)	(117)

Maturity Profile in 2012



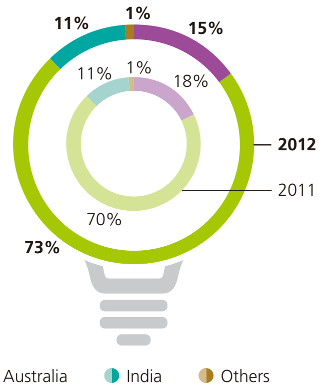
Bank Balances, Cash and Other Liquid Funds

The significant increase was mainly attributable to the cash from the Company's share placement and the funding arranged by CLP Power Hong Kong in the second half of the year. CLP India also held cash of HK$1,634 million for anticipated project needs as compared to HK$785 million in the prior year.

Trade and Other Receivables

The increase in trade and other receivables was mainly attributable to our overseas businesses. Trade receivables increased by HK$2,834 million, in line with the uplifts in tariffs and higher pool prices at year end in Australia and additional projects in India coming into operation. This was partially offset by the return of a deposit (HK$1,159 million) to CLP for the investment in Yangjiang nuclear power project in January 2012.

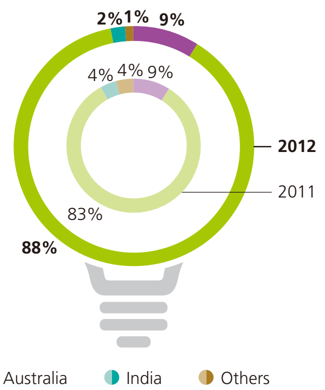
Trade Receivables by Segment



Trade and Other Payables

The increase mainly related to Australia and was attributable to the unamortised deferred revenue of HK$1,036 million (A$129 million) in respect of the cash assistance received under the ESF, the provision for carbon cost under the Clean Energy Legislative Package effective July 2012, and higher pool purchases payable on higher pool prices.

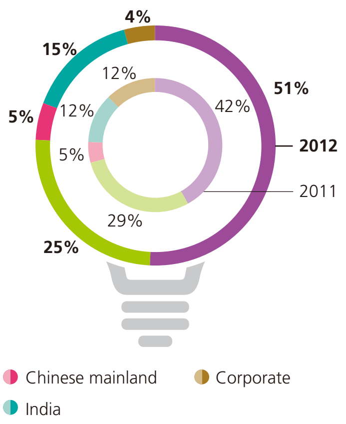
Trade Payables by Segment



Bank Loans and Other Borrowings

To support the funding needs for capital investment and business development, additional loans were drawn during the year. CLP Power Hong Kong arranged HK$9.9 billion new financing under the MTN programme and other banking facilities. EnergyAustralia obtained US$400 million (HK$3.1 billion) under the U.S. private placement and arranged A$750 million (HK$6 billion) new banking facilities, most of which are used to refinance its existing debts. Subsidiaries in India also drew down loans of HK$5.1 billion to finance the construction of Jhajjar and wind farms. On the other hand, HK$20.7 billion of borrowings were repaid during the year.

Bank Loans and Other Borrowings by Segment



Shareholders' Funds

The increase in shareholders' funds was mainly due to the 5% placement of the Company's shares for net proceeds of HK$7,556 million. The placement was completed on 20 December 2012.

CLP Group's Financial Obligations at a Glance

The financial risks associated with borrowings and unconsolidated financial obligations of an entity remain a market focus. Consistent with our practice of enhanced disclosure, the diagram below illustrates the financial obligations of the CLP Group, as well as those of our jointly controlled entities and associated companies. These financial obligations are classified into five categories according to their degree of recourse to CLP Holdings. Obligations under finance leases have not been included in the diagram.

	Category 1 Borrowings of CLP Holdings & CLP Power Hong Kong	Category 2 Borrowings of CAPCO & PSDC[(1)]	Category 3 Borrowings of Other Subsidiaries[(2)]	Category 4 Share of Debts of Jointly Controlled Entities and Associated Companies[(3)]	Category 5 Contingent Liabilities[(4)]
Consolidated	**2012 HK$36,335 million** 2011 HK$35,069 million		**2012 HK$29,863 million** 2011 HK$30,452 million		
Equity Accounted		**2012 HK$6,486 million** 2011 HK$5,622 million		**2012 HK$10,312 million** 2011 HK$11,025 million	
Off-balance Sheet Contingent Liabilities					**2012 HK$1,566 million** 2011 HK$1,366 million

Consolidated financial statements are prepared to show the effect as if the parent and all the subsidiaries were one entity by combining their financial statements on a line by line basis. In contrast, under the equity method of accounting, interests in jointly controlled entities and interests in associated companies are accounted for on the basis of proportionate sharing of net assets (i.e. assets minus liabilities). As a result, the underlying borrowings of equity accounted entities are not included as part of the debts shown in our consolidated financial statements. Total debt to total capital at CLP consolidated level (i.e. Category 1 and Category 3 together) in 2012 was 42.1% (2011: 44.6%). If 100% of debts[(5)] of Category 2 were included, total debt to total capital would be 40.9% (2011: 42.8%). If the attributable portion of debts of Category 4 were also included, total debt to total capital would rise to 44.1% (2011: 46.4%).

Notes:

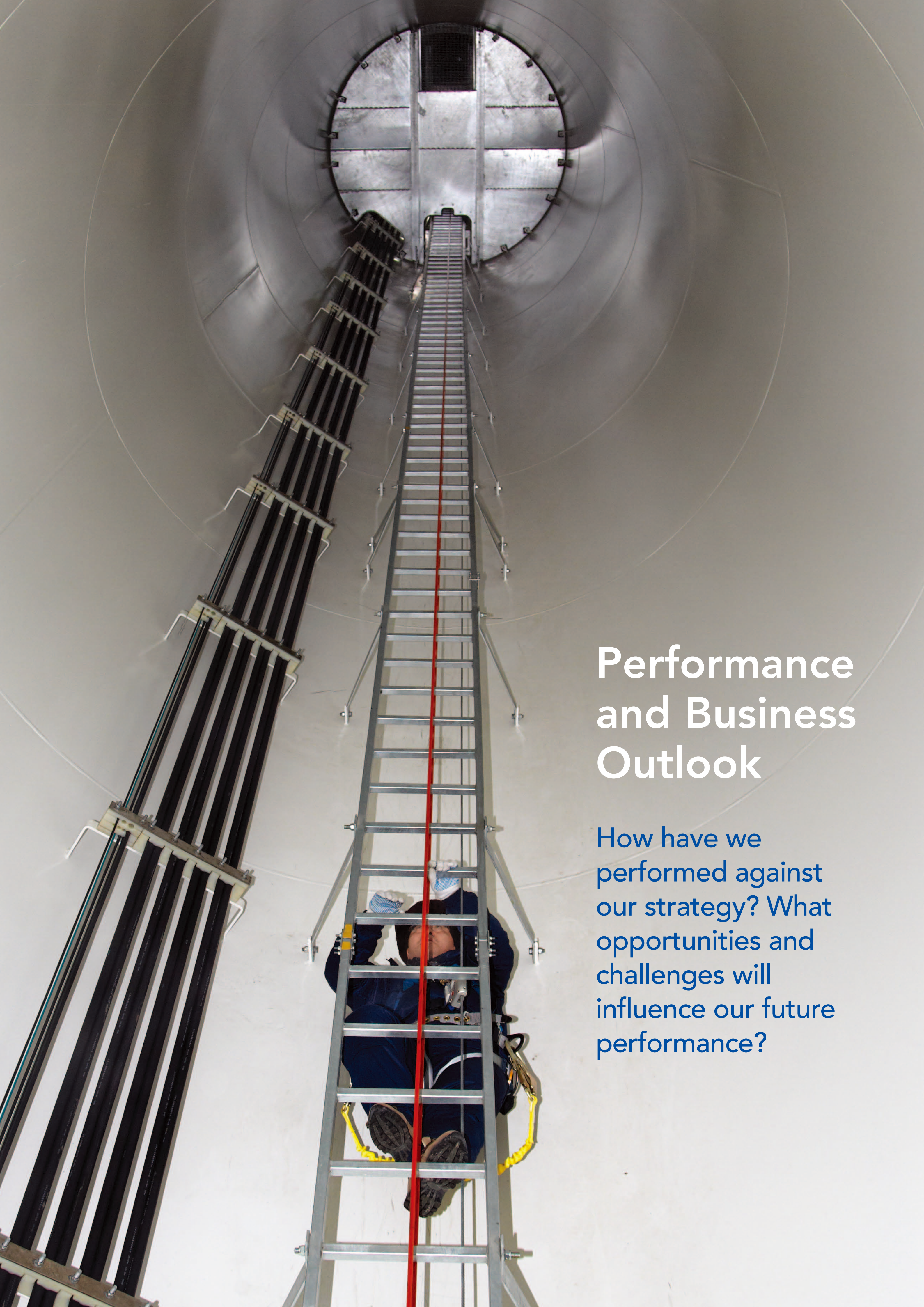
(1) 100% of the debts of CAPCO and PSDC. Although the Group holds only a 40% interest in CAPCO and a 49% interest in PSDC, CLP Power Hong Kong has commitments to these companies through power purchase and service agreements, as explained in the SoC Statement on pages 221 to 223 and Note 30 to the Financial Statements.

(2) These debts are non-recourse to CLP Holdings. These debts mainly comprise debts of EnergyAustralia and CLP India.

(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 31 to the Financial Statements.

(5) Including an additional 60% and 51% of the equity of CAPCO and PSDC respectively, in the denominator to ensure consistency.



Performance and Business Outlook

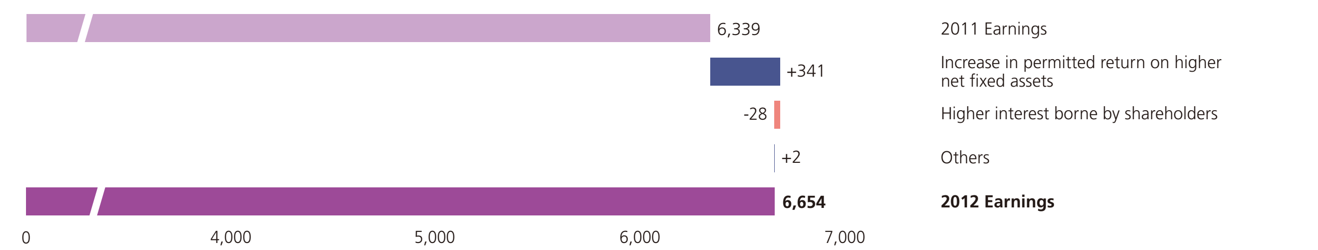
How have we performed against our strategy? What opportunities and challenges will influence our future performance?

Hong Kong

Financial Performance

In 2012, the earnings from our Hong Kong electricity business were HK$6,654 million, a 5% increase from HK$6,339 million in 2011. This increase was due to the permitted return from a higher level of average net fixed assets over the year, partially offset by the higher interest costs on increased borrowings for the financing of fixed assets.

Hong Kong Earnings (HK$M)



Operational Performance

Meeting Demand

As we have long said, the most important aspect of our performance remains our ability to meet the demand for electricity in Hong Kong, every day of every year. We achieved this again in 2012.

Local sales of electricity were 31,995GWh, representing an increase of 2.7% from 2011. This growth was mainly attributable to higher humidity in the first quarter and hotter weather in the second quarter of 2012. Strong growth was recorded for sales to the residential, infrastructure and public services sectors, whereas sales to the commercial sector showed only moderate growth. There was slight sales growth for the manufacturing sector.

Local Sales

	Increase		As Percentage of
	GWh	%	Total Local Sales
Residential	306	3.6	28%
Commercial	247	1.9	40%
Infrastructure & Public Services	270	3.4	26%
Manufacturing	4	0.2	6%

Sales to the Chinese mainland decreased by 37.8% to 1,838GWh in 2012. Total electricity sales in 2012, which included both local sales and sales to the Chinese mainland, decreased by 0.9% to 33,833GWh.

CLP has recorded a double-digit annual growth in electricity demand from data centres within our supply area. In the Tseung Kwan O Industrial Estate alone, there are around ten large-scale international data centres under various stage of development. To support the HKSAR Government's vision of developing Hong Kong into a regional data centre hub, the Chun Yat Street 132kV transmission substation, which is dedicated to powering high-tier data centres in Tseung Kwan O Industrial Estate and is designed with a segregated twin switchgear room and connected to two independent power sources, is being constructed on a fast track basis for commissioning in 2014.

Capital Investment

In 2012 we invested HK$8.6 billion in generation, transmission and distribution networks, as well as in customer services and supporting facilities. These investments enhance the reliability, stability and efficiency of our supply network and quality of our customer service. They also ensure the timely provision of electricity supplies for residential property developments and ongoing infrastructure projects in our supply territory, such as the Express Railway Link, Shatin to Central Link, Hong Kong-Zhuhai-Macau Bridge and the development of West Kowloon and Kai Tak. In addition, the construction of a new gas receiving station and modifications for equipment at the Black Point Power Station continued through 2012 to enable the plant to migrate from the gas received from the existing Yacheng field to the future gas supplies arriving from the Chinese mainland.

Gas Supply

In 1996, we secured a supply of natural gas at Yacheng with a 20-year contract. This helped us to supply Hong Kong with abundant, reliable power as well as supporting significantly enhanced environmental performance and a stable tariff regime. The Yacheng supply of natural gas is now depleting. The MOU signed between the HKSAR Government and the Central People's Government in 2008 provided for the long-term gas supply to Hong Kong from three new sources in the Mainland. Of these, the Second West-East Gas Pipeline (WEPII) is the earliest available source.

The approval of a Gas Supply Agreement (GSA) with PetroChina in December 2012 for the import of natural gas from PetroChina's WEPII was a major step forward in the implementation of the MOU. Natural gas to be supplied through this 9,000 km long pipeline arrived in Hong Kong before the year-end. This new gas resource is delivered through a launching station at Dachan Island in Shenzhen, a subsea gas pipeline and the end-station at Black Point. These new facilities, collectively referred to as "The Hong Kong Branch Line" (HKBL), are jointly owned by PetroChina (60%) and CLP (40%). The gas receiving station at Black Point is now complete. Modifications to the eight gas-fired generation units are scheduled for completion by mid-2013.

Under the approved GSA, the gas price will be set using a clear and transparent mechanism, based on a formula reflecting the cost of the commodity and the transportation elements, as well as being in accordance with PRC regulatory guidelines.

The HKBL project is an important step in the integration of Hong Kong with Guangdong's energy infrastructure and brings access to a vast gas supply resource from Central Asia. The total investment cost of the HKBL is around RMB4 billion, of which CLP will bear 40% in line with its shareholding. CLP's investment in the HKBL will not be included as an asset under the SoC. The investment return level is in line with the PRC's regulatory guidelines, and constitutes a reasonable and stable return which will be recovered through a transportation charge payable by CAPCO under the GSA starting from 2013.

Subject to the further development of the Hong Kong Government's energy, environmental and climate change policies, we expect the use of natural gas to increase. If so, gas supplies beyond the volume provided under the recent agreement with PetroChina are likely to be required in the second half of this decade. We are exploring new supply options, as contemplated under the MOU. These include PetroChina's proposed Shenzhen liquefied natural gas terminal, targeted for approval by the National Energy Administration in 2013, as well as gas from new fields in the South China Sea. Discussions on various long-term supply arrangements are ongoing.

Reliability

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

CLP meets our society's expectation by delivering one of the most reliable electricity services in the world. Since 2000, unplanned Customer Minutes Lost per year, a standard measure of supply reliability, has been improved by 80%. In the last three years, a typical CLP customer would have experienced an average of only 2.6 minutes of unplanned power interruptions per year, as compared to 19-40 minutes in New York, Sydney and London (between 2009 and 2011 – the latest available data). This world-class performance evidences CLP's ongoing drive to enhance the performance of its supply network through the use of advanced technology, leading operating and maintenance practices and the dedication of our workforce. One example of our efforts in this area is the comprehensive risk assessment conducted on the impact of natural disasters on our transmission and distribution network. Mitigation measures are being implemented, including strengthening the structure of over 150 towers (and some foundation slopes) supporting our 400kV power lines to withstand wind gusts up to 300km/h, and flood mitigation measures implemented at some transmission substations. Another example is the move towards a condition-based maintenance approach. This combines predictive and preventive maintenance with condition monitoring techniques being used to detect potential fault sources before any failure actually occurs.

Power Quality

The increasing use of sophisticated technology in financial, medical, communication and industrial facilities has made power supply quality more critical. With overhead lines still forming a major part of our 400kV grid and rural distribution network, voltage stability is vulnerable to weather conditions such as typhoons and lightning strikes which are common in Hong Kong. To reduce the susceptibility of overhead lines to stormy and thundery weather, substantial efforts have been made in vegetation management and lightning protection. We also offer a wide range of expert services to our customers including hospitals, railways, hi-tech manufacturers, telecommunication operators, banks and other businesses to protect their sensitive equipment and processes against voltage fluctuations. In 2012, we helped over 140 major customers in this way. The solutions we offer are customised to our customers' specific problems and adopt the latest electronic and energy storage technology.

Customer Service

Our 12 performance pledges express our commitment to excellence in customer service. These set out our targeted performance in areas we know are of particular importance to our customers, such as reliable electricity supply and prompt response to our emergency service hotlines. These pledges, and our performance, are set out on our website at www.clponline.com.hk. In 2012, we once again met all of our service pledges.

Has the power sector done all it can to improve Hong Kong air quality?

When I joined CLP in 1992 nearly all of our electricity was generated from coal. Today coal generation comprises less than half of our energy mix with the remainder being produced from much cleaner natural gas and nuclear power. In addition, our emissions control project at Castle Peak, that was completed in 2010 and required an investment of around HK$9 billion, has made our plant at Castle Peak one of the cleanest coal-fired power stations in the world in terms of emissions. Combined with many other initiatives, such as the use of low sulphur coal from Indonesia, we have made enormous efforts to reduce emissions.

We have done a lot, and we can do even more. As you will know, we are working hard to bring additional gas supplies to Hong Kong to increase the use of gas for power generation and there is also the potential for nuclear energy to play a greater role in meeting Hong Kong's energy needs. So, with supportive and realistic government policies and a stable regulatory framework, we can continue to help improve Hong Kong's air quality. However, despite all CLP has done to reduce emissions from power generation, I and many Hong Kong citizens will have noticed that local air quality is actually worse than it was in the early 1990's. For that reason, I welcome the recognition in the Chief Executive's recent Policy Address that a much broader effort is required, involving many different sectors of the economy, as well as changes in our own lifestyles to achieve the substantial and durable improvements to local air quality which all of us are looking for.

Ms. Jenny Cosgrove
Director, Regional Head of Utilities and Alternative Energy Research, Asia-Pacific, Global Research,
The Hongkong and Shanghai Banking Corporation Limited

Richard Lancaster
Group Director –
Managing Director Hong Kong

Like other aspects of our business, customer service requires continuous review and improvement. In 2012 we launched over 30 customer service improvement initiatives. These initiatives, which are aimed at all types of customers, target power quality, service standards and practices, account management, billing and payment, enhanced customer communication, value-added services and customer engagement.

We also encourage our residential and business customers, and for that matter the Hong Kong community at large, to use energy more efficiently so that they save energy and money, as well as help create a better environment. We follow a four-step approach to helping people change their habits and reduce their energy consumption. These steps are:

- educating the public;
- providing customers with information and energy saving tips;
- equipping customers with tools and technical support; and
- means to make greater energy efficiency possible (we call these "enablers").

The following diagram summarises the scale and variety of CLP's commitments to help our customers and our city move towards an energy-efficient lifestyle.

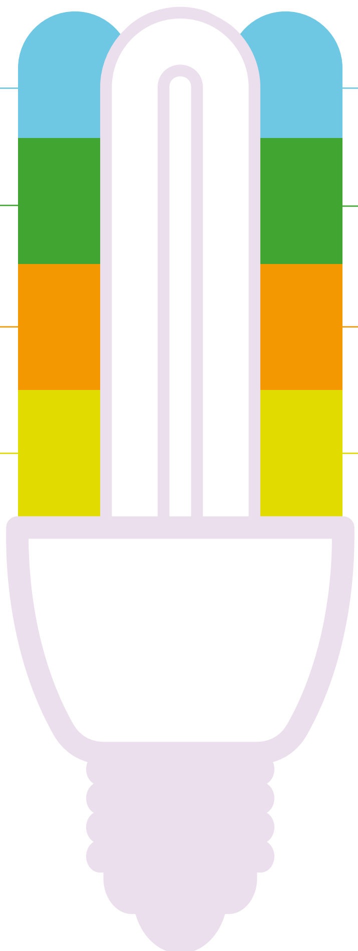
Energy-Saving Support for Homes

Education
- Electric Green Studio
- Energy Innovation Project Competition
- Exhibitions & Promotion
- "Save Now For Better Future" Campaign

Information
- Energy use information on electricity bill
- Green Home Starter Guide
- Green Information Hub on CLP Online

Tools / Support
- Eco Home
- Eco Optimizer
- CLP Mobile App
- CLP Eco Ambassadors

Enablers
- Advanced Metering Infrastructure (AMI)
- Energy & Carbon Calculator on CLP Online



Energy-Saving Support for Businesses

Education
- Energy Efficiency Exhibition Centre
- Energy Efficiency and Conservation Workshops
- GREEN^{PLUS} Recognition Award

Information
- Green Enterprise Info Pack
- Meter Online
- Green Information Hub on CLP Online

Tools / Support
- GREEN^{PLUS} Programme, GREEN^{PLUS} Gallery and GREEN^{PLUS} Resort
- GREEN^{PLUS} Energy Billboard
- Account Manager

Enablers
- Advanced Metering Infrastructure (AMI)
- Energy Efficiency Loan Scheme
- Energy Audit Services
- Energy Calculator on CLP Online

A few figures may illustrate the scale of these efforts, which are perhaps not widely recognised:

- since 2009, the Green Studio Mobile Classroom has spread the green message to over 57,000 school children;
- the Energy Innovation Project competition has sponsored over 140 projects;
- 12,000 visitors have been to the CLP Eco Home;
- since 2011, over 27,000 users have signed on to our Eco Optimizer web-based energy assessment tool;
- over 32,000 users have downloaded the CLP mobile application;
- 26,000 business and community leaders have visited the Energy Efficiency Exhibition Centre;
- since 2009, CLP's Energy Audit Services have helped customers save 60GWh of electricity – equivalent to the annual supply to almost 20,000 typical homes; and
- the Advanced Metering Infrastructure (AMI) pilot scheme will target 3,000 residential customers and 1,400 small and medium-size enterprises over its 18-month trial period.

In the second half of 2012, we refreshed our longstanding brand, reinforcing our ties with Hong Kong for over a century. A multi-pronged approach was adopted to connect the community with our Company through "Energy for Life", where the four pillars of our brand: Customer Excellence, Community Commitment, Environmental Protection and Power Expertise, were introduced through a wide range of communication activities.

Tariff

Supply reliability, power quality, excellent customer service and environmental improvement come at a price, which must be reflected in the tariff paid by our customers for their electricity. We do everything possible to maintain tariffs at reasonable levels. Even so, a tariff increase for 2013 was unavoidable. CLP was able to keep its average 2013 basic tariff unchanged due to continued stringent cost management of capital and operating expenditures and the effect of higher than expected electricity sales due to warmer weather in 2012. However, because of the increase in fuel costs and an adjustment to the rent and rates special rebate, the Average Net Tariff increase in 2013 was 5.9%. Of this, 4.7% was due to the increase in the fuel clause charge as new natural gas supplies arrive through the WEPII. Whilst this gas is priced at the prevailing international market level, it will be around three times the price of that from the existing Yacheng field, which was contracted 20 years ago when energy prices were significantly lower.

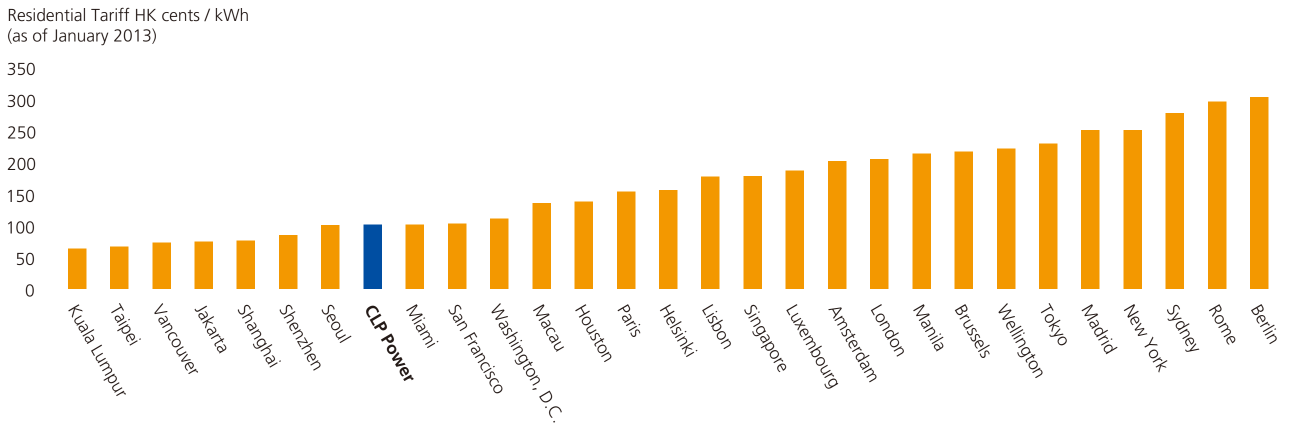
Gas Receiving Station at Black Point

CLP will also provide a rent and rates special rebate of 2.1 cents per unit to all customers in 2013. We expect that, by the end of 2013, this rebate will complete the return to CLP's customers of all the rent and rates payments overcharged by Government and subsequently refunded to CLP.

CLP introduced a new Energy Saving Rebate Scheme with effect from 1 January 2013. This scheme will assist low consumption customers and encourage energy efficiency. 35% of domestic customers and 44% of small business customers will bear no increase, or even enjoy a small reduction in their electricity bills depending on their consumption levels. To promote energy saving, the tariff structure for residential users has been adjusted in order to encourage high electricity consumption customers to consider energy saving (this will affect around 1% of domestic customers). At the other end of the scale, CLP introduced a one-off community care subsidy of HK$300 per eligible household as a way to alleviate tariff pressure for lower income households. This is expected to help over 10,000 low-income families across CLP's service area in 2013.

Even with the tariff adjustment in 2013, CLP's tariff is still highly competitive when compared with other major metropolitan cities. This is particularly striking since many of these cities do not benefit from the same level of supply reliability, power quality and customer service provided by CLP.

2013 Residential Tariff Comparison



Notes: Comparison based on annual domestic consumption of 3,300kWh.
Tariff and exchange rate at January 2013.

Source: Web search

Stakeholder Engagement

In 2012, we further strengthened our communications with stakeholders to ensure that they are well-informed on CLP's business operations, initiatives and challenges. To keep the public abreast of the latest developments on issues such as future fuel mix and tariff pressure arising from the new gas supply, we have used a number of channels such as the media, chambers of commerce and professional associations. We aim to support a balanced discussion in the media and public forums and to promote a better understanding of CLP's operations.

The Daya Bay Nuclear Power Station, in which CLP holds a 25% shareholding, plays an important part in meeting Hong Kong's demand for electricity. Whilst our community appreciates the importance of Daya Bay in providing clean energy to Hong Kong, we recognise that there are ongoing community concerns about nuclear safety. We continue to address these directly. The CLP Nuclear Resources Centre, which offers extensive information on nuclear energy, was launched in May 2012. Since then, the Centre has welcomed over 3,200 visitors including shareholders, government officials, professional groups, academics, secondary and university students as well as visitors from overseas. The Centre, along with other initiatives such as our participation in stakeholder engagement forums, forms part of our widening efforts to enhance understanding of nuclear related matters.

Outlook

Hong Kong is a small and open economy whose economic performance is closely tied to its major trading partners. The uncertain external environment may adversely impact local economic activity, and therefore restrain growth in electricity demand. The increasingly stringent environmental regulations imposed on CLP will also impact our business, both operationally and financially. These factors, together with the continuous pressures of fuel costs, operating costs and new capital investments, mean that we must work more efficiently and innovatively than ever before. In 2013 this will involve:

- Continuing to monitor and manage the gas supply from the existing Yacheng gas field and evaluate the gas supply options outlined in the MOU;
- Ensuring the safe and reliable operation of the Hong Kong Branch Line Project, and completing all gas receiving infrastructure and plant modification works on schedule to accept deliveries of new gas supplies;
- Securing HKSAR Government approval for our Development Plan covering the period from 2014 to September 2018;
- Engaging actively with the HKSAR Government, key stakeholders and the wider community on the SoC Interim Review;
- Managing our operating costs amidst volatile international fuel prices and rising local labour costs, so as to minimise tariff increases for our customers;
- Stepping up efforts to promote energy efficiency through public education and the provision of energy efficiency related services;
- Exploring the options for importing additional nuclear energy or providing additional gas generation capacity in Hong Kong, both to meet increasing electricity demand and to ensure that this is done in line with any decision by the Government regarding the role of nuclear energy in Hong Kong;
- Enhancing stakeholder engagement activities and communication plans on nuclear safety issues to promote an informed debate on the future energy mix for Hong Kong;
- Engaging actively with the HKSAR Government on a practical plan for meeting proposed climate change goals and achieving air quality objectives, as well as starting to plan and pursue the major infrastructure developments in our business which will be needed if these policies are to be successfully implemented on time; and
- Taking forward innovative initiatives, such as piloting smart grid projects including AMI and facilitating the development of the best local renewable energy projects and their integration with the grid.

Over the longer term, perhaps through to the turn of the decade, our priorities will include:

- Strengthening infrastructure integration with Guangdong, notably through gas pipelines and potential arrangements to import additional nuclear power;
- Finalising a cleaner fuel mix. This will involve using more gas, carefully considering the potential import of more nuclear energy and reducing our reliance on coal, as well as promoting the use of local renewable energy sources to the limited extent that this is practical;
- Continuing implementation of the inter-Government MOU on energy cooperation so that new long-term gas supplies are brought to Hong Kong in a timely fashion;
- Further introducing different kinds of energy efficiency services and tools to assist our customers in managing electricity use in both their living and working environments;
- Managing the ongoing capital expenditure which our business will require, both to timetable and within budget;
- Engaging actively with the HKSAR Government, key stakeholders and the wider community on the post-2018 regulatory regime; and
- Maintaining excellence in operations at all times, including supply reliability, environmental and safety performance.

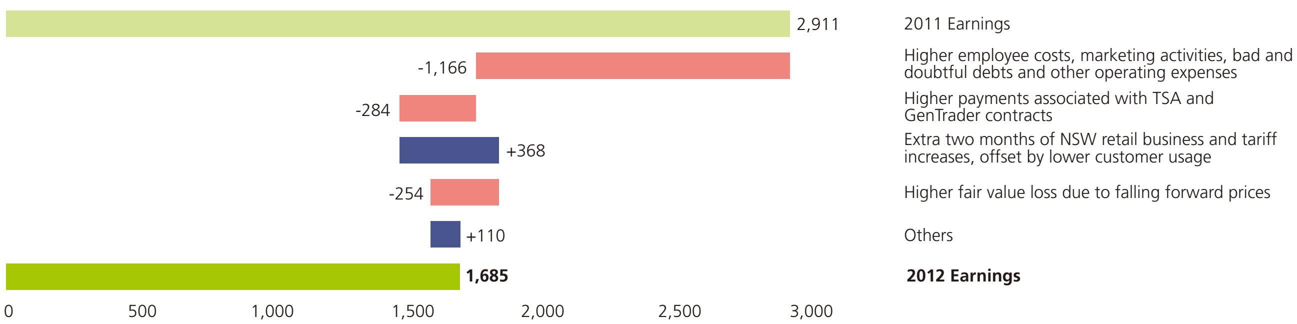
More Q&As about our Hong Kong Business

Australia

Financial Performance

EnergyAustralia's operating earnings in 2012 were HK$1,685 million, compared to HK$2,911 million the previous year. This 42.1% decrease in earnings was caused by a combination of factors including reduced customer demand, suppressed wholesale electricity prices, higher operating costs and higher fair value loss on energy contracts. Operating costs increased by HK$1,450 million or 35.7% year-on-year. Factors contributing to this included higher employee and contractor costs, increased marketing expenditure, bad and doubtful debts, and increased costs associated with the TSA and Delta Western GenTrader contracts.

Australia Earnings before One-off Items (HK$M)



Operational Performance

Corporate

CLP's wholly-owned subsidiary in Australia previously operated as "TRUenergy". As TRUenergy we acquired the retail customer base of EnergyAustralia and the Delta Western GenTrader contracts from the NSW Government in March 2011. That acquisition more than doubled our customers, increased our generation capacity, and significantly expanded our presence in Australia's largest energy market, NSW. As a consequence, in October 2012 TRUenergy was rebranded – merging the best of the legacy brands in Victoria and NSW into a single, new and revitalised EnergyAustralia brand.

EnergyAustralia aspires to be Australia's leading electricity and gas company. Our goal is to increase the value of the business significantly through industry leading customer service, the highest levels of employee engagement, and continuous improvement in the economic return on its assets. EnergyAustralia's aim is to be dependable, reliable and safe. The notion of helping Australians with efficient energy solutions underpins everything we do.

In 2012 we continued to build our people capability to support our growth. Through this demanding year of change the focus of our employees on continually improving safety has been maintained. Our Total Injury Frequency Rate (which measures the number of injuries per million hours worked) was 4.73 for the year, well below our target of less than 8.0. While we will not be content until we can achieve our goal of zero, this performance is an encouraging sign of our employees' diligence in this area.

Retail

EnergyAustralia is one of Australia's three largest energy retailers. We supply gas and electricity to households and businesses across four states and one territory: Victoria, NSW, Queensland, South Australia and the Australian Capital Territory with a total of 2.8 million customer accounts. In NSW and Victoria we hold market shares in excess of 25%, approximately 12% in South Australia and less than 5% in Queensland.

In order to achieve leading customer service and help Australians with efficient energy solutions, EnergyAustralia is working to four key customer-focused objectives. These are to improve our existing services, deepen customer relationships, develop new service and sales channels and build the future business model. All our initiatives in 2012 and those planned for the months ahead are intended to further one or more of these objectives.

In September we launched our new Customer Care and Billing platform. This is easier and more efficient to use than its predecessor and materially improves the quality of retail data used in the business, positioning EnergyAustralia to offer a level of service to our customers which is far superior to that possible under the previous legacy system. The system also provides a platform for a more effective launch of new customer products, such as our "Rate Fix" product which was launched in NSW and provides customers with a fixed price for their electricity for a two-year period. In October, EnergyAustralia launched MyEnergyReport which is designed to help customers to better understand their energy use and to make informed choices about their energy consumption. This marks an important change in the customer relationship. In keeping with the promise at the heart of the EnergyAustralia brand to help Australians with efficient energy solutions, MyEnergyReport is a shift away from simply being a supplier of energy and a move towards partnering with customers to help them to use energy more efficiently.

Retail electricity prices for both mass market and industrial customers in all States were increased on 1 July 2012 as a result of the introduction of a cost of carbon by the Australian Government. Prices in NSW, Queensland and South Australia were also increased at the same time in line with the annual price review process. The corresponding annual process for Victoria results in an increase in retail prices in the State with effect from 1 January each year. Such increases are understandably unwelcome to customers. Combined with the highly competitive retail energy market in Australia, such increases reinforce the need for EnergyAustralia to enhance customer service, whilst controlling cost, in order to retain existing customers and to attract new ones. We defended our market position well in 2012. Our churn out rate, which measures customers switching from one energy retailer to another, was 22.4%, below the industry average of 25.4% in Victoria. At 18.5% we were only marginally above the market churn of 18.3% in NSW despite the aggressive push for market share in the electricity market by non-incumbent retailers.

In Australia, Smart Meters are reaching critical mass in the state of Victoria and being considered in other states. There's been a lot of discussion about the value of Smart Meters to consumers and the opportunity to help consumers use energy more wisely, by using the information that the Smart Meter provides. How is EnergyAustralia planning to use Smart Meter data to strengthen the relationship with its customers? How does EnergyAustralia's strategy reflect the experience of other markets like the European Union and U.S., which have been dealing with Smart Meters for some time?

Smart Meters provide the potential for customers to understand their energy usage at very granular levels. In Victoria customers with Smart Meters will be able to see their usage for every half hour. However, few of us will want to see all 17,520 half hour reads each year. As a leading energy retailer one of our tasks is to present this data to customers in ways which enable them to understand and act on it, whether this be via a web portal such as MyEnergyReport or via a printed home energy report. The half hour data also allows us to develop pricing structures more closely aligned to our customers usage so that customers who use a lot of off-peak energy get the benefit of this. Coupled with flexible pricing and an appropriate feedback technology, Smart Meters provide significant potential for us to put customers in control of their energy usage.

Mr. Nadeem Sheikh
Managing Director, Asia Pacific
Opower

Richard McIndoe
Managing Director – EnergyAustralia

This was a particularly strong result given that up until September the retail business was focused on the implementation of the new billing and customer management system. While our account numbers declined by 71,000 in the first half of the year as we focused on preparations for the billing system implementation, we were able to reverse this trend and increase our accounts by 31,000 in the second half. In addition to customer-centred initiatives such as MyEnergyReport and new customer offerings we were also better able to focus on the retention of existing customers.

During 2012 we witnessed a decline of electricity usage across our customer base. For instance, in our legacy, predominantly Victorian customer base (previously serviced by the TRUenergy brand), we saw a decline of around 10% in average mass market electricity consumption from 6.5MWh in 2011 to 5.8MWh in 2012. A number of factors contributed to the reduction in customer electricity consumption including the underlying demand changes of a more cost aware consumer, energy efficiency, weather and the impact of increased residential solar photovoltaic penetration.

In keeping with our objective of building pathways to changing energy demand, EnergyAustralia was named by the Australian Government as the retail partner for its "Smart Grid, Smart City" Project, under which households in Sydney and the Hunter Valley can participate and save money on their energy bills by signing up to take part in voluntary energy retail trials. As part of this Project, EnergyAustralia is running trials whereby customers can participate in initiatives such as air-conditioning cycling during peak times, dynamic pricing notifications by SMS, and discounts for customers maintaining their accounts in credit. The trials will continue until September 2013 and should provide valuable insight into how customers alter their usage in response to different combinations of price signals and feedback technologies, and which products most benefit customers.

Wholesale

The generation business faced a number of challenges through the course of 2012. These included decreasing demand for electricity, which in turn led to suppressed wholesale prices, the introduction of a carbon pricing regime, as well as disruption to operations at the Yallourn Power Station following the collapse of the Morwell River Diversion and ingress of water into the Yallourn coal mine. The changes in demand, wholesale prices and carbon drove our decision to reduce generation output and operate to a different profile than in past years.

EnergyAustralia's operated gas-fired power stations, at Tallawarra and Hallett, performed safely and reliably during the year. The energy produced by Tallawarra was more cost competitive after the introduction of the carbon price and a decrease in the cost of gas which resulted in the power station performing well over the second half of the year. The Iona Gas Plant also performed well with high commercial availability. In NSW we control the output from the Mount Piper and Wallerawang Power Stations under the Delta Western GenTrader contracts. During 2012 we decided to scale back generation in response to changing market conditions. The Mount Piper plant, which is the more modern and efficient of the two stations, demonstrated high levels of reliability and now has additional coal stockpile capacity which increases generation flexibility. In 2012, EnergyAustralia acquired the Pine Dale coal mine near Lithgow in NSW. This supplies around 350,000 tonnes of black coal each year to the Mount Piper Power Station and is a strong strategic fit for EnergyAustralia.

EnergyAustralia has a 20% equity stake in the Narrabri coal seam gas (CSG) project, in the Gunnedah Basin, Northern NSW. This secures 500PJ of 3P reserves and provides an alternative source of gas supply, further diversifying the forward gas supply portfolio. The project is operated by Santos, an experienced CSG developer and operator. In 2012, the project was delayed due to government review of regulations and community concerns. The regulatory framework is now issued and the key licences for the project have been renewed. Santos has implemented a programme to resolve legacy issues with integrity of equipment and water treatment facilities and raised safety, health and environment standards to its corporate standard. Progress on the project in 2013 will include further exploration and appraisal drilling and gas production to expand and confirm reserves, engineering design and implementation, community engagement and preparation of an Environmental Impact Statement. EnergyAustralia has established a joint venture management team and is developing its knowledge of the critical CSG sector.

More Q&As about EnergyAustralia

Australia

The following tables set out the utilisation and availability of EnergyAustralia's generating portfolio and Iona gas storage facility, and demonstrates the high level of operating performance which was achieved in 2012.

Wholly or Partly-Owned by EnergyAustralia

Power Stations	Rating (MW) 2012	2011	Generation (at plant) (GWh) 2012	2011	Utilisation* (%) 2012	2011	Availability* (%) 2012	2011
Yallourn	**1,480.0**	1,480.0	**8,965.0**	11,620.0	**69.0**	89.6**	88.4	**88.9**
Tallawarra	**420.0**	420.0	**2,758.0**	2,307.0	**75.0**	63.0	**95.9**	82.4
Hallett	**203.0**	203.0	**5.5**	11.4	**0.3**	0.6	**93.8**	92.8

Gas Storage Facility	Capacity (Terajoule / Day) 2012	2011	Throughput (Petajoule) 2012	2011	Utilisation (%) 2012	2011	Availability (%) 2012	2011
Iona	**500.0**	500.0	**49.8**	48.9	**27.2**	30.5	**98.4**	99.5

Wind Farms	Installed Capacity (MW) 2012	2011	Wind Turbines (Number) 2012	2011	Generation (at Farm Gate) (GWh) 2012	2011	Availability (%) 2012	2011
Cathedral Rocks	**66.0**	66.0	**33**	33	**180.9**	185.0	**91.4**	92.4
Waterloo	**111.0**	111.0	**37**	37	**335.0**	298.0	**97.3**	95.6

* 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.

** In 2011 utilisation was slightly higher than availability at Yallourn due to two units generating above rating.

Generating Capability under Contract to EnergyAustalia

Delta West Power Stations	Rating (MW) 2012	2011	Net Generation (at node) (GWh) 2012	2011
Mt Piper	**1,400.0**	1,400.0	**7,942.0**	7,683.0
Wallerawang	**1,000.0**	1,000.0	**4,692.0**	4,782.0

Ecogen	Rating (MW) 2012	2011	Net Generation (at node) (GWh) 2012	2011
Newport / Jeeralang	**966.0**	966.0	**241.0**	370.0

On 6 June 2012 water from the Morwell River Diversion entered the Yallourn mine, following the collapse of a coal conveyor tunnel that runs beneath the diversion. This flood impacted coaling operations and reduced the output from Yallourn Power Station. No one was injured in the incident and work swiftly commenced to stem the flood and remove the water from the mine. Whilst this was a serious and costly event, the response from EnergyAustralia's staff, and those of the partner companies that work alongside them, was outstanding. Coal transport via conveyor was re-established from 11 July, allowing generation to increase from one to three units. All four units were available from early August. On 8 October the second coal conveyor

was returned to service. An additional liner system and drainage in the river diversion is being installed to help prevent future breaches. This will cover an area of 120,000 square metres along 800 metres of the diversion and is due to be completed by August 2013. While the Yallourn Power Station was able to run all four generation units from August onwards, EnergyAustralia decided to scale back generation to three units. Factors influencing this decision included the introduction of a carbon price on 1 July, combined with falling electricity demand and a suppressed wholesale electricity price environment. Planned maintenance operations were brought forwards for some units during this time.

One of the drivers of the weak wholesale electricity environment is the impact of the Federal Renewable Energy Target (RET). An unintended consequence of the RET has been to require new renewable generation to be built at a time when current and forecast demand is actually falling. This fall in demand has been driven by general economic conditions, significant declines in demand from industry and small to medium-size enterprises and the impact of both rising energy prices and energy efficiency policies on residential customer demand. The overall effect of these market conditions meant that during 2012, generating companies announced they would reduce operations or close approximately 3,000MW of coal-fired generation in eastern Australia. At Yallourn we employed a three unit operating strategy over most of the second half of 2012 to optimise the profitability of our energy supply portfolio. In late 2012 we also announced that plans to build a gas-fired power plant at Yallourn had been put on hold. Nonetheless, the Yallourn Power Station will continue to play an important role in brown coal-fired generation in the Latrobe Valley and in the National Electricity Market as a whole and we returned to a four unit operating strategy in early January 2013 due to increased summer demand.

In 2012 we undertook extensive advocacy on issues which impact our business. We successfully engaged with the Australian Energy Market Commission for individual rule changes in the market. We also addressed broader issues such as greater gas market transparency as recognised in the Energy White Paper and for State Governments to support the development of a model terms of reference for retail price regulation to promote greater predictability where these prices continue to be regulated. Managing the compliance obligations under environmental regulations imposed by State and Federal Governments remains a key area of concern for the business. These regulations result in a number of markets for environmental instruments which are driven by inherent regulatory uncertainty, and these markets can be fragmented, illiquid and volatile. While we have continued to benefit from prudent management of our exposure in these markets, year-to-year variations may add volatility to our earnings going forward.

Remediation at Yallourn – restoring a coal conveyor tunnel and rebuilding the river diversion embankment

Outlook

One of the key challenges for EnergyAustralia is to manage the changes to our industry resulting from the Australian Government's Clean Energy Legislation Package which came into effect on 1 July 2012. Key elements of this package included:

- a default target of 5% abatement on year 2000 CO_2 equivalent emissions by 2020 across the Australian energy supply systems;
- a fixed carbon price for the first three years, beginning on 1 July 2012 and starting at A$23 per tonne for liable entities. The fixed carbon price will rise at 2.5% a year in real terms;
- from 1 July 2015 Australia will move to an emissions trading scheme (ETS) with the carbon price set by the market;
- up to 50% of the annual emission liability under the ETS may be met by the purchase of international units; and
- an Energy Security Fund has been established to administer transitional assistance provided for generators with initial carbon emissions intensity between 1 tonne/MWh and 1.3 tonnes/MWh. The total compensation available to the generation sector will be A$1 billion, provided as cash compensation in the first year, and 41.7 million permits available annually for four years.

The passage of the Clean Energy Legislation led to an impairment of A$350 million for the Yallourn Power Station in 2011. On 22 June 2012, EnergyAustralia received a cash payment of A$257.5 million (or 25.75% of the total first year's cash compensation) and will receive a corresponding percentage of the annual allocations of 41.7 million free carbon permits between 2013 and 2016. The Clean Energy Package did include a "Contract for Closure" Programme, whereby generators with high carbon intensity could negotiate payment in exchange for closure of some or all of their generation units by 2020. EnergyAustralia lodged an expression of interest to participate in this programme with the Federal Government in respect of the Yallourn Power Station. However, the programme was not taken further by the Government. There are substantial differences between Australia's leading political parties regarding the future of the Clean Energy Legislation. This may be one of the major issues in the Federal Election to be held on 14 September 2013.

EnergyAustralia's intention is to optimise and grow its integrated business through a focus on return on capital, cost and productivity, service, advocacy and enhancing capability. In doing so, the business will be well positioned for changing trends in energy generation and demand, irrespective of shifting political, regulatory and market influences. In the coming year, EnergyAustralia will continue to focus on enhancing the existing business by:

- completing remediation works at Yallourn following the Morwell River Diversion failure;
- participating in the privatisation of electricity generators in NSW if, and only if, there is a clear economic case for this;
- maintaining the retail customer base, improving the customer experience and progressing the integration activities of the NSW business acquired in 2011;
- developing a strong talent management and succession planning programme;
- continuing effective policy advocacy and improving data management, compliance and controls;
- continuing to manage industrial relations to provide valuable outcomes for employees and the company;
- building pathways to adapt to changing energy demand by focusing on new markets, decentralised energy and data management, as well as continuing to find the best opportunities for new conventional developments; and
- systematically implementing initiatives to reduce costs and improve business performance.

These actions will lay strong foundations for the business. In the longer term, we will:

- create options for growth through new technologies and extracting brand value through new products and services;
- maintain our focus on safe, effective and cost efficient operations and maintenance of all our plant;
- address the impact of climate change policy and continue moving towards lower carbon emissions intensity generation;
- manage the implications of suppressed wholesale prices and slowing growth in electricity demand;
- maintain current credit ratings, while refinancing existing debt facilities when due and obtaining loans for new projects; and
- consider options to source new capital to fund the long-term growth of EnergyAustralia and explore such opportunities which the capital markets, whether for debt or equity, offer to support this growth.

However we are operating in a dynamic and challenging environment. This means we must remain flexible, innovative and responsive in our approach to the business.

Chinese Mainland

Financial Performance

Earnings from the Chinese mainland totalled HK$1,411 million in 2012, an increase from HK$1,155 million in 2011.

This includes earnings from our 25% stake in the Daya Bay Nuclear Power Station, 70% of whose output serves our Hong Kong electricity business. Those earnings decreased slightly, mainly because of lower average shareholders' funds, offset by a dividend income of HK$55 million from DNMC (the management company of Daya Bay Nuclear Power Station – in which CLP has a 12.5% interest).

Earnings from CLP's coal-fired projects increased by 56.5% as a result of higher tariff and lower coal prices. Fangchenggang continues to make a significant contribution to earnings. Significant improvements to earnings were also seen from our investments in the Guohua International and Shandong joint ventures due to the combination of an increased on-grid tariff and the drop in domestic coal prices in 2012.

Earnings from renewable projects were also higher due to the commissioning of new wind projects, but partly offset by lower earnings contribution from hydro projects due to less rainfall and lower demand.

Chinese Mainland Earnings before One-off Item (HK$M)

Operational Performance

Coal-fired Power Stations

Fangchenggang is one of the most reliable power stations in Guangxi and has a competitive advantage through its use of imported coal. During 2012 we successfully completed trials with a wider range of coal types than originally assumed in the boiler design, thereby giving more choices in coal supply and scope for reducing fuel costs further. The National Energy Administration has given in-principle approval for the Fangchenggang II expansion, which would add two further 660MW units on the same site. We will be using advanced ultra-critical technology to improve generating efficiency and emissions performance beyond the high standards already achieved in Fangchenggang I. Preparatory work is well underway and full-scale construction will start as soon as final approval has been issued by the National Development and Reform Commission. We hope this will be received in the first half of 2013.

The following table shows the high standards of availability and utilisation that have contributed to the strengthened earnings performance of CLP's coal-fired investments in China during 2012.

Coal-fired Power Stations – Performance

	Rating (MW)	Generation (GWh)		Utilisation (%)		Availability (%)		Operating Hours (Hours)	
		2012	2011	2012	2011	2012	2011	2012	2011
Fangchenggang	1,260	**6,085**	7,896	**55**	72	**90**	87	**4,830**	6,266
Shiheng I & II	1,260	**6,319**	6,390	**57**	58	**89**	89	**5,015**	5,071
Heze II	600	**3,310**	3,334	**63**	63	**93**	95	**5,516**	5,556
Liaocheng I	1,200	**6,909**	6,788	**66**	65	**88**	94	**5,757**	5,657
Panshan	1,030	**6,092**	6,225	**67**	69	**93**	93	**5,914**	6,044
Sanhe I and II	1,300	**7,410**	7,660	**65**	67	**97**	96	**5,700**	5,892
Suizhong I and II	3,600	**16,506**	18,830	**52**	60	**92**	90	**4,585**	5,231
Yire	400	**2,344**	2,394	**67**	68	**95**	95	**5,860**	5,985
Zhungeer II and III	1,320	**6,605**	6,960	**57**	60	**97**	96	**5,004**	5,273
Shenmu	220	**1,367**	1,471	**71**	76	**97**	98	**6,215**	6,686

What do you think is the main problem facing wind power generation in China at the moment? What responsive measures can be taken?

One of the key issues currently encountered by the China wind industry is the weak infrastructure of the transmission network in certain areas of the Chinese mainland.

This is a well-acknowledged issue by the PRC Government as well as the grid operators. A number of measures have been, or will be, implemented to alleviate the grid restriction issues encountered by many wind projects, especially in the northern parts of China.

This will take some time and CLP remains positive about the outlook of wind project development in the medium to long term. In the meantime, CLP is shifting its development focus to regions that, so far, have no or low grid restrictions. For expansion projects at locations where grid restrictions are known to be an issue, CLP will delay project developments until the situation improves.

In addition to grid restrictions, another potential issue for the wind industry in China will be the consequence of the rapid development pace of wind farms in the past few years. With so many new wind farms being built within such a short period, there may be a shortage of operating and maintenance expertise in the wind energy sector. The upcoming challenge for the industry is to broaden O&M know-how and expertise to ensure that the wind energy capacity which has been added is operated to full capacity.

Mr. Dong Feng Liang
Chairman, Huadian Laizhou Wind Power Company Limited

Benjamin Lui
Director – China

Renewables – Wind Energy

CLP's investments in wind energy in the Mainland are held in three forms:

- minority shareholdings in individual projects (reflecting the limitations in earlier years on non-Mainland companies holding a majority stake in such projects);
- our shareholding in the CGN Wind joint venture (diluted from 32% to 15.75% in January 2013); and
- more recently, wholly-owned projects which are also operated and maintained by CLP itself.

20 out of 22 minority-owned projects were in commercial operation in 2012 without significant operational issues. Of the remaining two, the 48MW Chongming project in Shanghai entered commercial operation in January 2013 following delay in the construction of the related transmission infrastructure, and the 49.5MW Haifang project in Shandong was delayed by local land permitting issues. In line with CLP's focus on wholly-owned projects, we expect that further expansion of minority-owned projects will be limited to a second phase at Laizhou in Shandong Province.

Wind Energy Portfolio – Performance

	Rating (MW)	Generation[(1)] (GWh) 2012	2011	Utilisation[(1)] (%) 2012	2011
Minority-owned					
Changdao	27.2	**50.4**	55.3	**21.1**	22.8
Changling II	49.5	**51.7**	67.7	**11.9**	15.6
Datong	49.5	**60.8**	81.2	**14.0**	18.7
Hekou	49.5	**101.2**	93.9	**23.3**	21.7
Laizhou	40.5	**72.5**	69.8	**20.4**	19.7
Lijin I	49.5	**88.4**	81.6	**20.3**	18.8
Lijin II	49.5	**99.7**	94.5	**22.9**	21.8
Mazongshan	49.5	**89.7**	105.5	**20.6**	24.3
Nanao II	45.1	**117.4**	124.2	**29.4**	31.5
Nanao III	15.0	**37.9**	36.9	**28.6**	28.1
Qujiagou	49.5	**77.1**	90.6	**17.7**	20.9
Rongcheng I	48.8	**97.1**	94.5	**22.7**	22.1
Rongcheng II	49.5	**112.0**	108.9	**25.8**	25.1
Rongcheng III	49.5	**107.3**	100.0	**24.7**	n/a
Shuangliao I	49.3	**46.0**	74.6	**10.6**	17.3
Shuangliao II	49.5	**79.0**	89.8	**18.2**	20.7
Weihai I & II	69.0	**137.0**	143.7	**22.6**	23.5
Zhanhua I	49.5	**98.6**	92.1	**22.7**	21.2
Zhanhua II	49.5	**105.3**	97.8	**24.2**	22.5
CGN Wind JV	1,794[(2)]	**3,043**	2,663	**20.5**[(3)]	16.9[(3)]
Wholly-owned					
Qian'an I	49.5	**85.8**	92.3	**19.7**	21.3
Qian'an II	49.5	**88.2**	36.3	**20.3**	n/a
Penglai I	48.0	**97.7**	n/a	**24.1**	n/a

Notes:

(1) n/a (not applicable) is for projects which had not yet commissioned for a full year's operation.

(2) CGN Wind JV completed a restructuring in January 2013. Its gross capacity under operation and construction has been reduced from 1,878MW to 1,794MW. The total capacity of CGN Wind JV under operation stated here is that following this restructuring.

(3) The utilisation applies to projects with full-year operation in the JV.

We have previously explained that CLP and our partner, CGNPC have different views about the speed and scale of the expansion of the CGN Wind joint venture. CGNPC wishes to expand the business more quickly than originally expected, whereas CLP has been concerned that such growth might result in the development of projects that do not match our own investment criteria. In these circumstances, we agreed to a restructuring of the CGN Wind joint venture that reduces CLP's equity stake from 32% to 15.75%. Approval for this was granted by the Mainland authorities in January 2013. CLP expects to hold its investment in CGN Wind at the current level of approximately HK$1.2 billion, whilst exploring divestment opportunities as and when these arise.

CLP's second wholly-owned wind project, Penglai Phase I (48MW) in Shandong was commissioned in January 2012. Final approval was received for the wholly-owned Laiwu Phase I (49.5MW) project. Construction is expected to commence in early 2013 and commissioning targeted for early 2014.

Renewables – Hydro, Biomass and Solar

Lower than average rainfall, particularly during the first half of the year, reduced output from Jiangbian and Dali Yang_er hydro stations. However, rainfall at Huaiji, in Guangdong Province, was above average and resulted in an increase in generation of around 50%, as compared to the previous year.

We continued our efforts to improve the performance of our biomass plant at Boxing in Shandong Province by optimising both operating procedures and the availability of biomass feedstock. However, operating losses were still recorded due to the high cost and low quality of the fuel. These issues are worsened by a regulatory framework that does not provide adequate tariff support and does not control the development of additional biomass generating capacity where feedstock supply is limited. In the circumstances we have recognised an impairment of HK$94 million in respect of the Boxing Biomass plant. Without substantial improvement in the business model for biomass projects in China, we do not envisage any further investment in this type of generation.

We aim to increase our renewable energy portfolio and have considered the development of solar power projects as part of our strategy. With the growing maturity of solar photovoltaic technology, the significant reduction in solar panel prices and China's feed-in tariff for solar power stabilising at a relatively attractive level, we have explored investment opportunities in solar projects with a focus on regions with good solar energy resources and strong local power demand.

On this basis, following a framework agreement in November 2012, CLP has now acquired a 51% equity interest in the Jinchang Solar Project (100MW) in Gansu Province. This is our first solar project in China and the country's largest tracking system solar farm to date. The final approval of the project was granted by Gansu Provincial Development and Reform Commission in December 2012 and change of business registration of the project company to a joint venture was completed in January 2013. Construction is underway and targeted to complete in the second quarter of 2013.

Hydro and Biomass Power Stations – Performance

	Rating (MW)	Generation (GWh)		Utilisation (%)		Availability (%)		Operating Hours (Hours)	
		2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
Boxing Biomass	15	**83**	93	**53**	61	**76**	82	**4,715**	5,329
Dali Yang_er Hydro	50	**126**	181	**29**	42	**76**	90	**2,522**	3,638
Huaiji Hydro	125	**452**	307	**41**	28	**94**	90	**3,613**	2,455
Jiangbian Hydro*	330	**1,225**	1,143	**42**	66	**89**	93	**3,713**	4,002

* All three units entered commercial operation in June 2011

Nuclear

The Daya Bay Nuclear Power Station achieved a utilisation rate of 92% in 2012, compared to 93% in 2011. The nuclear power station has continued to maintain smooth operation and its radiological releases into the environment are well within regulatory limits, without any adverse effect to nearby residents or the environment.

The PRC Government issued its findings and improvement measures in June 2012, following a comprehensive safety review of the nuclear installations in the Mainland after the Fukushima accident. This review concluded that operating nuclear power units in the Mainland have fully adopted the national nuclear safety standards and the latest International Atomic Energy Agency safety standards. Daya Bay Nuclear Power Station has been confirmed to have adequate guidelines in place to manage severe accidents, including the impact of a potential regional tsunami. Even so, a number of enhancements have been implemented at Daya Bay to reinforce the continuation of its longstanding, excellent safety record.

In January 2011, an enhanced public notification mechanism was introduced for non-emergency Licensing Operating Events (LOE) for Daya Bay Nuclear Power Station. There was a Level "0" LOE incident in April 2012. In line with this notification mechanism, the incident was reported within two working days, even though it had no nuclear safety significance nor any impact on external environment and public safety.

The State Council approved the National Plan for Nuclear Power Safety (2011-2020), the Nuclear Power Development (2011-2020) and the National Energy Development for the 12th Five-Year Plan (2011-2015) in October 2012. This paves the way for the possible resumption by 2015 of the review and approval of new nuclear projects at coastal sites. These will use third-generation technology meeting the highest international safety standards.

CLP continues to work with CGNPC, our longstanding partner in Daya Bay, to pursue regulatory approval for the acquisition of a 17% equity share in the Yangjiang Nuclear Power Station project (6 x 1,080MW) in Guangdong. The project is to be commissioned in phases, with the commissioning of Unit 1 expected in 2013 for supplying power to Guangdong.

Outlook

China's power industry grew at a lower rate in 2012 due to the effects of the weak global economy on export demand. Total installed capacity reached 1,144GW, including the commissioning of around 87GW of new generating capacity. Electricity demand grew at 5.5% during the year, compared to 11.7% in 2011, and the average utilisation rate of power plants reduced slightly. The 12th Five-Year Plan places an emphasis on energy efficiency and reduced carbon intensity, which may also affect

Supplying reliable clean energy to Hong Kong – Daya Bay Nuclear Power Station demand growth and lead to closer scrutiny of new projects. The Chinese government will continue to support clean electricity generation in the form of renewables, nuclear power and efficient coal-fired plant. This policy direction provides opportunities for growth in the Mainland power sector that are consistent with CLP's own business and climate strategy.

Wind projects in North-eastern China have encountered significant levels of grid restriction and output has been constrained. The provincial grid has been unable to accept all the local wind power production and is attempting to improve transmission connections to allow power export to other provinces. CLP has deferred new wind projects in the northern provinces until the situation improves. Our efforts have shifted towards the south, where wind resources may be less favourable, but grid restrictions are much less severe. During the coming year we aim to:

- improve the environmental performance at Fangchenggang I by the addition of catalytic NO_x reduction;
- obtain final approval to proceed with the construction of Fangchenggang II;
- reduce our positions in minority owned coal-fired joint ventures if the opportunity to do so arises on commercially acceptable terms;
- complete the construction of the Laiwu Phase I and Laizhou Phase II wind projects in Shandong and obtain final project approvals for four wholly-owned wind projects, namely Penglai Phase II, CLP Laizhou Phase I and Laiwu Phase II projects in Shandong and Xundian Phase I project in Yunnan;
- complete the construction of the Jinchang Solar Project and explore investment opportunities for other solar power projects;
- maintain high operational standards at Jiangbian, Yang_er and Huaiji hydro plants; and
- work with CGNPC to complete the process for the acquisition by CLP of its minority stake in the Yangjiang project, including the necessary state-level approvals, and thereafter monitor progress towards completion on time and within budget.

Beyond 2013 we intend to continue our "niche" strategy in the Chinese mainland including:

- completing the construction of the Fangchenggang II project;
- completing the divestment of CLP's interest in minority-owned coal-fired joint ventures;
- exploring further participation in the ongoing growth of the Mainland's nuclear energy generating capacity;
- maintaining a development pipeline of viable wholly-owned wind projects; and
- exploring investment opportunities in other renewable energy projects, especially small to medium size hydro and solar.

What is the potential for increased power exchange between Hong Kong and Guangdong and how could this impact CLP's returns?

CLP has been supplying power to Guangdong for more than 30 years. During the past few years, power shortages could still be observed in Guangdong. In the near term, it is likely that CLP Power may still have the opportunity to supply Guangdong.

In the longer term, not only may the balance of supply and demand improve in Guangdong but CLP's capacity to supply energy is likely to reduce, as we need to comply with the new 2015 and 2017 emissions caps in Hong Kong. If sales are reduced, this is not expected to have a material impact on the Group's earnings as about 80% of the profits are actually returned to our Hong Kong customers, through credits to the Tariff Stabilisation Fund.

Ms. Jenny Cosgrove
Director, Regional Head of Utilities and Alternative Energy Research, Asia-Pacific, Global Research,
The Hongkong and Shanghai Banking Corporation Limited

Betty Yuen
Vice Chairman – CLP Power Hong Kong

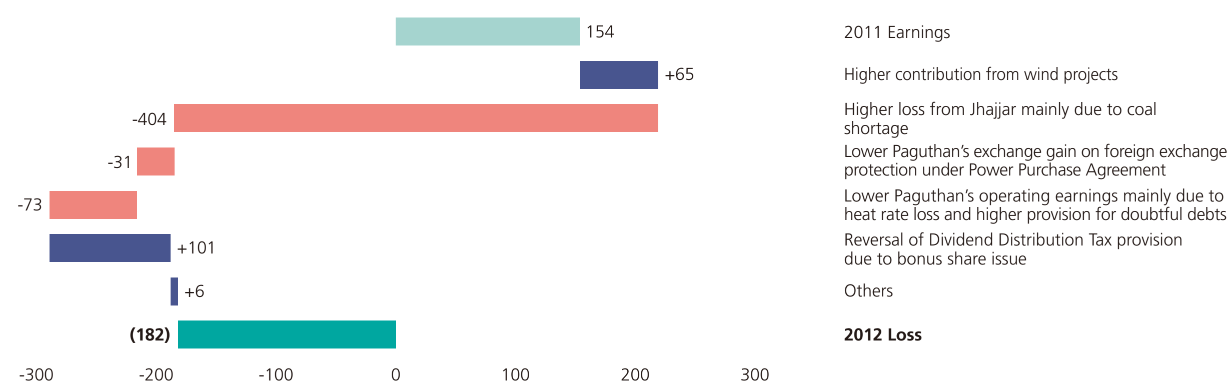
India

Financial Performance

The financial performance in 2012 of CLP's investments in India was disappointing with an operating loss of HK$182 million, compared to earnings of HK$154 million in 2011. Jhajjar reported an operating loss due to low availability. This was a result of coal shortages and technical problems caused by the poor quality of coal which has been supplied by CIL since the commissioning of Units 1 and 2 in March and July 2012, respectively. We have taken an impairment of Rs.2,470 million (HK$350 million) to the book value of our investment in Jhajjar. The post-tax impairment loss is Rs.2,227 million, or HK$315 million.

Operating earnings from Paguthan were slightly lower than in 2011. This was mainly due to heat rate loss and higher provision for doubtful debts. The wind energy portfolio delivered earnings of HK$47 million, due to the commissioning of new projects at Andhra Lake and Sipla and the higher wind resources experienced during the year.

India Earnings before One-off Item (HK$M)



Operational Performance

As with any large scale power station project, the documentation which underpins the Jhajjar project, and which supported both CLP's decision to proceed with the project and the necessary project finance arrangements, is lengthy and complex. However, the viability of the Jhajjar project rested on two essential commitments. The first was a coal linkage agreement, whereby CIL agreed to provide coal of a quality and quantity to meet Jhajjar's needs from designated coal mines in Jharkhand at a declared price (with a price adjustment mechanism) for the life of the PPA. The second was a 25 year PPA with the Haryana state-owned distribution companies, which agreed to take 90% of the output of the station (with the remaining 10% being sold to Delhi) at pre-determined tariffs, which included a pass through to the off-takers of the cost of coal purchases.

Neither of these two essential commitments has, thus far, been respected to the extent which would set the Jhajjar on a long-term, sustainable and economic footing. The more serious issue is that CIL has been unable to meet the growing demand for coal which has resulted from a substantial increase of India's coal-fired generating capacity in recent years. This problem has affected numerous power stations in India, including Jhajjar. Recognising that CIL would be unable to meet all of Jhajjar's needs, in June 2012 we signed a fuel supply agreement with Central Coalfields Limited (CCL – a subsidiary of CIL) for a 20-year term and with a minimum supply guarantee of 80% of the total annual contracted quantity. However, thus far CCL has been unable to supply the agreed quantity of coal. This problem has been compounded by capacity difficulties on the Indian Railways which have impacted the delivery of coal to site.

Simply put, to generate electricity at 80% of its capacity (which is the level required to earn the capacity payment under the PPA) Jhajjar planned to receive 105 rakes of domestic coal each month. A "rake" is the equivalent of approximately 3,800 tonnes and broadly represents a single train load of 59 wagons. Between June 2012 and January 2013 Jhajjar actually received an average of 52 rakes each month. Moreover the domestic coal received has a heating value around 25% lower than originally planned. This means that significantly more coal is needed to generate the same amount of electricity.

As well as inadequate and irregular coal deliveries, the coal provided by CIL has contained substantial quantities of rock and stone. This has damaged the coal handling equipment and affected boiler performance.

As a result of the coal supply problems, plant commercial availability over the period from August 2012 to January 2013 has only been 33%, compared to our forecast of about 86%. This severely impacts revenues under the PPA, including Jhajjar's ability to recover the full capacity charge. The difficulties in commissioning the plant during a period of inadequate coal supply, combined with unreliable and reduced electricity output have contributed to a number of issues with the off-takers. These cover matters such as the commencement date for payment of capacity charges, the treatment of coal handling agent charges and payment for coal losses in transit. Jhajjar is taking these issues to the Haryana Electricity Regulatory Commission for adjudication. The sums presently in issue amount to approximately HK$56 million. We intend to pursue these matters vigorously and in accordance with the terms of the PPA.

CLP management has made intensive efforts throughout 2012 to address these serious issues. Such efforts include:

- Extensive petitioning at all levels of the Union and State Government including directly with the Prime Minister of India, the Chief Minister of Haryana and all relevant political and governmental institutions and individuals. In this engagement we advocate strongly for structural changes to the Indian power sector to put the industry as a whole on a sound financial and operating basis and for the particular steps required to bring the Jhajjar project towards long-term viability.
- We reached an agreement with all relevant counterparts, including the Central Electricity Authority and the Haryana off-takers for the use of imported coal, representing up to 15% of total required volumes, and for the cost of imported coal to be passed on to the off-taker. The first rake of imported coal (from Indonesia) arrived at Jhajjar on 10 November and has been successfully blended with domestic coal for generating purposes. In January 2013 imported coal comprised 12 out of the 68 rakes of coal delivered to the station. This coal has a substantially higher heating value (around 60%) than the equivalent amount of domestic coal that we have been receiving.
- The coal handling plant at Jhajjar is being modified in order to better deal with the poor quality coal and numerous rocks being delivered by CIL.
- We have been engaging with the Indian Railways to enhance rake availability and to improve the quantity of coal supply to JPL.

On 16 January 2013 we received further in-principle approval to import 1.7 million tonnes of coal starting from early in the next Indian fiscal year, April 2013 to March 2014. This has been confirmed in a subsequent meeting with the Chief Minister of Haryana.

Recent months have seen some improvements in the operating performance at Jhajjar, notably as a result of the arrival of the imported coal and interim improvements to coal handling processes. We have also mastered the technical problems which arise on the commissioning of any new plant and which were aggravated by a disjointed and disrupted commissioning process caused by inadequate and poor quality coal. Plant technical availability which was only 45% in August averaged 96% over the four month period to the end of January. As our CEO has remarked in his Strategic Review in this Annual Report (page 10) we expect that our focus on the problems at Jhajjar will lead to improvement over the coming six to 18 months, although the scale of the problems affecting the coal-fired generating sector may mean that bringing the Jhajjar Project to stable economic performance might take two to three years.

Our gas-fired power station at Paguthan in Gujarat performed well and continued to be our primary source of earnings in India. Plant availability remained in excess of 91%, reflecting the high standards of operation and maintenance which have long been in place at Paguthan. The station also continued achieving first-rate safety, health and environment standards. The long-term availability of reasonably-priced gas remains a challenge for Paguthan. For example, Reliance Industries Limited (RIL), which has the lowest price gas resource available to Paguthan, indicated in May that it would be reducing gas supply by 5% following an instruction from the Indian Government to sign additional gas supply agreements with other customers.

The result of difficulties in gas supply has been that during 2012 although the availability of the plant was high, it actually only ran at a capacity of 33.2%, compared to 57% in 2011. The combination of lower gas availability and high prices for imported gas meant that for much of the second half of 2012 Paguthan was operating at a low level, normally operating only one of the three gas turbines at technical minimum load. In these conditions the station is delivering around 3.5 million electricity units per day, as compared to a capacity of about 15 million units. Todate, the shortage of domestic gas has not impacted the profitability of Paguthan significantly, since Paguthan is able to declare availability on the more expensive re-gasified LNG available on a Spot basis for the remaining capacity.

There is a longstanding dispute, on which we have reported previously, about CLP India's entitlement to receive payments when availability of the Paguthan plant was declared on the basis of naphtha, rather than gas. That dispute remains before the Supreme Court of India. The total amount of the claim, plus interest and tax, with respect to this deemed generation incentive stands at HK$1,211 million. Further details of the claim are set out in Note 31 to the Financial Statements as a contingent liability.

Wind Energy

Our Indian wind energy portfolio demonstrated significantly improved performance this year. The commissioning of an additional 77.6MW of wind energy capacity at Andhra Lake and Sipla, bringing the total capacity of our wind farms to 521MW, reinforced CLP India's position as the largest wind energy producer in India. In addition, we have a further 451MW of wind energy under development at Yermala in Maharashtra, Mahidad in Gujarat, Sipla, Bhakrani and Tejuva in Rajasthan, all of which we expect to commission by March 2014.

A coal tippler at Jhajjar – we need to unload each train of around 60 wagons within five hours

The increased earnings from our wind energy investment in India reflect not only the continued growth in this portfolio, but also our increased experience in assessing wind resources when deciding which projects to pursue. In broad terms, our early projects, such as Samana in Gujarat, have not met forecast wind resources, whereas our later projects have performed more closely to expectations. We have also made a series of detailed improvements to our operating and maintenance regimes which have contributed to higher output and availability. Whilst the operation and maintenance of our wind farms is contracted out on a long-term basis to the equipment suppliers, we have become a much more active, engaged and informed supervisor of the contractors. The results of these endeavours are set out in the following table which summarises the status of performance of our wind energy portfolio in 2012.

Wind Energy Portfolio – Status and Performance

Project	Rating (MW)	Commissioned / To be Commissioned (MW)	Forecast Full Commissioning Date	Utilisation % 2012	Utilisation % 2011
Samana I	50.4	50.4	–	23.5	21.1
Samana II	50.4	50.4	–	26.2	23.1
Saundatti	72.0	72.0	–	23.1	23.4
Khandke	50.4	50.4	–	24.1	24.4
Theni I	49.5	49.5	–	32.2	26.1
Theni II	49.5	49.5	–	30.6	24.6
Andhra Lake	106.4	106.4	–	21.4	n/a
Harapanahalli	39.6	39.6	–	29.7	31.8
Sipla	50.4	31.2 / 19.2	March 2013	n/a	n/a
Bhakrani	102.4	21.6 / 80.8	March 2013	n/a	n/a
Tejuva	100.8	0 / 100.8	December 2013	n/a	n/a
Mahidad	50.4	0 / 50.4	August 2013	n/a	n/a
Yermala	200.0	0 / 200.0	March 2014	n/a	n/a
Total	972.2	521.0 / 451.2			

Note: n/a (not applicable) is for projects which had not yet commissioned for a full year's operation.

Whilst wind resources in India do vary year to year, in particular, as a result of annual variations in weather during the monsoon season (which runs from May to October and represents around 60-70% of annual wind resources) our wind energy portfolio as a whole is now delivering a satisfactory level of performance such as to justify continued investment in this aspect of our India business. This investment will continue to be targeted towards those states with adequate grid infrastructure and creditworthy off-takers. For example, the Tamil Nadu Electricity Board (TNEB) which takes the power from our 99MW wind farm at Theni has not been able to settle payments to independent power producers on time. This is due to its own financial circumstances, which are worsened by the unusually high proportion of wind energy generated in Tamil Nadu, as it has the best wind resources in India. We have continued to receive payments at Theni, but this has been a slow process with payments being made more than a year in arrears. As at end December 2012 TNEB had settled invoices up to September 2011 with a total invoice amount outstanding of Rs.1,009 million (HK$143 million). The outstanding amount is not in dispute and no provision has therefore been made at this stage. Whilst we look towards growth elsewhere in our Indian wind energy portfolio, until the position at Theni has been regularised we do not expect to make further investments in Tamil Nadu, despite the quality of its wind resources.

Outlook

The Indian economy has slowed, with only moderate year-on-year GDP growth of 5.3%. The rupee has fallen from a high of Rs.53.1 / US$1 to Rs.56 / US$1, mainly due to macroeconomic factors and political uncertainty in India (although it has recently recovered somewhat). The bank lending rate continues to be high, with the benchmark repo rate now 7.75%. Despite the addition of substantial new generating capacity in recent years, total installed capacity in India stands at only 211GW, with per capita electricity consumption at only 814kWh, compared to approximately 2,300kWh in the Chinese mainland. Despite the need for massive, continuing, private sector investment in electricity generation in India, the overall political, economic and operating climate for the sector is unfavourable, as demonstrated by the problems CLP has faced at Jhajjar and which other IPPs, including leading Indian generating companies, have experienced elsewhere. Until and unless circumstances change significantly to offer a more balanced and sustainable business environment for independent power producers, we cannot see a case for CLP to invest in new thermal power generation in India, whether fuelled by coal or gas. Instead, our priorities will be to:

- bring the Jhajjar Power Station to long-term sustainable financial viability;
- continue longstanding efforts to secure adequate, long-term and reasonably priced gas supplies for Paguthan;
- maintain steady growth of our wind energy business, through investments in new projects categorised by good wind resources, creditworthy off-takers and adequate grid infrastructure; and
- consider diversification of the portfolio through small to medium scale "run of river" hydro and solar projects. Such projects will be considered only on a selective basis having regard to critical issues such as land acquisition, reliable technology and a supportive tariff regime.

As we remarked in last year's Annual Report, we can envisage CLP India's business reaching a point where, in terms of maturity, organisational capability, quality of asset portfolio and size and stability of earnings, the business might be suitable for a local listing. This remains a long-term potential goal. However, the overwhelming priority is to tackle the current problems at Jhajjar.

Being one of the few multinational corporations in India's IPP segment, CLP is in a unique position to offer a global perspective on the current policy scenario of India's power sector. How does CLP evaluate its short-term and long-term business outlook in India?

India is an important market for CLP's presence and growth in the Asia-Pacific region and we are long-term investors. The gap between demand for and supply of electricity is huge and with the promising GDP growth forecasts over the next 4-5 years, Indian policy makers do recognise the urgent need for significant strengthening of this sector in order to continue with the growth momentum. Therein lies an opportunity not only for domestic players but also for foreign players such as CLP.

While our belief in this opportunity is strong, we will tread cautiously in the near term. In light of the current problems at Jhajjar, it would be difficult for us to make a case for further investments in thermal power projects until the fundamental issues around quality and quantity of fuel supply are honoured without dispute. These fundamental problems, which are afflicting the conventional power sector as a whole, mean that power companies are struggling with their present investments, let alone having the confidence and strength to make new investments. It would be wrong for CLP to pursue growth in thermal capacity at this point, unless these issues are resolved.

In contrast to our view of the conventional generation space, the outlook for renewable energy investment in India is encouraging. CLP is already the largest investor, foreign or domestic, in wind energy in India. In light of the performance of these investments and, on the basis of the continuation of the supportive regulatory framework, we intend to focus our further investment in India upon renewable energy.

Mr. Ashok Khurana
Director General, Association of Power Producers

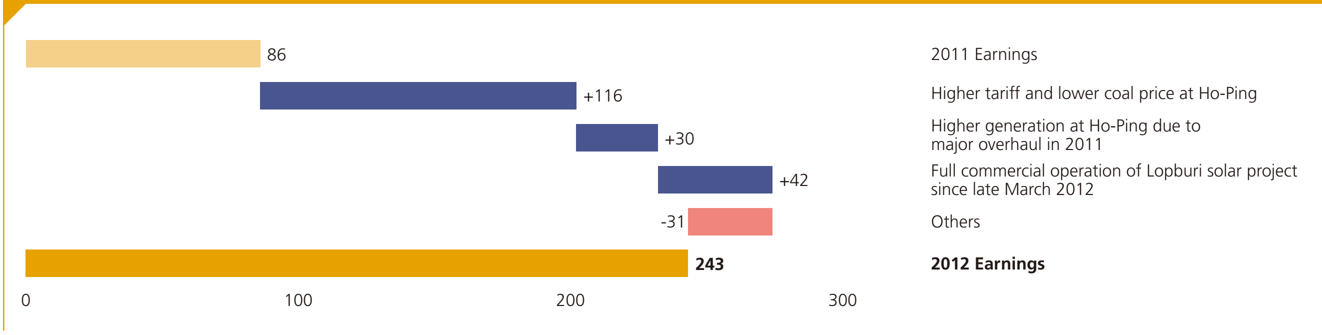
Rajiv Mishra
Managing Director – India

Southeast Asia and Taiwan

Financial Performance

The operating earnings from the Group's investments in Southeast Asia and Taiwan in 2012 were HK$243 million, a substantial increase from HK$86 million in 2011. This increase was mainly due to an adjustment to the Ho-Ping tariff, which reflects the higher coal price paid by Taipower in the previous year, and higher generation due to a major overhaul in 2011. Coal market prices have subsequently fallen, which further improves Ho-Ping's earnings. In addition, the Lopburi solar project in Thailand, in which CLP holds a one-third stake, contributed earnings of HK$38 million.

Southeast Asia and Taiwan Earnings (HK$M)



Operational Performance

Ho-Ping continued to provide a reliable and economic power supply to the Taiwan grid, and has been dispatched at high levels of utilisation.

The 55MW Lopburi solar project in Thailand, in which CLP's 33% shareholding is held through Natural Energy Development Co., Ltd. (NED), achieved full operation in March 2012. This is the first utility-scale solar project in the CLP portfolio and was completed within budget and on schedule. Construction of an 8MW expansion at an adjacent site has commenced, with commercial operation scheduled for early 2013. CLP has provided management leadership and technical support for the development, construction and operation phases of this project.

CLP and Mitsubishi Corporation have been co-developing two coal-fired projects in Vietnam, both based on imported coal and to be developed on a build, operate and transfer basis. The 1,320MW Vung Ang II project has secured sufficiently firm pricing of capital and operating costs to enable tariff negotiations to be carried out with the Vietnam Government. The 1,980MW Vinh Tan III project is now the subject of negotiations with the Vietnam Government on key project documents. The results of both such negotiations should enable CLP to determine the viability of these projects.

Environmental Performance

Ho-Ping was fined NT$442 million (HK$116 million) for exceeding the coal consumption limits stipulated in its environmental impact assessment in respect of 2009 and 2010. The fine was imposed even though emissions to the environment remained at all times within the permitted concentrations and total amounts. Ho-Ping contested the fine, but the Taiwan Environmental Protection Agency rejected this on appeal. Ho-Ping has filed a further legal appeal. In the meantime, full provision has been made in the accounts of Ho-Ping for the penalties.

Outlook

Taipower, the state-owned off-taker for Ho-Ping, has put increased pressure on all independent power producers (IPPs) in Taiwan, including Ho-Ping, to reduce the tariff payable to them under the existing long-term power purchase agreements. Ho-Ping's shareholders, including CLP, consider that Taipower should honour its commitment under these agreements, noting that Ho-Ping already provides an economic supply to the Taiwan grid.

Opportunities in Taiwan are limited due to the position between Taipower and the existing IPPs on tariffs and the low probability of new IPP bidding in the near future. Thailand continues with renewable projects and is also considering a new round of IPP bidding for conventional generation but CLP is unlikely to contemplate expanding beyond the existing investment in NED.

The overall economic situation in Vietnam is still difficult, with reduced growth, high inflation, currency depreciation and low foreign currency reserves, but there has been some improvement from 2011. A key factor with regard to new IPPs is the willingness and ability of the Vietnam Government to guarantee the payment obligations assumed by the state-owned off-taker, Vietnam Electricity. We expect that only a limited number of IPPs with competitive tariffs will be granted guarantees of this nature. Our continuing development of the Vung Ang II and Vinh Tan III projects will enable an informed decision to be taken on the merits of these projects and the reliance which can be placed on the support necessary from the Vietnam Government.

In the circumstances, CLP's activities in Southeast Asia and Taiwan remain focused on the investment opportunities in hand. Our key tasks for 2013 and beyond are to:

- maintain safe and reliable operation at Ho-Ping;
- complete construction of the 8MW expansion to the Lopburi solar project; and
- finalise negotiations on the major project agreements and contracts for Vung Ang II and Vinh Tan III in Vietnam in order to determine the viability of these projects.

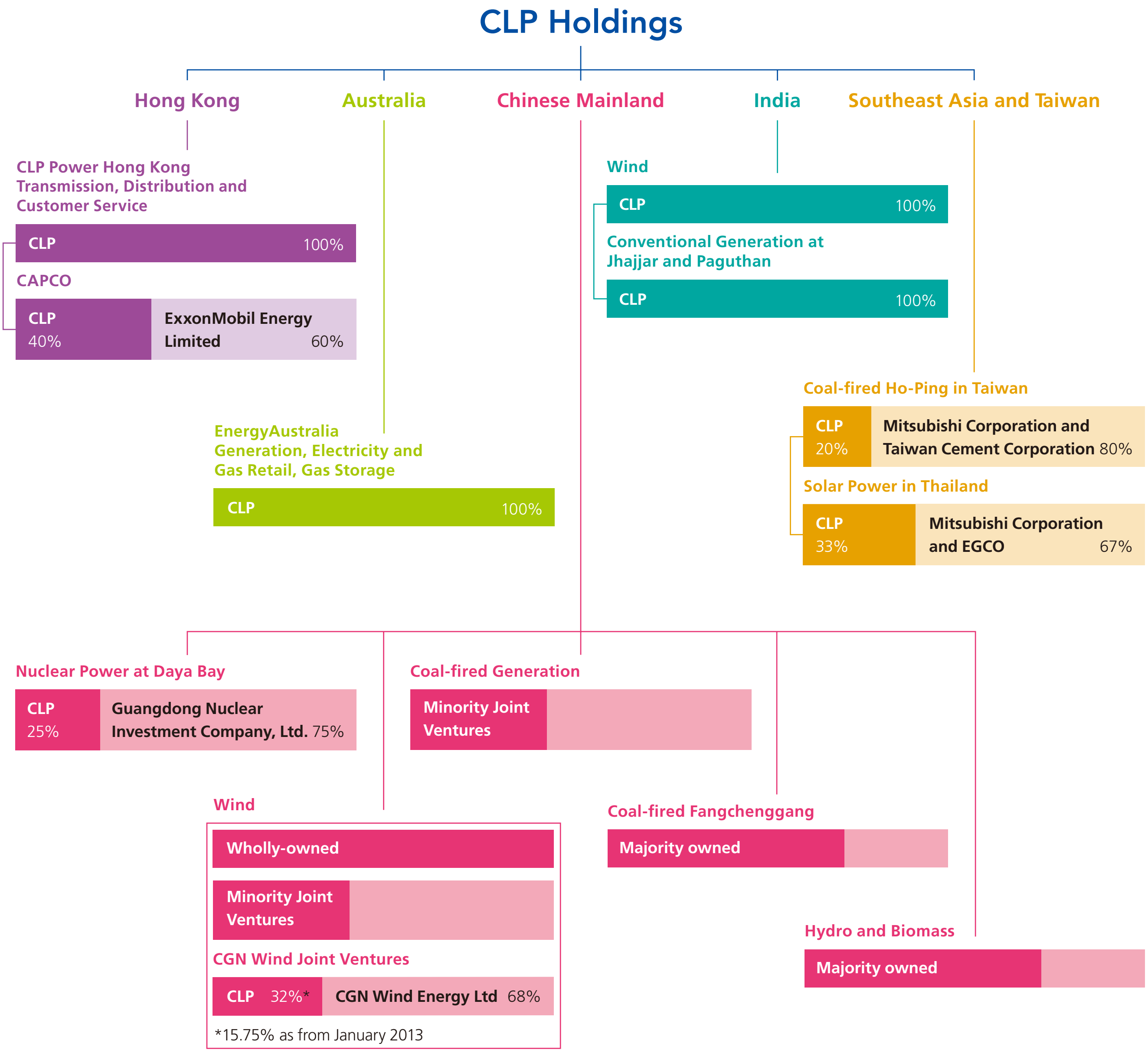
Ho-Ping – performing well in 2012

Capitals

What are the "capitals" which sustain our business?

Manufactured Capital –
our assets and investments

CLP's manufactured capital comprises the generating plant and transmission network in which we have invested and which is available to produce and carry electricity to our off-takers and customers. These assets, owned entirely by CLP or in joint venture, are held through the Group structure outlined below. In the following pages we describe the physical assets themselves.



On 31 December 2012 CLP comprised over 70 assets,...

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. 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]
Ownership interests in five coal-fired power stations with China Shenhua Energy:

- 100% of Beijing Yire (400MW)
- 65% of Panshan in Tianjin (天津) (1,030MW)
- 55% of Sanhe I and II in Hebei (河北) (1,300MW)
- 50% of Suizhong I and Suizhong II in Liaoning (遼寧) (3,600MW)
- 65% of Zhungeer II and III in Inner Mongolia Autonomous Region (內蒙古自治區) (1,320MW)

3 — 49%

CLP Guohua Shenmu Power Company Limited (Shenmu) 220 / 108MW
Owns and operates Shenmu Power Station in Shaanxi (陝西) (220MW) in joint venture with China Shenhua Energy

4 — 29.4%

Shandong Zhonghua Power Company, Ltd. (SZPC) 3,060 / 900MW
Owns four coal-fired power stations in Shandong (山東) with China Guodian Corporation and EDF International:

- Shiheng I and II (1,260MW)
- Liaocheng I (1,200MW)
- Heze II (600MW)

5 — 70%

CLP Guangxi Fangchenggang Power Company Limited (Fangchenggang) 1,260 / 882MW
Owns and operates two 630MW supercritical coal-fired units at Fangchenggang (防城港), Guangxi (廣西) with Guangxi Water & Power Engineering (Group) Co., Ltd.

6 — 49%

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

- Rongcheng I (48.8MW)
- Rongcheng II (49.5MW)
- Rongcheng III (49.5MW)
- Dongying Hekou (49.5MW)
- Lijin I (49.5MW)
- Lijin II (49.5MW)
- Zhanhua I (49.5MW)
- Zhanhua II (49.5MW)
- Haifang (49.5MW), under development

7 — 49%

Jilin Datang Wind Joint Ventures (Jilin Datang Wind) 148 / 73MW
Owns three wind farms in Jilin (吉林): Datong (49.5MW), Shuangliao I (49.3MW) and Shuangliao II (49.5MW)

8 — 45%

Shandong Huaneng Wind Joint Ventures (Shandong Huaneng Wind) 96 / 43MW
Owns three wind farms in Shandong: Changdao (27.2MW), Weihai I (19.5MW) and Weihai II (49.5MW)

9 — 100%

Qian'an IW Power Company Limited (Qian'an I Wind) 50 / 50MW (Qian'an II Wind) 50 / 50MW
Owns and operates Qian'an I (49.5MW) and Qian'an II (49.5MW) wind farms in Jilin

10 — 45%

Sinohydro CLP Wind Power Company Limited (Changling II Wind) 50 / 22MW
Owns Changling II wind farm (49.5MW) in Jilin

11 — 45%

Huadian Laizhou Wind Power Company Limited (Laizhou Wind) 41 / 18MW
Owns Laizhou wind farm (40.5MW) in Shandong

12 — 50%

CLP-CWP Wind Power Investment Limited (CLP-CWP Wind) 99 / 24MW[2]
Owns two wind farms in Liaoning: 49% of Qujiagou (49.5MW) and 49% of Mazongshan (49.5MW)

13 — 100%

CLP (Penglai) Wind Power Ltd. (Penglai I Wind) 48 / 48MW
Owns and operates Penglai I wind farm (48MW) in Shandong

14 — 32%

CGN Wind Power Company Limited (CGN Wind) 2,001 / 524MW[3]
Owns and operates 1,878MW of wind projects in various parts of China

15 — 25%

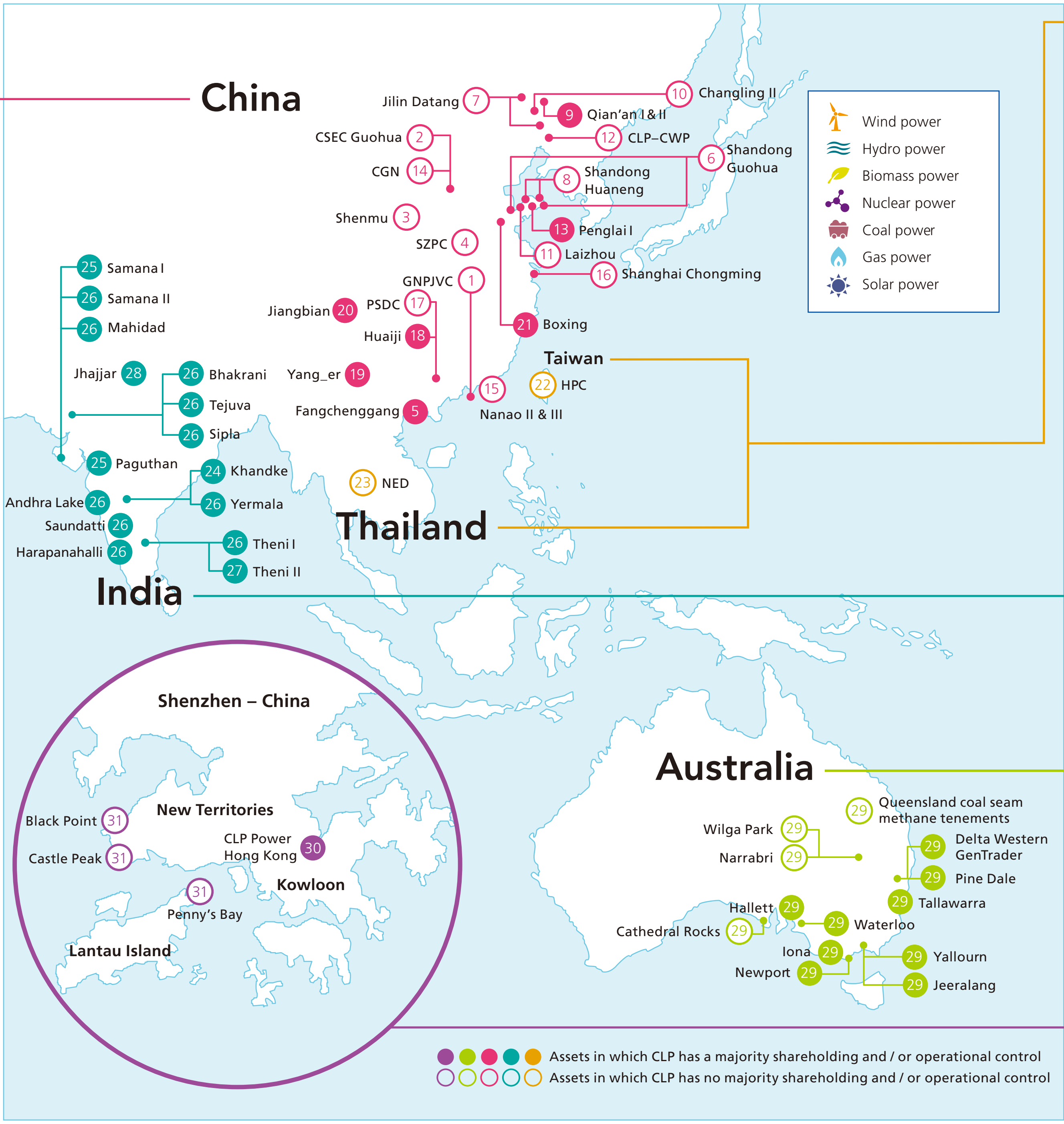
Huaneng Shantou Wind Power Company Limited (Nanao II Wind) 45 / 11MW (Nanao III Wind) 15 / 4MW
Owns two wind farms in Guangdong: Nanao II (45MW) and Nanao III (15MW)

16 — 29%

Shanghai Chongming Beiyan Wind Power Generation Company Limited (Shanghai Chongming Wind) 48 / 14MW
Owns Chongming wind farm (48MW) in Shanghai (上海)

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 524 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 2,001 gross MW. CGN Wind completed its restructuring in January 2013 whereby its gross capacity under operation and construction was reduced to 1,794MW, and CLP's equity stake was diluted to about 15.75%, with corresponding equity capacity reduced to 232 equity MW.

...more than 21,000MW, 7 different energy sources,



17 — 49% — **Hong Kong Pumped Storage Development Company, Limited (PSDC) 1,200 / 600MW**
PSDC (of which ExxonMobil Energy Limited holds 51%) 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**
Owns and operates 12 small hydro power stations (125MW) in Guangdong

19 — 100% — **Dali Yang_er Hydropower Development Co., Ltd. (Yang_er Hydro) 50 / 50MW**
Owns and operates Yang_er hydro power station (50MW) in Yunnan (雲南)

20 — 100% — **CLP Sichuan (Jiangbian) Power Company Limited (Jiangbian Hydro) 330 / 330MW**
Owns and operates Jiangbian hydro power station (330MW) in Sichuan (四川)

21 — 79% — **CLP Huanyu (Shandong) Biomass Heat and Power Company Limited (Boxing Biomass) Equivalent of 15 / 12MW**
Owns and operates Boxing biomass combined heat and power plant (15MW + 75 tonnes / hour steam) in Shandong

...over 5 million customer accounts

Southeast Asia and Taiwan Investments Gross / Equity MW

Equity Interest

22 | 20%

Ho-Ping Power Company (HPC) 1,320 / 264MW
HPC owns the 1,320MW coal-fired Ho-Ping Power Station in Taiwan. CLP's 20% interest is held through OneEnergy Taiwan Ltd, a 50:50 project vehicle with Mitsubishi Corporation. Taiwan Cement Corporation owns the other 60% interest in HPC

23 | 33.3%

Natural Energy Development Co., Ltd. (NED) 63 / 21MW
NED owns a solar farm in Lopburi Province in Central Thailand with 55MW in operation and 8MW under construction. NED is a joint venture company with equal shareholding by CLP, Mitsubishi Corporation and Electricity Generating Public Company Limited

India Investments Gross / Equity MW

Equity Interest

24 | 100%

CLP Wind Farms (Khandke) Private Limited (Khandke Wind) 50 / 50MW
Khandke Wind – 50.4MW project in Maharashtra. The project is fully commissioned

25 | 100%

CLP India Private Limited (CLP India) 705 / 705MW
- **Paguthan Plant (formerly known as GPEC Gas Plant)** – 655MW combined-cycle gas-fired power plant in Gujarat. The plant is designed to run on natural gas and naphtha (backup) as fuel
- **Samana Phase I Project** – 50.4MW project in Gujarat. The project is fully commissioned

26 | 100%

CLP Wind Farms (India) Private Limited (CLP Wind Farms) 822 / 822MW
- **Samana Phase II** (50.4MW) in Gujarat
- **Saundatti** project (72MW) and **Harapanahalli** project (39.6MW) in Karnataka
- **Andhra Lake** project (106.4MW) in Maharashtra
- **Theni Phase I** project (49.5MW) in Tamil Nadu
- **Sipla** project (50.4MW), 31.2 MW commissioned and remainder under construction, in Rajasthan
- **Bhakrani** project (102.4MW), 21.6MW commissioned and remainder under construction, in Rajasthan
- **Tejuva** project (100.8MW) under construction in Rajasthan
- **Yermala** 200MW under construction in Maharashtra
- **Mahidad** 50.4MW under construction in Gujarat

27 | 100%

CLP Wind Farms (Theni - Project II) Private Limited (Theni Phase II Project) 50 / 50MW
Theni Phase II Project – 49.5MW project in Tamil Nadu. The project is fully commissioned

28 | 100%

Jhajjar Power Limited (Jhajjar Power) 1,320 / 1,320MW
- **Jhajjar Power** - 1,320MW (2 x 660MW) supercritical coal-fired project at Jhajjar, Haryana. Unit 1 and Unit 2 achieved commercial operation on 29 March 2012 and 19 July 2012 respectively

Australia Investments Gross / Equity MW

Equity Interest

29 | 100%

EnergyAustralia (formerly known as TRUenergy) 5,662 / 5,616MW
EnergyAustralia is an integrated generation and retail electricity and gas business in Victoria, South Australia, NSW, Queensland and the Australian Capital Territory, comprising:
- **Yallourn** coal-fired power station 1,480MW
- **Tallawarra** gas-fired power station 420MW
- **Hallett** gas-fired power station 203MW
- **Delta Western GenTrader** (Mount Piper and Wallerawang) off-take from coal-fired power stations 2,400MW
- **Ecogen** (Newport and Jeeralang) off-take from gas-fired plant 966MW
- **Waterloo** wind farm 111MW
- **Cathedral Rocks** (50% JV) wind farm 66MW
- **Iona** Gas Storage facility and processing plant 22PJ
- **Narrabri** (20%) >500PJ of equity coal seam gas 3P
- **Wilga Park** (20%) gas-fired power station 16MW
- Equity in **Queensland coal seam methane tenements**
- **Pine Dale** – black coal mine

Hong Kong Investments

Equity Interest

30 | 100%

CLP Power Hong Kong Limited (CLP Power Hong Kong)(4)
CLP Power Hong Kong owns and operates the transmission and distribution system which includes:
- 555 km of 400kV lines, 1,581 km of 132kV lines, 27 km of 33kV lines and 12,074 km of 11kV lines
- 60,136 MVA transformers and 216 primary and 13,536 secondary substations in operation

31 | 40%

Castle Peak Power Company Limited (CAPCO)(4), 6,908MW of installed generating capacity
CAPCO owns and CLP Power Hong Kong operates:
- **Black Point Power Station (2,500MW)**
  One of the world's largest gas-fired power stations comprising eight combined-cycle turbines of 312.5MW each
- **Castle Peak Power Station (4,108MW)**
  Comprising four coal-fired units of 350MW each and another four units of 677MW each. Two of the 677MW units 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 : (4) CLP Power Hong Kong purchases its power from CAPCO, PSDC and Guangdong Daya Bay Nuclear Power Station. These sources of power amount to a total capacity of 8,888MW available to serve the Hong Kong electricity business.

Financial Capital –

our funding resources and capability

2012 saw unprecedented low levels of yields in the financial markets. The modest economic recovery in the United States and the bleak economic outlook in the Euro-zone countries prompted major central banks to use aggressive monetary policy to safeguard employment and ward off deflation. As a result, interest rates remained low across North America, Europe and Asia. They have been low for a number of years, and may remain "lower-for-longer".

The search for yield became more intensive towards the second half of the year. With interest rates and bond yields at painfully low levels (or negative in real terms after taxes and inflation), investors resorted to a variety of ways to enhance investment returns. Some opted to extend the tenor of their holdings. Others chose more aggressive strategies, including lowering their credit rating thresholds or including more structured products (e.g. hybrids, linked products) in their portfolio.

The low interest rate environment and investors' action to push out maturity and be more tolerant to higher risk, significantly impacted the markets, and at the same time provided opportunities to CLP. On the one hand, the cost of borrowing in the bond markets, notably for debt maturities of ten years or longer, fell to historically low levels. On the other hand, yield-seeking investors pursued high quality utility shares for certainty of return. This financial market backdrop enabled CLP to take two strategic actions in the second half of 2012 – a 5% share placement by CLP Holdings to enhance firepower for forthcoming investments in Hong Kong and overseas; and US$600 million 10.5 and 15-year public bond issues by CLP Power Hong Kong to meet funding needs in 2013.

These and other major financing activities in the CLP Group are discussed in the following sections with a view to providing an insight into the quality of the financial capital which the Group possesses.

Enhancing Financial Strength and Flexibility

In the "Financing" section of last year's Annual Report, we outlined our funding model and major financing and risk management philosophies. These guide CLP to raise timely, cost effective external finance to expand in the extremely capital intensive power industry. Our adherence to prudent, effective financial policies is not confined to a short-term horizon. We look well ahead in our plans to optimise our capital structure and debt portfolio.

These plans included two steps, the share placing and CLP Power Hong Kong bond issues, which were implemented in supportive market conditions.

First, whilst the Group's debt gearing ratio (net debt to total capital) remained at a relatively low level (31 December 2011: 43.1%, 31 December 2012: 36.8%) vis-a-vis other leading power companies, Management was aware that future investment opportunities would require a sizeable equity commitment. Instead of raising third party debt to fund this capital expenditure, which could further increase the Group's gearing ratio and tighten our credit metrics, we believed a 5% share placement was the most beneficial course for shareholders. An additional point of context is that, in recent years, CLP Holdings has largely funded its business expansion through debt and internal cash flow, and effected on-market share repurchases representing 5.45% of its pre-placement share capital between 1998 and 2008 at an average price of HK$30.92. This share placement not only allowed CLP Holdings to raise HK$7.56 billion cash with tightly-monitored execution risk, but also enabled the company to broaden its investor base and strengthen its balance sheet to support future growth. The share placement was completed at a price of HK$63.25 per share, a tight discount of 5.88% to the 12 December closing price. The subsequent trading of CLP Holdings shares above that level demonstrated the share placement was well received by the market. This share placement enhanced CLP's balance sheet strength and reduced the gearing ratio by approximately 5%.

Secondly, CLP Power Hong Kong issued US$300 million 10.5-year and US$300 million 15-year Regulation S public bonds in October 2012. The proceeds will pre-fund prospective expenditure of the Company in 2013. This step was possible due to issuer-friendly market sentiment and the significant reduction of "negative carry" that sometimes challenges the concept of pre-funding. The bonds received an overwhelming response of 10 times subscription and were issued at 2.88% coupon (U.S. Treasury plus 1.2%) and 3.38% coupon (U.S. Treasury plus 1.65%) respectively. We understand this was the first time a company in the Asia-Pacific region ex-Japan was able to issue such a dual tranche and that these are the lowest coupon public U.S. dollar bonds ever issued by a private Hong Kong company in their respective tenors. Together with other debt tranches which the company raised in the third quarter, CLP Power Hong Kong has already completed the majority of its funding requirements for 2013.

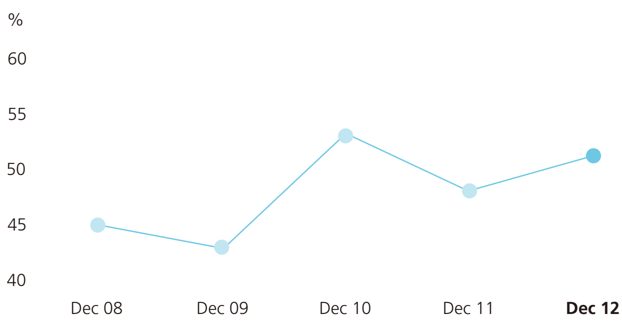
In Australia, EnergyAustralia issued US$400 million 5 to 15 years Regulation D private bonds in March 2012 to lengthen the maturity profile and reduce reliance on the bank market. EnergyAustralia also completed A$750 million 4 and 5-year syndicated bank facilities with 15 banks in December 2012 to retire a A$350 million bank loan originally maturing in 2013 and to procure additional liquidity.

Our Funding Model

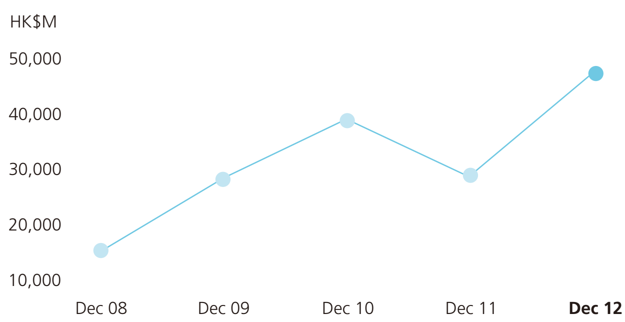
A More Diversified Funding Base

We retain strong relationships with long-term financing partners. At the same time, we cultivate new business opportunities with quality, financially strong debt providers. For instance, CLP Power Hong Kong and EnergyAustralia have expanded their debt portfolio to cover bond investors and lending banks based in different parts of the world. Currently CLP Power Hong Kong has an outstanding 42 tranches of bonds (denominated in U.S. dollar, H.K. dollar, Japanese yen and Australian dollar) while EnergyAustralia has 11 tranches (in Australian dollar and U.S. dollar) placed with bond investors. As at 31 December 2012, the Group had relationships with 56 financial institutions (2011: 59, the refinancing of Jhajjar's Indian rupee loan reduced the number of Indian lenders). About 80% of financial institutions we had business with a decade ago are still working in partnership with us. We have also further spread out our debt funding to bond investors from commercial banks since the global financial crisis first arrived in 2008/2009. Nowadays, about 43% and 42% of debt funding at CLP Power Hong Kong and EnergyAustralia comes from bond investors based outside Hong Kong or Australia respectively.

Ratio of Bond Funding to Total Debt

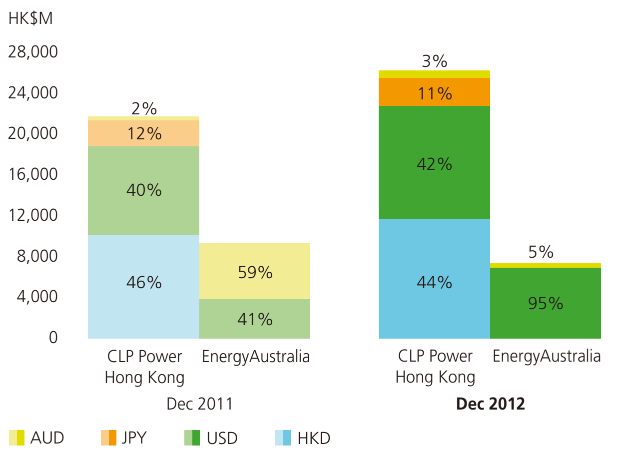


Firepower

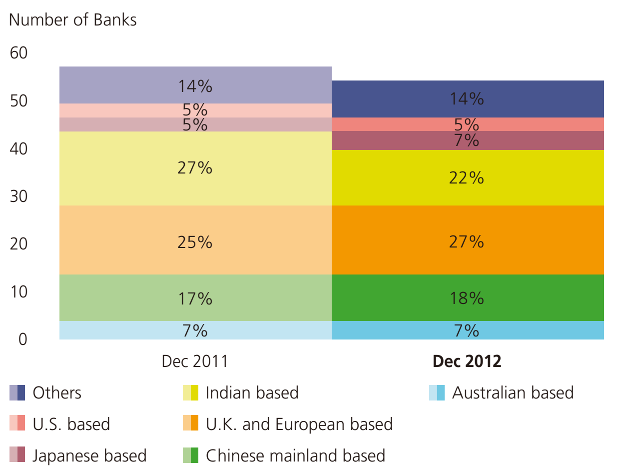


Note: Firepower comprises undrawn facilities plus bank balances, cash and other liquid funds.

Currency of Bond Funding



CLP Banking Relationships – A Balanced Mix of Lending Financial Institutions



These diversified funding sources can help CLP manage geo-political market risks and minimise the impact of Basel III and other banking regulations that might cause a spike in funding costs.

Implementation of Funding Exercise

In view of the uncertainties in global financial markets and for the strategic reasons described above, CLP started the funding exercise for 2013 much earlier than usual. The outcome of these activities delivered CLP financial headroom for growth at attractive commercial terms.

Major Achievements in Financing Activities

CLP Holdings	**HK$7.56 billion share placement** – 5% share placement completed at a tight discount of 5.88% to 12 December 2012 closing price **HK$1.95 billion bank facilities** – Short to medium term bank facilities arranged at attractive rates
CLP Power Hong Kong	**US$600 million (HK$4.65 billion) 10.5 and 15-year bonds** – 13.3 times over-subscription for 10.5-year bond and 7.5 times over-subscription for 15-year bond – Low coupon rates of 2.88% and 3.38% respectively – U.S. dollar proceeds were swapped back to Hong Kong dollars to mitigate foreign exchange risk **JPY6 billion (HK$587 million) 10 and 11-year bonds** – New investor for CLP Power Hong Kong bonds – Japanese yen proceeds were swapped back to Hong Kong dollars to mitigate foreign exchange risk **A$35 million (HK$282 million) 10-year bond** – Australian dollar proceeds were swapped back to Hong Kong dollars to mitigate foreign exchange risk **HK$2.63 billion 5, 7, 10 and 15-year bonds** – Medium to long-dated Hong Kong dollar bonds at favourable interest rates **HK$1.8 billion 3 and 5-year bank loan facilities** – Medium term bank loans at favourable interest rates and terms
EnergyAustralia	**US$400 million (HK$3.1 billion) 5 to 15-year bonds** – Private placement of medium to long-term bonds issued at attractive fixed interest rates – U.S. dollar proceeds were swapped back to Australian dollars to mitigate foreign exchange risk **A$750 million (HK$6 billion) 4 and 5-year bank loan facilities** – Financed by a consortium of 15 international and regional banks on competitive terms
CLP India	**US$62 million (HK$467 million) and Rs.1 billion (HK$142 million) 11-year project loans** – Refinanced Rs.4.3 billion (HK$609 million) Rupee loans for Jhajjar with improved funding cost – U.S. dollar proceeds were swapped back to Indian rupees to mitigate foreign exchange risk **US$78 million (HK$605 million) 12.5-year project loans** – Long-term project loans to fund the construction of Bhakrani wind project in Rajasthan – U.S. dollar proceeds were swapped back to Indian rupees to mitigate foreign exchange risk **Rs.4 billion (HK$567 million) bank facilities** – Working capital facilities for Jhajjar

CLP Power Hong Kong and EnergyAustralia can tap into debt capital markets to issue their functional currencies and foreign currencies bonds under their Medium Term Note (MTN) Programmes for an aggregated amount of up to US$3.5 billion and A$2 billion respectively. As at 31 December 2012, bonds totalling about HK$26.1 billion and A$50 million were issued by CLP Power Hong Kong and EnergyAustralia respectively under their MTN Programmes. In 2012, interest cover (which equals profit before income tax and interest divided by the sum of interest charges and capitalised interest) was 4 times (2011: 4 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 2012 are shown on page 36.

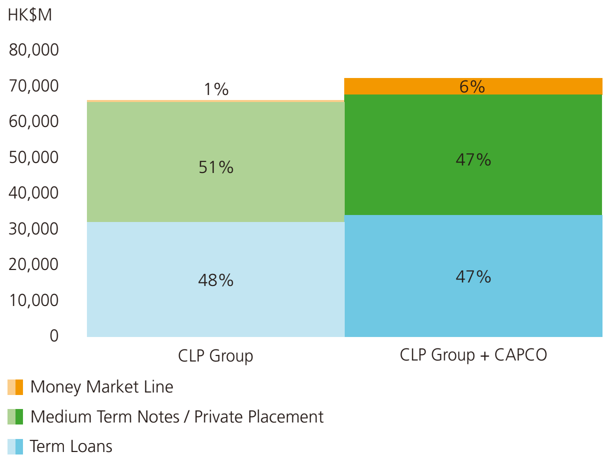
Debt Profile as at 31 December 2012

	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]	16,600	38,974	43,697	**99,271**	**106,400**
Loan Balance	2,900	33,435	29,863	**66,198**	**72,377**
Undrawn Facility	13,700	5,539	13,834	**33,073**	**34,023**

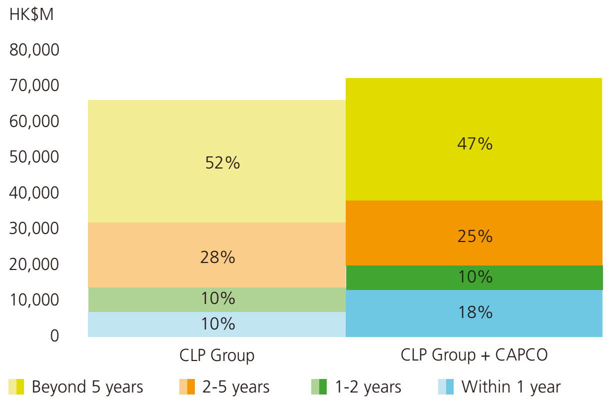
Notes:

1. Mainly relates to EnergyAustralia and subsidiaries in India.
2. For the MTN Programmes, only the amounts of the bonds issued as at 31 December 2012 were included in the total amount of Available Facility. The Available Facility in EnergyAustralia excludes a facility set aside for guarantees.

Loan Balance – Type



Loan Balance – Maturity

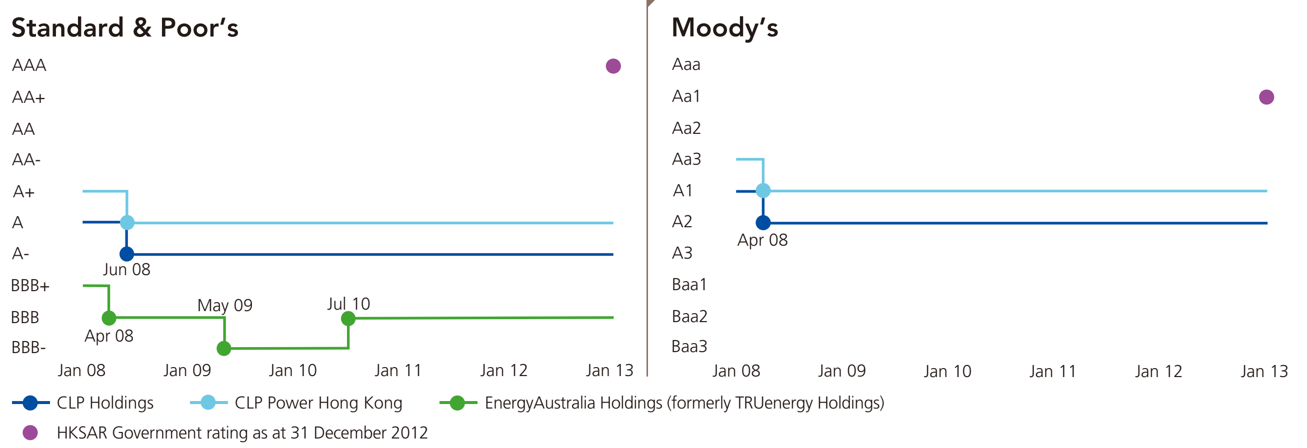


Note: Loan balance between two to five years includes loan drawdown with current tenor less than one year under revolving facility with maturity falling beyond one year.

Credit Ratings

CLP's commitment to prudent financial and risk management, along with disciplined investment strategy, have enabled the Group to maintain good investment grade credit ratings throughout the previous decades. CLP's ability to maintain a good credit standing and access the financial markets at cost-effective terms is crucial to meeting our business needs and objectives.

Long-term Credit Ratings – Foreign Currency and Local Currency



CLP Holdings

Moody's: Re-affirmed the A2 credit rating with stable outlook in March 2012

Positives	Negatives
• Sound liquidity profile and good operating track record • Prudent and gradual approach in pursuing overseas expansion • Strong and predictable cash flows from CLP Power Hong Kong, which operates in a stable regulatory environment • Ability to access the domestic and international bank and capital markets • Availability of sizeable committed bank facilities • Well managed debt maturity profile	• Weakened financial profile due to debt-funded overseas expansion, albeit still appropriate for the rating • Expansion in riskier, non-regulated merchant energy and retail businesses • NSW acquisition put pressure on the Group's financials with a temporary weakening in 2011, but expected to improve in 2012 and then onwards as a result of increased earnings from NSW business and Jhajjar project in India

Standard & Poor's (S&P): Re-affirmed the A- credit rating with stable outlook in March and September 2012

Positives	Negatives
• Expect financial strength to improve meaningfully from 2013 due to: (1) higher returns from Hong Kong operations due to the tariff increase, further capital expenditure and stable local electricity demand; (2) higher earnings from Australia operations with Yallourn power station expected to revert to full capacity and after integration of the NSW assets in 2013; (3) fuel supply problems at the Jhajjar project to be resolved; and (4) growing earnings from renewable energy investments • Adequate liquidity supported by strong operating cash flow from Hong Kong operations and its strong financial flexibility • Strong commitment to deleveraging and its record of disposing assets to optimise the portfolio	• Expansion into unregulated power generation assets in the Asia-Pacific could weaken its strong business profile • Higher leverage has weakened the Group's financial health and put pressure on its modest financial risk profile • New generation facilities under construction in Australia, India and China carry higher operating risks and are potentially subject to increasing supervision and costs relating to carbon emission and environmental issues

CLP Power Hong Kong

Moody's: Re-affirmed the A1 credit rating with stable outlook in March 2012

Positives	Negatives
• Strong and highly predictable cash flow generated from SoC operations • Regulatory framework, transparent tariff system and 100% cost pass-through • Good track record in accessing domestic and international bank and capital markets • Well managed debt maturity profile	• Liquidity profile may be pressured by its dividend payments to CLP Holdings and its long-term capital expenditure plan • Rating constrained by CLP Holdings' continuous expansion into the more risky non-regulated energy and retail businesses in the region

S&P: Re-affirmed the A credit rating with stable outlook in March and September 2012

Positives	Negatives
• Excellent business risk profile, favourable regulatory regime protects CLP Power Hong Kong from rising fuel costs and ensures stable operating cash flows • Sound bank relationships and good reputation in the capital market • Good liability management with diversified debt sources and tenors • Liquidity remains adequate • SoC Agreement allows a permitted rate of return and an operating costs pass-through mechanism until 2018	• Uncertainty surrounding the expansion of CLP Holdings in unregulated businesses outside Hong Kong partly offset the strengths of CLP Power Hong Kong • The Government's environment regulations could result in some uncertainty in mid to long-term operations and financing needs • Securing long-term replacement natural gas supply and constructing related pipeline infrastructure could be an operational challenge although CLP Power Hong Kong has made progress in securing a new gas supply

EnergyAustralia

S&P: Re-affirmed the BBB credit rating with stable outlook in May and November 2012

Positives	Negatives
• Benefit from a higher rated owner, CLP Holdings • Strong liquidity profile and continued prudent risk management practices • Vertically integrated electricity generation and retailing components of the business • Operational flexibility derived from the plant portfolio by fuel and dispatch merit order • Expect the integration process of NSW assets and associated costs will be managed without significant impact on the business risk profile	• Risk of integrating the retail business and Delta Western GenTrader assets • Challenges to manage potential portfolio changes to mitigate its exposure to the government's carbon abatement scheme • Exposure to the competitive electricity wholesale and retail market • Risks associated with the introduction of the new billing system

Financial Risk Management

The objectives of our financial risk management are simple and straightforward. From a shareholder's perspective, we maintain a healthy capital structure and protect our earnings / cash flows so that we can create value to shareholders. From a customer's perspective, we avoid undue volatility of tariffs. We achieve these objectives by applying risk management policies and guidelines which are easy to understand, comprehensive and can apply throughout our subsidiaries and majority-owned entities.

We look for cost-efficient, plain vanilla and HKAS 39 hedge-effective derivative instruments when we enter into hedging. The reason is simple – at CLP we transact financial derivatives only for hedging economic exposures. We expect such hedging to cover our genuine economic obligations, without undue profit and loss impact.

From time to time we review our risk management policies and guidelines to ensure they meet financial market challenges and our latest business requirements. These risk management policies and guidelines play a key role in delivering shareholder value, through the monitoring of capital reserve level, retained earnings, debt gearing level and risk and return thresholds as a key discipline in CLP's investment and financing decisions.

Liquidity

CLP is risk averse. We are careful in using new debt to fund business expansion and set rigid debt limits to guard against over-expansion. We practice just-in-time financing to minimise financing costs. However, we will act promptly to secure financing on favourable terms when there are requirements or benefits to doing so. In that regard CLP Holdings' share placement and CLP Power Hong Kong's strategic bond issues have strengthened our liquidity position for 2013 and beyond.

Foreign Exchange and Interest Rate

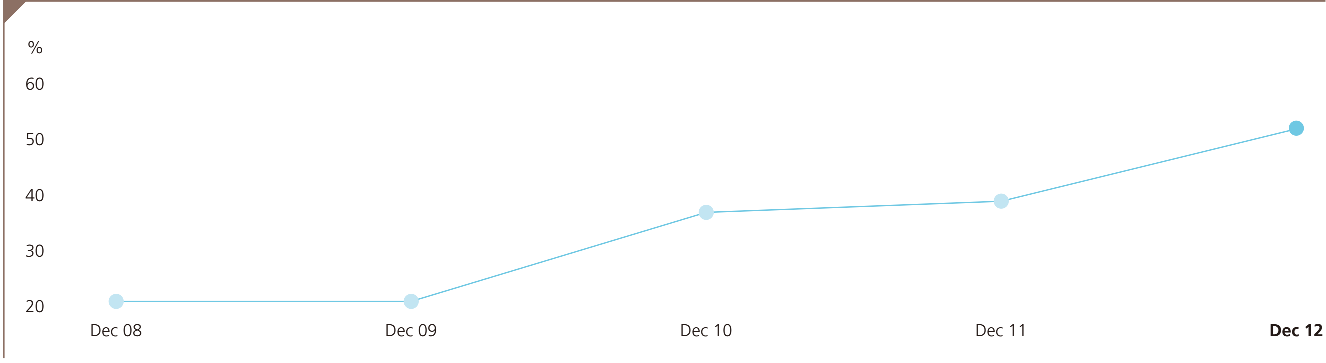
CLP hedges a high percentage of committed exposure and a reasonable portion of high probability exposure. All hedging is carried out with pre-approved financial institutions with strong financial standing (credit rating, balance sheet) and capability in managing such risks on our behalf so that we have confidence that these financial institutions will be able to perform their obligations throughout the entire tenor of our economic exposure. Each of the financial risks and the associated mitigation measures are discussed in detail under "Financial Risk Management" in the Financial Statements at page 211.

A capital intensive business – the capital cost of a 50MW wind farm in the Chinese mainland can exceed HK$480 million, of which about two-thirds will be funded by project finance

Mitigating Refinancing Risk in the Longer Term

While we exercise prudence in maintaining liquidity, we continue to monitor our debt gearing ratio, diversify funding, manage financial risks (foreign exchange, interest rate, refinancing, counterparty) and maintain long-term relationships with lenders and investors. We also remain vigilant in spreading out debt tenors to the fullest extent possible to reduce refinancing risk. This is particularly important for the power industry, as the payback period for investments is exceptionally long. The extremely low level of interest rates in these years, the good investment grade credit rating of CLP's subsidiaries and the pursuit of yield by investors have enabled us to significantly extend debt maturities to five years and longer, occasionally up to 30 years, without compromising on the major terms of borrowing.

Ratio of Debt with Maturity Beyond Five Years to Total Debt



How does CLP evaluate the use of different types of debt financing and how does the financing decision affect investment return and overall cost of debt to the Group?

We take a holistic, long-term and pragmatic view when we plan for and execute financing. We keep track of global financial market developments and maintain a dialogue with global / regional financial institutions and investors to identify financing opportunities. We compare various financing options with regard to regulation, documentation, commercial terms and execution risk. We will convert non-functional currency financing proposals into functional currencies (e.g. H.K. dollar for CLP Holdings and CLP Power Hong Kong, Australian dollar for EnergyAustralia) to mitigate foreign currency risk. When it comes to debt portfolio management, we prefer to use long tenured financing (notably public and private bonds) to match long-term capital spending; and apply short to medium-term financing (mostly revolving and money market loans) to pay for working capital and fuel cost. We also diversify to avoid concentration risk (investor base, tenor, currency) so long as it is commercially viable to do so.

In Hong Kong and Australia, our investment grade credit ratings, integrated business model and good asset size have enabled us to borrow in the most cost effective corporate finance segment (both in form of bank loans and bonds). For projects outside Hong Kong (Chinese mainland, Taiwan, India, Southeast Asia) we follow a more prudent approach to raise non-recourse, long-term project level debt based on the project structure and financials. This requires lenders to critically review the business / financial integrity of those investments but the due diligence process can ensure those projects can stand on their own feet without CLP Holdings' financial support or guarantee.

Mr. Hidekazu Horikoshi
Executive Officer
Regional Head for Hong Kong
General Manager
The Bank of Tokyo-Mitsubishi UFJ, Ltd.
Hong Kong Branch

Mark Takahashi
Group Director & Chief Financial Officer

Intellectual Capital – our expertise

In last year's Annual Report we set out the range of technology choices available for power generation in CLP's markets. Our expertise and experience in developing and operating projects forms part of the "intellectual capital" of CLP's business. This year we have taken our previous table of technology choices and used examples from the past year which demonstrate our expertise in action.

1 China Wind

CLP commissioned its wholly-owned Penglai Phase I wind project (48MW) in February 2012. We obtained approval for Laiwu Phase I, which will be a new wholly-owned project (49.5MW) and construction has started.

The minority-owned Laizhou Phase II wind power (49.5MW) project is expected to obtain final approval in 2013.

2 India Wind

The Andhra Lake wind project (106MW) entered service in 2012 and construction started on the Sipla project (50MW) and Bhakrani project (102MW). All these projects are wholly-owned.

3 Fangchenggang II (1,320MW)

We are developing a second stage to the Fangchenggang project that will use ultra-critical technology.

The project will be majority owned by CLP and we will act as the project manager and operator. We will be working to a rapid construction programme that will have the first unit commissioned after 23 months.

4 Lopburi Solar (63MW)

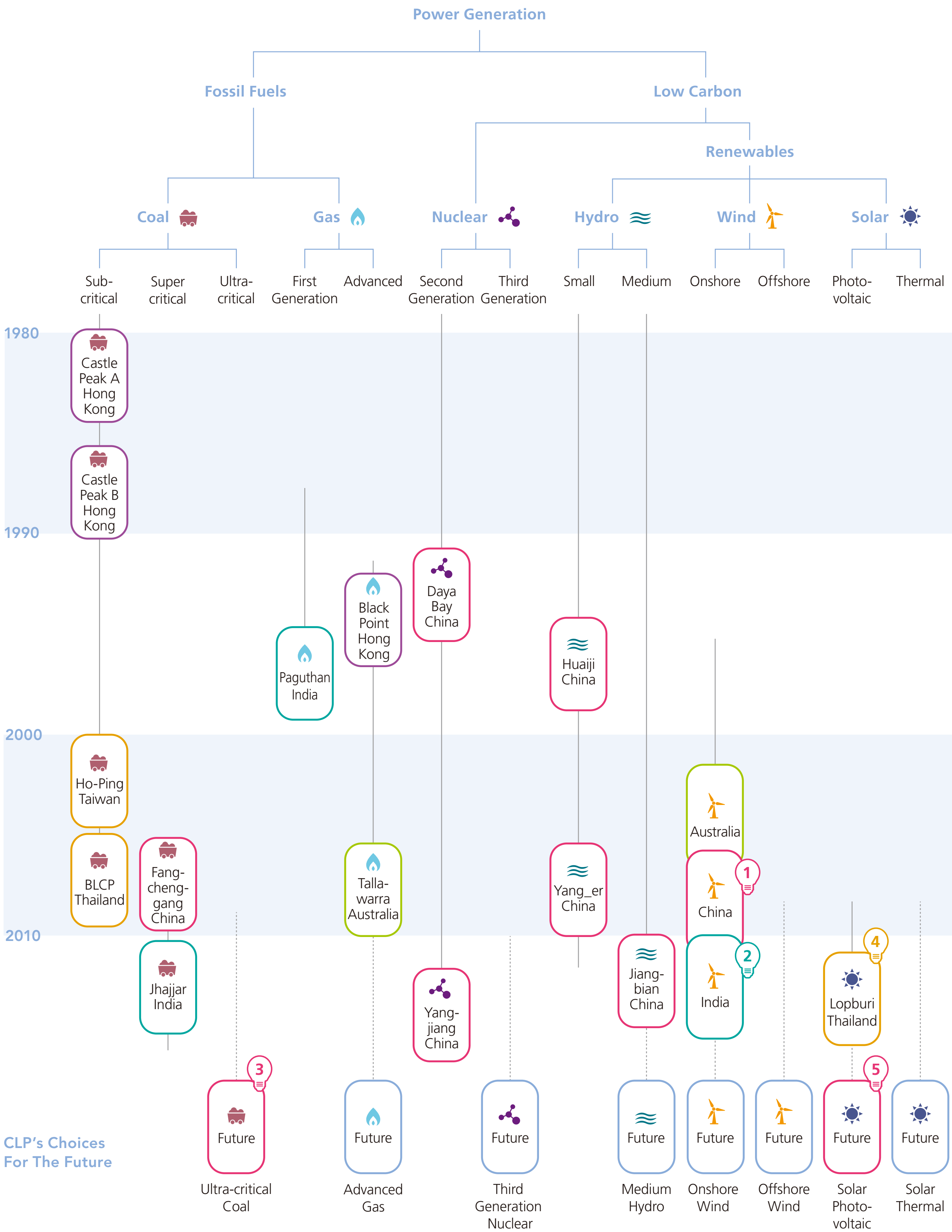
The Lopburi solar photovoltaic project entered full service in 2012 and we have started an 8MW extension. CLP has a one-third equity share and acts as the construction manager.

5 Jinchang Solar (100MW)

We have acquired a controlling interest in a solar photovoltaic project in Gansu Province that is under construction. There will be a tracking system to align the solar panels to the changing angle of the sun and thereby increase output.

CLP Technology Roadmap

CLP's Choices of Technology – Past, Present and Future



Relationship Capital – our values, reputation and community involvement

Strong values and high standards contribute to building and protecting CLP's reputation, supporting key relationships and earning the trust and loyalty of our stakeholders. Our reputation and the quality of the relationships we have with government, regulators, decision-makers, customers and communities help establish and safeguard our "social franchise" – the acceptance by society of CLP as a provider of an essential public service.

CLP's values are expressed in a formal "Value Framework" which we first published in 2003 and have periodically updated to reflect the developments in our business and feedback from stakeholders. This Value Framework expresses our vision, mission, core values, commitments, policies and our Code of Conduct. It covers all areas of our operation and applies to everyone in the CLP Group. It is a continuing statement of where and what CLP wants to be, the standards which we expect of ourselves and which stakeholders can expect from us.

Vision

CLP's vision is to be the leading responsible energy provider in the Asia-Pacific region, from one generation to the next.

Mission

In a changing world, our mission is to produce and supply energy with minimal environmental impact to create value for shareholders, employees and the wider community.

Values

Our values guide us in fulfilling our mission and turning CLP's vision into reality.

Commitments

Our commitments are the promises that we make to our stakeholders about the way in which we will uphold our values.

Policies & Codes

CLP's policy statements aid in the articulation and incorporation of our values and commitments into our everyday operations and practices.

Throughout this Annual Report we describe the different ways in which these values are brought to all of our activities in all of the markets in which we operate. In this section of the Annual Report we briefly explain how our community investment activities also serve as an opportunity to put our values into action and the contribution this can make to our reputation and the quality of our relationships with local communities.

Through the provision of electricity, CLP's business powers the social and economic development of the communities we serve. Our community investment activities complement the way in which our core business contributes to society, by improving the quality of life for communities through donation of our skills, expertise and resources and through working in partnerships with local, regional and international organisations. The four focus areas of our community investment initiatives are: climate change and the environment; youth education and development; community health and wellness; and arts and culture. These initiatives are more extensively described in our Sustainability Report. In this Annual Report, we give an outline of these activities by taking an example of one initiative which is pursued at a Group level and then a selected example from each of our major business streams. Together, these illustrate the range and variety of such initiatives and the way they are built around the four focus areas.

2012 marks the final year of the CLP Group's 5-Year Regional Tree-Planting Programme. Launched in 2008, this Group programme was intended to enhance awareness of CLP's Climate Vision 2050, address local environmental challenges, and create platforms for stakeholder engagement. At all sites we have used a science-based approach to design and implement the tree-planting programme. For example, subject to approval of local forestry or agricultural departments, a majority of trees planted were native species, with non-natives planted to serve as fire barriers. In addition to the planting, CLP assumed responsibility for the maintenance of the site for two years, and engaged horticultural experts to monitor the growth of the seedlings and track changes in soil quality. Each project was designed to address a local environmental challenge:

- 250,010 trees were planted at a site near Tuen Mun in the New Territories which had been damaged by hill fires, with the goal to improve soil quality and reforest the area.
- 593,060 trees were planted at three sites in the Mainland. This included 503,100 trees to preserve the water quality of the Dongjiang (East River), a major source of water for Hong Kong, as well as 59,960 trees to reduce soil erosion in Sichuan. In Jilin Province over 30,000 Russian Olives were planted to mitigate the effects of desertification near our Qian'an Wind Farm and to yield fruit which could generate additional income for the local community.
- In Australia we have supported the restoration of a nature reserve at the ecologically sensitive Werribee Gorge through the planting of 68,310 trees and shrubs. Restoring the site through the planting programme will protect native vegetation, including four endangered plant species, and support native animals such as eastern grey kangaroos and swamp wallabies to continue to live and breed in the area.
- 63,467 trees were planted in Gujarat, including 50,031 trees and plants with commercial value to provide an additional source of livelihood to residents of 70 villages in a semi-arid fragile area.
- 55,420 mangroves were planted at Phetchaburi Province in Thailand with the intention of creating a natural protective barrier for marine life. Due to the low plant survival rate, we decided to replace this programme with that at Qian'an in China. We are realistic and recognise that not all our community activities are wholly successful. In those cases, we need to reallocate our resources to reinforce success rather than continue with failure.

In addition to replacing trees that are affected by the CLP Group's operations, we will continue to plant trees to support communities' needs. Through our 5-Year Programme, we have learned the importance of matters such as partner selection, the need for regular audits and monitoring survival rates. We will apply this experience as we continue to engage in environmental programmes across the Group.

In Hong Kong, with the Savannah College of Arts and Design Hong Kong (SCAD) and with support from Swire Properties, CLP staged an exhibit "The Power of Transformation – Machine Becomes Art" at the Pacific Place Mall. This was the culmination of a year-long collaboration between CLP and SCAD. Instead of selling the retired switchgears for scrap, seven students gave 28 retired switchgears a second life by transforming them into art pieces. The students' talent exceeded our expectations. As one CLP colleague observed "As an engineer, I cannot imagine a piece of cold metal can be turned into such amazing artwork". The ten-day exhibit was visited by 2,815 individuals, with tens of thousands viewing it every day as they walked pass the exhibit. Public feedback was highly positive. One visitor noted that the exhibit "brings awareness of how art can be combined with corporate objectives to promote sustainability".

In the Chinese mainland we continue our "Support-a-Student" Programme. School children around our assets in Sichuan, Guangdong and Guangxi receive sponsorship donated by CLP employees, which is then matched by the Company on a 1:1 basis. The schools are selected on the recommendation of local governments and the beneficiaries are students from rural areas or those whose family income is around or below the local poverty line. In 2012, 354 students benefited from the programme with much of the support being used to pay dormitory fees so that students need not spend hours walking to school. Whilst CLP's support might be small, the improvement to the students' learning environment is quite visible. As one student noted "this is really a tremendous help to us". Others indicated that, with CLP's support, they would study hard as they recognised that "studying can help to improve my parents' quality of life, it can also change my destiny". Given the positive response to this programme from our employees and the recipients, CLP will expand the programme to include schools near our operations in Yunnan Province in the 2012-2013 academic year. We will also strengthen the governance of this programme to ensure that students receive the assistance in a manner which addresses their learning needs.

In India much of our work is focused on community health, youth education and development. Our initiatives are based on the "Extension Volunteers" concept. These volunteers from local villages help identify social needs and liaise between CLP and the villages neighbouring our assets to choose and develop programmes that are relevant and meaningful to their communities. For example, one problem in rural areas is a high school drop-out rate as children are expected by their families to work on the land or at home, and neither parents nor children may appreciate the value of formal education. Our colleagues and extension volunteers monitor school attendance registers. They visit homes, often in the evenings, to encourage parents to support their child's return to regular education. Currently 250 children participate in this programme which also educates children on matters such as health and hygiene.

Given the geographical diversity of our assets in Australia, we take a site-specific or tailored approach to engagements. Most sites run regular community liaison and environmental review committee meetings. Members of the groups consist of local EnergyAustralia employees, council representatives, community groups, contractors and residents. These groups decide and discuss issues of mutual importance, including construction, operation, environmental and social matters. They also provide a channel through which EnergyAustralia can provide financial and in-kind support for issues important to local communities. For example, the Yallourn Power Station supported the Moe Dance Eisteddfod, the EnergyAustralia and Rotary Club of Moe Fun Run / Walk along the Moe-Yallourn Rail Trail to raise funds for the Rotary Club and the 2012 Baw Baw Local Learning and Employment Network jobs expo, which attracts secondary school students from across the wider Gippsland area.

EnergyAustralia also initiated a number of new engagement activities focusing on education and charitable / non-profit support in 2012, including:

- The "Inspired by Business" pilot project with Schools Connect and Alkira Secondary College where EnergyAustralia partnered with a teacher to co-design a more engaging and relevant curriculum unit for students by integrating industry-based experiences into the teaching of science and mathematics. The project aims to strengthen the real world relevance of the science and mathematics curriculum in schools.
- A$150,000 donation to St Vincent de Paul Society so that the Society can purchase two new soup vans for their Melbourne and Moe (Latrobe Valley) nightly provision of food to the homeless.
- The EnergyAustralia charity one-on-one Basketball Challenge and Regatta. For both events, staff were able to take part as participants or spectators and make a donation to one of the following charities, the Starlight Foundation, Melbourne City Mission or Smith Family.

As with any investment that CLP makes, we need to be careful that our resources are allocated to community initiatives in a disciplined and systematic way and that this leads to positive, sustainable outcomes as opposed to having a disruptive effect on a community or the local environment. In addition, we are aware that we do not hold a licence to be charitable with other people's money – namely that of our customers and shareholders. It is in this spirit that we decided to review and update our Community Investment, Sponsorship and Donation Policy in 2012 to strengthen the design, implementation and measurement of programmes across the CLP Group to be more accountable to our shareholders and stakeholders. The updated policy is scheduled to be introduced in early 2013. We are confident that selected community initiatives, carefully chosen, thoroughly implemented and carefully monitored, do enhance CLP's reputation and relationships and do enjoy the support of our shareholders and other stakeholders.

Human Capital – our people

The CLP Group employs over 6,500 people in Hong Kong and across the Asia-Pacific region. Safety is an absolute priority – year in, year out, day in, day out. Nothing we can do for our colleagues compares with the importance of our duty to do our utmost to ensure that they go home safely from work every day. This responsibility extends not only to our employees, but also to the staff of our contractors and to everyone who legitimately comes into our facilities. Our business demands the highest attention to safety – electricity takes no prisoners. Our business would not survive if we fail to protect our people. The Group's safety performance in 2012 is summarised in the following table. This shows the number of incidents involving disabling injury and the rate of such incidents in those assets, under construction or in operation, where CLP has operational control or majority ownership. DIIR, or disabling injury incidence rate, is the number of reportable disabling injuries for every 200,000 employee hours of exposure. It is roughly equivalent to the number of disabling injuries per 100 employees for a year.

Safety Performance – DIIR

	Employees				Combined Employees and Contractors			
	2012		2011		2012		2011	
Location	No.	DIIR	No.	DIIR	No.	DIIR	No.	DIIR
CLP Holdings	1	0.48	0	0.00	1	0.45	0	0.00
Hong Kong	4	0.09	4	0.09	23	0.22	13	0.14
Australia	3	0.23	6	0.34	9	0.48	11	0.45
India	0	0.00	0	0.00	21	0.42	36	0.44
Chinese Mainland	0	0.00	1	0.09	0	0.00	1	0.03
Southeast Asia and Taiwan	0	0.00	0	0.00	0	0.00	0	0.00
Total:	8	0.11	11	0.14	54	0.26	61	0.23

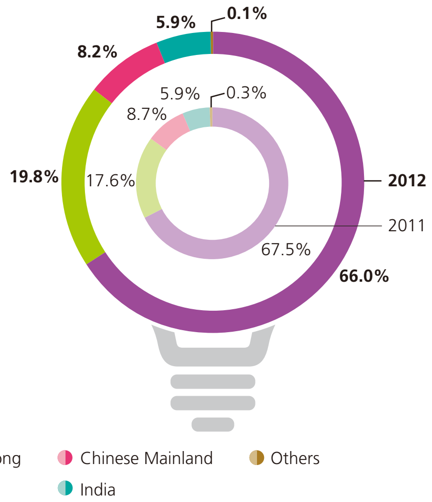
Overall, our safety performance was better than that in 2011. No fatal accident was reported at any of our operationally-controlled or majority-owned assets. There was however a traffic accident leading to one fatality reported from an asset in the Chinese mainland, the Zhangjiakou Wind Farm, in which CLP has indirect, minority ownership and no operating control. In addition, 2012 saw only 29 Lost Time Injuries (LTI) compared to 54 LTIs recorded in 2011. Despite this improvement in safety performance we are not satisfied. Our goal is zero incidents. Accordingly, throughout 2012 and going forwards we continue to exercise safety disciplines and procedures on a Group-wide basis. We make no concessions on safety standards for different countries or assets. We encourage the constant application of detailed safety processes and procedures at each of our assets and in all aspects of our operations. However, we work hard to ensure that all these initiatives are aligned with Group-level standards and practices. For example, in 2012 we worked on a Group Health, Safety, Security and Environmental Management standard to promote a more integrated approach to the management of these issues, based on widely recognised international standards. This is expected to be fully available in 2013. In addition, the Group Safety Information System (GSIS) is being rolled out across the Group. This allows the reporting of incidents more quickly, and in a pre-determined and standardised way, to a single IT platform. Our online Sustainability Report sets out the safety performance of our business in a greater detail. SR

A Skilled and Experienced Team

The creation of value in CLP's business is derived from a workforce which is

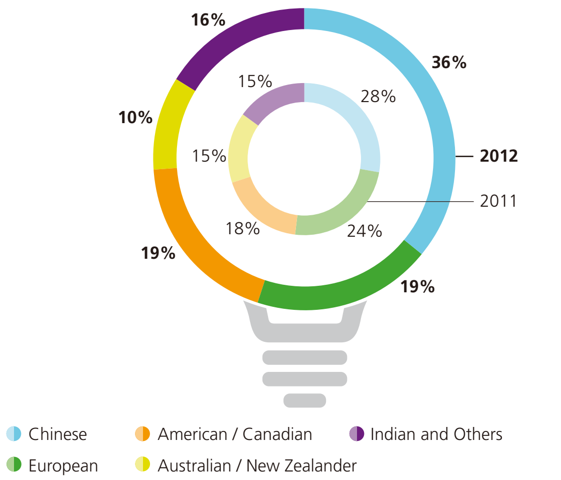
Distributed across the region in line with the demands of our activities

Staff Distribution by Geographical Location as at 31 December 2011 and 2012



Led by a diverse management team

Breakdown of Senior Executives by Nationality as at 31 December 2011 and 2012



Note: Nationality is based on passport, and does not necessarily reflect ethnic origin.

Experienced and highly educated

	2012	2011
Average Age	42.6	42.6
Average Years of Service	15.0	15.4
Percentage of Staff Holding a University Degree or Above	54.8%	41.2%*

* Information on EnergyAustralia employees was not available as it was not collected when employees joined the Company.

People Development

The experience of our colleagues is, at least in part, reflected in considerable length of service within the CLP Group. The consequence of this is a significant, largely constant, percentage of staff approaching retirement within the next five years:

Staff due to retire within the next five years

	2012	2011
Hong Kong	14.0%	13.4%
Australia	11.9%	9.6%
India	0.8%	1.1%
Chinese Mainland	11.9%	9.6%

In response to this, as part of our wider goal of people development, we undertake numerous initiatives to ensure management succession, enhance the capability of all staff and introduce new talent to CLP.

Many of the initiatives are organised on a Group-wide basis such as:

- the Accelerated Leadership Assessment and Development Programme, whereby nine colleagues with high leadership potential undertook a comprehensive process of individual assessment, career discussion and personal development planning.
- 20 high potential staff completed the Richard Ivey Business School Consortium Management Programme in Hong Kong.
- 11 CLP colleagues joined the Executive Consortium Programme run in conjunction with Tsinghua University's School of Economics and Management.

The Group-wide initiatives are supported by particular programmes and actions in each of our business units, of which only a few examples are given below:

- In Hong Kong, 87% of the staff movement we had planned as part of our Management Development and Succession Planning cycle were achieved. In addition, four development centres were organised to assess the leadership capability and future potential of 31 of our younger managers.
- 40 Craft Apprentices, Technician Trainees and Graduate Trainees joined CLP Power in August 2012 as one of our measures to ensure the ongoing supply of technical talent.
- Our PRC Human Resources Forum allowed participants from across our facilities in both Hong Kong and the Mainland to share best HR practices, as well as incorporating a learning programme to help colleagues to enhance personal and team effectiveness.
- 95 managers attended Focused Energy Leadership Programmes in Australia. Towards the end of 2012 the HR function in EnergyAustralia was redesigned and renamed "People and Culture". This sharpened our focus on talent management and organisational effectiveness to build our capability in support of the organisation's strategy, strengthen our employee engagement and improve the overall effectiveness of the organisation.
- In India, our people practices were aimed at retaining our best talent and contributing to their professional and personal growth. For example, a "Competency Framework" detailing five behavioural compentencies expected of employees was rolled out. This was integrated with the Performance Management System.
- We continued with the development of home-grown technical talent in India through the hiring and training of engineers under the Graduate Engineer Trainee (GET) Programme. As part of this programme, 19 engineers took up assignments at Jhajjar and Paguthan in 2012 on completion of their classroom and on-the-job training. Nine engineers are currently undergoing classroom training at the National Power Training Institute under this programme.

Total formal training man-days across the CLP Group amounted to an average of 5.6 training days per employee in 2012 (compared to 5.4 training days in 2011). All of this training is intended to enhance CLP's "Human Capital" for the benefit of the business, and the individuals concerned, by enhancing their performance in their current roles or preparing them for further career advancement.

The current SoC Agreement is due to expire in 2018 if Government decides not to exercise the option to extend it for another five years. Do you think there will be big impact to the staff, either in terms of changes in the remuneration and benefits, or the manpower level?

Whatever the regulatory arrangements in place after 2018, it is always our fundamental aim to ensure that we have the right number and mix of staff and skills for the business and market environment in which we are operating. Given the need to rejuvenate our workforce in the next few years, the Company will continue to offer market competitive remuneration and benefits so that we can attract, retain and motivate high performing employees.

Q

Mr. Chiu Ka Wai
Senior Tradesman (Special) –
Engineering Assistant, CLP Power

A

Richard Lancaster
Group Director –
Managing Director Hong Kong

Environmental Capital – our contribution to the environment

At first glance it might seem odd for a power company to speak of "environmental capital" rather than to consider environmental issues more as costs, liabilities or risks. However, we regard the efficient and reliable delivery of electricity within our region as a positive contribution to the environment, especially since electricity is clean at the point of use. We also think that conducting our business in an environmentally responsible way creates value for CLP – we can distinguish ourselves from our competitors, manage our liabilities to environmental penalties, mitigate the future impact of tightened environmental regulation on the assets we build, own or operate, and earn greater acceptance from governments and communities.

In this section we highlight core aspects of our environmental performance. These are described in much greater detail in our online Sustainability Report.

Climate Vision 2050

In 2007 we announced CLP's Climate Vision 2050. We committed ourselves to playing our role in the collective response to the threat of global warming by setting specific targets and commitments to reduce the CO_2 intensity of our generating portfolio. Our Climate Vision 2050 started a journey towards reducing CO_2 emissions by expressing our commitment to decarbonise our generation portfolio by 75% (from 0.84 kg to 0.2 kg CO_2 / kWh) by 2050 and setting targets for increasing the percentage of non-carbon emitting generation in our portfolio. This decision to reduce the carbon intensity of our generation portfolio involved a fundamental change in the way we do business and measure our performance. In 2010, we revised our Group's intermediate target for carbon intensity by 2020 from 0.7 kg CO_2/kWh to 0.6 kg CO_2/kWh. This was because the progress we had already made and the commercial and technological environment allowed CLP to move more quickly on its journey to a low-carbon future.

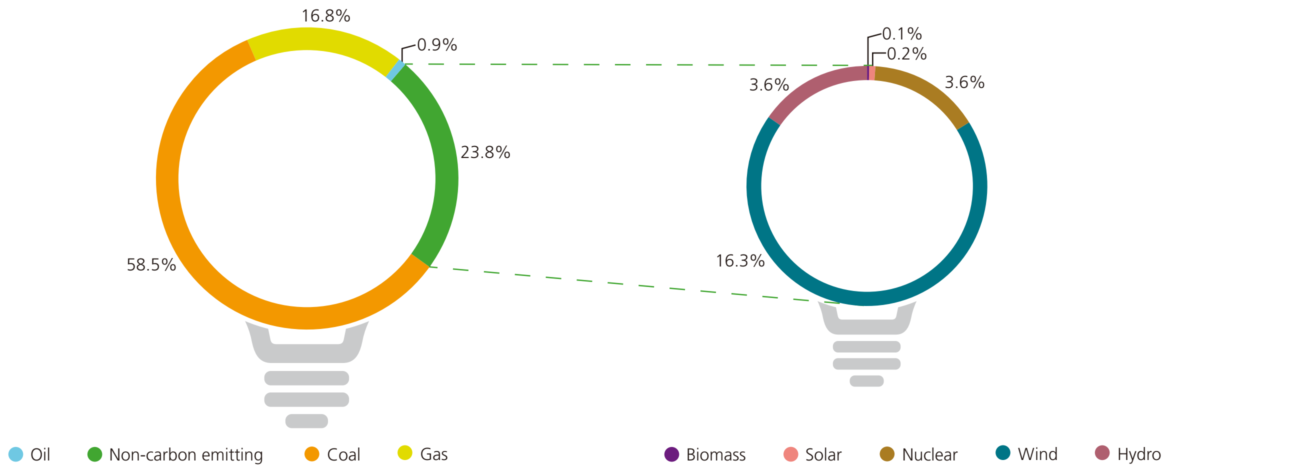
Our Climate Vision 2050, including the targets we have set, is based on reducing the proportion of coal in our generation portfolio while increasing the use of natural gas, nuclear power and renewable energy. We will continue to push for energy efficiency within our operations, and to support our customers to increase their own energy efficiency. As of 31 December 2012:

- The total CO_2e emissions from CLP operationally controlled facilities in 2012 was 38,464 kilotonnes (kT), a decrease of 13.5% compared to 44,450kT in 2011.
- The carbon intensity of our generation portfolio (equity based) was 0.77 kg CO_2/kWh, a decrease of 3.8% compared to 0.8 kg CO_2/kWh in 2011.

Since 2007, we have invested close to US$3 billion in renewable energy assets, aligning our investments with the emergence of policies and incentives across our regional portfolio which have supported zero and low-emissions generation. Our target to have 20% of our generating capacity in non-carbon emitting sources by 2020 was met on 31 December 2010, 10 years ahead of schedule. We have, therefore, raised our non-carbon emitting target to 30% by 2020. At the start of 2012, renewable energy accounted for 18.3% (equity based) of CLP Group's generation portfolio. To give an idea of the pace of our efforts, in 2004 renewable energy accounted for less than 1% of CLP's generation portfolio.

As of 31 December 2012, CLP's progress towards our Climate Vision 2050 targets (equity based) was 20.2% renewable energy (2020 Target: 20%) and 23.8% non-carbon emitting generation (2020 Target: 30%).

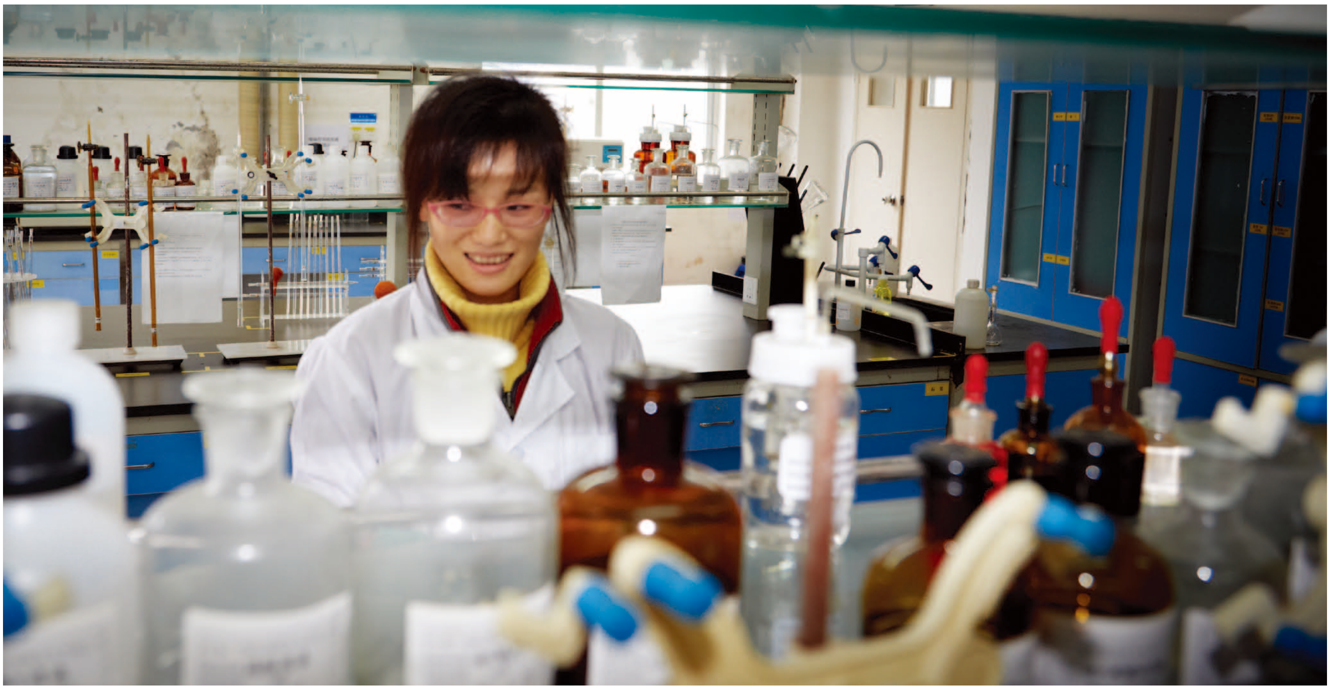
CLP's Generation Portfolio – Energy Sources



In 2012, we undertook Climate Change Adaptation Assessments for three power plants (Fangchenggang, Jhajjar and Tallawarra) to judge their readiness to adapt to the consequences of climate change. This is a continuation of the pilot study completed in 2010 for Paguthan and Ho-Ping Power Stations.

Air Quality

CLP measures air emissions at our facilities. We maintain operations within regulatory and permit limits and track emissions across the Group through an online data management system. Where regulations are lacking, we apply the best available technologies and follow international best practices, wherever possible. We also try to use lower emitting types of fuels and to diversify our fuel mix towards cleaner fuel and renewable energy sources. In 2012, we continued our efforts to reduce our emissions across our generation assets. By the end of the year, we had achieved reductions of emissions of sulphur dioxide (SO_2), nitrogen oxides (NO_x) and total suspended particulates (TSP) by 2%, 11% and 24% respectively, compared to 2011.



Verifying our environmental data – our laboratory at Fangchenggang

Water Use

Conventional power plants require a substantial amount of cooling and process water. And, of course, water availability directly affects the performance of our hydroelectric power stations.

In 2012, facilities under CLP's operational control used a total of about 4,690Mm^3 (2011: 4,732Mm^3) of water, mainly for cooling purposes at our thermal power facilities. About 99% of the water came from sea water sources. Less than 1% was withdrawn from freshwater sources (municipal and groundwater). The total water discharged in 2012 from these facilities was 4,666Mm^3 (2011: 4,710Mm^3) with the majority of the discharge returned to the sea.

In light of the importance of water resources to electricity generation, we initiated a Group-wide Water Use Study in 2012 to map the water use at our facilities and to compare this against industry benchmarks. The study, when completed, will provide the basis on which we will pursue future water efficiency and water saving measures.

Waste

We work hard both to reduce the amount of waste produced from the construction, demolition and operation of our power generation facilities and to increase the amount recycled. While following local regulations on treatment and disposal of waste as a minimum standard, we work with qualified parties and partners to reuse and recycle waste and by-products, whenever opportunities to do so are available.

In 2012, facilities under our operational control generated a total of 11,092 tonnes and 1,521 kilolitres of solid and liquid waste respectively (excluding ash and gypsum by-products). This compared to 7,100 tonnes and 912 kilolitres respectively in 2011.

Total ash and gypsum produced and recycled was 777 kT and 214 kT respectively, while 495 kT of ash and 210 kT of gypsum produced was recycled or sold. At Castle Peak Power Station, most of the ash is sold as a direct replacement for cement in concrete production. Lower quality ash, such as furnace bottom ash, raw pulverised fuel ash (PFA) and reject PFA is sold to a local cement plant.

Biodiversity

Biodiversity and the healthy functioning of eco-systems are important for our business. This is particularly so for renewable projects as these tend to be located in relatively undeveloped locations. The design of CLP facilities takes into account the avoidance, minimisation and mitigation of potential biodiversity impacts of our facilities from construction and operation through to the decommissioning stages.

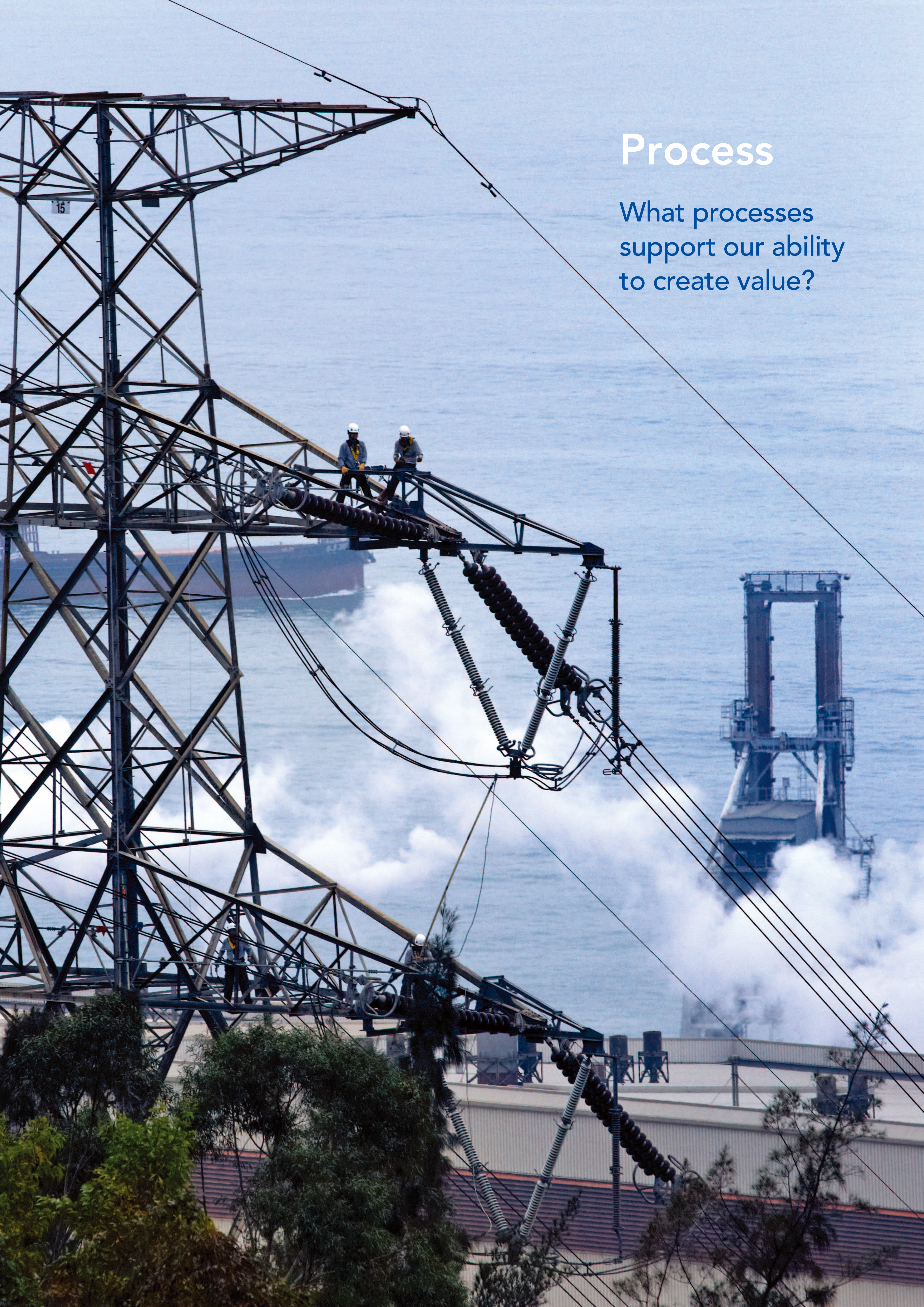
In 2012, we developed a new Group-level Biodiversity Policy Statement and Guidelines, as well as a tool to incorporate the assessment of biodiversity risks into our internal Pre-Investment Environmental Risk Assessment process. The aim of this tool is to help evaluate and address significant biodiversity impacts of new projects and major retrofits. This initiative has been developed according to the principles laid out in the latest International Finance Corporation Performance Standard 6.

Environmental Regulation: Compliance and Beyond

As of 31 December 2012, we had no environmental regulatory non-compliance incidents that resulted in fines or prosecutions. However, compliance is only the minimum standard – we treat it as the floor to our environmental performance. We are committed to the responsible management of both the short and long-term impacts of our business on the environment. This commitment goes beyond compliance and applies to all stages of our business – from planning, building, operation, maintenance to the decommissioning of our facilities and equipment.

Process

What processes support our ability to create value?



Board of Directors

Non-executive Directors

The Honourable Sir Michael Kadoorie

GBS, LLD (Hon.), DSc (Hon.), aged 71, 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., an Independent Non-executive Director of 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.

William Elkin Mocatta

FCA, aged 59, 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.; 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.

Ronald James McAulay

MA, CA, aged 77 (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.

John Andrew Harry Leigh

aged 59 (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.

Ian Duncan Boyce

FCA, aged 68, 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.

Paul Arthur Theys

aged 55 (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).

Lee Yui Bor

BSc, MSc, PhD, DIC, C.Eng., MIET, FHKIE, aged 66 (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.

Tse Pak Wing Peter

BSc(Eng.), MSc, FCA, FCPA, aged 61 (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 re-designated as a Non-executive Director after he retired as an Executive Director on 16 May 2012. Mr. Tse has been with the CLP Group since 1981. He has been a Director of CLP Holdings since February 2000. He was the Chief Financial Officer of the Group until 2009, since when he served as Group Executive Director. Mr. Tse is a Director of CLP Properties Limited and Kar Ho Development Company Limited. He is also an Independent Non-executive Director of Hong Kong Aircraft Engineering Company Limited and HSBC Bank (China) Company Limited.

Independent Non-executive Directors

Vernon Francis Moore

BBS, FCA, FCPA, aged 66, A, F&G, H (Appointed on 7 March 1997▲)

Mr. Moore is an Executive Director of CITIC Pacific Ltd. 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.

Tsui Lam Sin Lai Judy

PhD, MSc, BCom, FCPA, FCPA(Aust.), FCS, FCIS, CA, aged 58, A, S (Appointed on 10 May 2005)

Professor Judy Tsui is Vice President (International and Executive Education) of The Hong Kong Polytechnic University (PolyU) and Chair Professor of Accounting at PolyU. She is a Canadian Chartered Accountant and was the first scholar to be awarded a PhD in Accounting in Hong Kong. Professor Tsui holds positions as Honorary Professor and Visiting Professor at several universities in the Mainland. She has been appointed as a Visiting Scholar of the Sloan School of Management of the Massachusetts Institute of Technology (MIT) in the U.S.A. and an Honorary Professor of the University of Warwick in the U.K. She was the first professor in Accounting to be awarded Cheung Kong Chair Professorship by the Ministry of Education in the Mainland. Currently, Professor Tsui serves as a member of the University Grants Committee and a member of the Research Grants Council, appointed by the Hong Kong SAR Government. Professor Tsui served as an Independent Non-executive Director of China Vanke Co. Ltd. in the Mainland from 2005 to 2011 and is currently its consultant (2011-2013).

Sir Roderick Ian Eddington
AO, aged 63, 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 the Non-executive Chairman (Australia and New Zealand) of JP Morgan Chase Bank N.A. and a Non-executive Director of News Corporation and John Swire & Sons Pty Ltd. He is the Chairman of Lion Pty Ltd since 1 April 2012. 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.

Nicholas Charles Allen
aged 57, A, F&G, H, N, S
(Appointed on 12 May 2009)

Mr. Allen holds a Bachelor of Arts degree in Economics/ Social Studies from Manchester University, U.K. 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., Hysan Development Co. Ltd., Vinaland Ltd. and Texon International Group 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 2007.

Cheng Hoi Chuen Vincent
GBS, OBE, JP, aged 64, F&G, H, N
(Appointed on 17 August 2011)

Mr. Cheng holds a Bachelor of Social Science degree in Economics from The Chinese University of Hong Kong and a Master of Philosophy degree in Economics from The University of Auckland. Mr. Cheng was the Adviser to the Group Chief Executive of HSBC Holdings plc between June 2011 and May 2012. He was Chairman of The Hongkong and Shanghai Banking Corporation Limited, HSBC Bank (China) Company Limited and HSBC Bank (Taiwan) Limited between 2005 and 2011, an Executive Director of HSBC Holdings plc (2008 to 2011), and a Non-executive Director of HSBC Bank (Vietnam) Limited (2008 to 2010). He is currently an Independent Non-executive Director of MTR Corporation Limited, Great Eagle Holdings Limited, China Minsheng Banking Corp., Ltd., Shanghai Industrial Holdings Limited and Hui Xian Asset Management Limited. He was an Independent Non-executive Director of Swire Properties Limited until April 2012.

Law Fan Chiu Fun Fanny
GBS, JP, aged 60, A, S
(Appointed on 17 August 2011 and reappointed on 1 August 2012)

Mrs. Law graduated from the University of Hong Kong with an Honours degree in Science. She received a Master degree in Public Administration from Harvard University and was named a Littauer Fellow. She also has a Master degree in Education from The Chinese University of Hong Kong. Prior to her retirement from the civil service in 2007, Mrs. Law was the Commissioner of the Hong Kong Independent Commission Against Corruption. During her 30 years in the civil service, Mrs. Law worked in many fields, including medical and health, economic services, housing, land and planning, home affairs, social welfare, civil service, transport and education. Mrs. Fanny Law is currently a Hong Kong SAR Deputy to the 12th National People's Congress of the People's Republic of China, a Member of the Executive Council of the Government of Hong Kong SAR, a Director of the Fan Family Trust Fund, Special Advisor to the China-US Exchange Foundation and Honorary Principal of Ningbo Huizhen Academy. She is also an Independent Non-executive Director of China Unicom (Hong Kong) Limited.

Lee Yun Lien Irene
aged 59, A, F&G (Appointed on 15 October 2012)

Ms. Lee holds a Bachelor of Arts Degree from Smith College, U.S.A., and is a Barrister-at-Law in England and Wales and a member of the Honourable Society of Gray's Inn, U.K. Ms. Lee is currently the Executive Chairman of Hysan Development Company Limited. Ms. Lee is also an Independent Non-executive Director of Cathay Pacific Airways Limited and Noble Group Limited (listed on Singapore Exchange Limited), a Non-executive Director of QBE Insurance Group Limited (listed on the Australian Securities Exchange). She is also a director of Sydney Symphony Orchestra Holdings Pty Ltd and a member of the Advisory Council of JP Morgan Australia. Previously, Ms. Lee was an executive director of Citicorp Investment Bank Limited in New York, London and Sydney; head of corporate finance at Commonwealth Bank of Australia and chief executive officer of Sealcorp Holdings Limited, both based in Sydney.

Executive Directors

Andrew Clifford Winawer Brandler
MA, MBA, ACA, aged 56, F&G, S
(Appointed on 6 May 2000)

Mr. Brandler holds an MA degree from the University of Cambridge, 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 between 2008 and 2010.

Peter William Greenwood
MA, FCS, FCIS, aged 56, F&G, S
(Appointed on 7 September 2001 and reappointed on 1 March 2007)

Mr. Greenwood holds an MA degree in law from the University of Cambridge. In 2006, he completed full-time study for an MA degree in War Studies from King's College, London University (with distinction). He is a Fellow of the Institute of Chartered Secretaries in England and of the Hong Kong Institute of Chartered Secretaries. He is a solicitor in England and Wales and in Hong Kong, as well as being qualified as an avocat in France. Mr. Greenwood is the Group Executive Director – Strategy. His principal focus is on matters impacting the overall direction of the CLP Group. He is also responsible for the oversight of corporate secretarial and legal affairs. Prior to stepping down in 2005, Mr. Greenwood was an Executive Director (since 2001), the Company Secretary and Corporate Counsel (since 1996) of CLP Holdings.

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

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

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

Senior Management

From left to right: Andrew Brandler, Richard Lancaster, Betty Yuen, Peter Littlewood
Peter Greenwood, Mark Takahashi, Richard McIndoe, Rajiv Mishra

Andrew Clifford Winawer Brandler
Chief Executive Officer

Mr. Brandler's biography is on page 91.

Peter William Greenwood
Group Executive Director – Strategy

Mr. Greenwood's biography is on page 91.

Mark Takahashi
Group Director & Chief Financial Officer, BSc (Eng.), MBA, aged 54, 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.

Yuen So Siu Mai Betty
Vice Chairman – CLP Power Hong Kong Limited, B.Comm., CPA, CA (Canada), aged 55, F&G

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

Richard Iain James McIndoe
Managing Director – EnergyAustralia, MA, MBA, aged 48, F&G

Mr. McIndoe became Managing Director of EnergyAustralia Holdings Limited (previously known as TRUenergy Holdings Limited) in 2006. He joined CLP in 2002 and has an extensive background in finance, business development and asset management in the regional electricity industry. He holds an MA degree from the University of Cambridge and an MBA degree from INSEAD Business School in France.

Richard Kendall Lancaster
Group Director – Managing Director Hong Kong, BE, aged 51

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.

Rajiv Ranjan Mishra
Managing Director – India, MBA, aged 47

Mr. Mishra is responsible for asset management and business development of CLP's investments in India. He joined CLP in 2002 and has 18 years' experience in the power industry, both in India and internationally, mostly involved 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.

Peter Albert Littlewood
Group Director – Operations, MA, aged 61

Mr. Littlewood is responsible for engineering, construction, operations, fuel procurement; CLP's China and Southeast Asia businesses; and CLP New Energy activities. He joined the CLP Group in 1977 and has over 40 years' experience in the power industry. He holds an MA degree in Engineering (first class honours) from the University of Cambridge.

Peter Littlewood took most of the photographs for this Report, including the cover, which shows our Qian'an wind farm. Here is his full photo gallery.

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

Good corporate governance enhances the credibility and reputation of the Company, as well as promoting and safeguarding the interests of shareholders and other stakeholders. Corporate governance is not an easy subject to present. We use a Corporate Governance Framework to explain our corporate governance practices in as accessible and straightforward a way as possible. In that Framework we identify all the key participants in good governance, the ways in which they relate to each other and the contribution each makes to the application of effective governance policies and processes.

Our 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 Corporate Governance Code and Corporate Governance Report (the Stock Exchange Code), Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the Listing Rules), 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, for guidance only, save that issuers are encouraged to comply or give reasons for deviation.

Our Board adopted the CLP Code in February 2005. The decision to adopt the CLP Code, as opposed to the Stock Exchange Code, reflected our wish to express our corporate governance practices in our own words and to use a structure which corresponded to our existing framework. The CLP Code is updated from time to time, most recently in February 2012, reflecting new requirements effective on 1 April 2012 under the Stock Exchange Code. 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 CLP Code incorporates all of the Code Provisions and Recommended Best Practices in the Stock Exchange Code, save for the single exception 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.

✓✓	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, most recently updated in January 2012, 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.
✓✓	We publish the terms of reference and membership of all Board Committees on the websites of CLP and Stock Exchange.
✓✓	With the support of an external independent consultant, CLP conducts an evaluation of the performance of the Board as well as all of its Board Committees.
✓✓	The Audit Committee comprises only Independent Non-executive Directors. Three of the five 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.
✓✓	CLP publishes its annual performance on environmental, social and governance issues through this Annual Report and our online Sustainability Report. These in many respects exceed the terms of the Environmental, Social and Governance (ESG) Reporting Guide at Appendix 27 to the Listing Rules.
✓✓	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 Sustainability Committee Report which sets out our sustainability framework (constructed around those areas, objectives and goals which we consider most relevant to CLP's business).
✓✓	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 potential inside 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 now, we have received no such feedback from shareholders. We would review our position if 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, online Sustainability Report and its website – all of which far exceed regulatory requirements in the extent of disclosure made. SR

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 Listing Rules.

Evolution of CLP's Corporate Governance in 2012

In 2012, 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:

- In our online Sustainability Report we have measured our disclosure on economic, social and governance issues against the ESG Reporting Guide issued by the Hong Kong Stock Exchange, even though this only takes effect for financial years ending after 31 December 2012. SR
- Undertook an independent review of the fees payable to Non-executive Directors and published this on CLP's website (see the Human Resources & Remuneration Committee Report on pages 125 and 126).
- Engaged an external independent consultant to evaluate the performance of the Board and Board Committees. The results of the evaluation were uploaded on the CLP website.
- Moved the governance standards of EnergyAustralia towards those applicable to a listed company in Australia, including the appointment of an independent Chairman and a majority of independent non-executive directors and the establishment of the Audit & Risk Committee and Remuneration & Nomination Committee for EnergyAustralia.
- Discontinued the practice to propose to shareholders to grant a mandate to Directors to aggregate the number of shares repurchased with the total number of shares which can be issued under the general mandate to issue shares.
- Enhanced the effectiveness and security of Board and Board Committees communication by moving to a digital Board paper delivery system. This system is more environmentally friendly (saving more than 24,000 pages of paper in the second half of 2012 alone).
- Formalised the reporting to the Nomination Committee of the training and continuous professional development of Directors, time spent by Directors and the independence of Independent Non-executive Directors.
- Reviewed the effectiveness of the Responsible Procurement Policy Statement after its first 12 months' implementation.
- Enhanced our risk management through the initiatives summarised in the Risk Management Report at page 111.
- Strengthened the General Representation Letter process with the support of a new digital Group Internal Control system.
- Updated the set of Continuous Disclosure Obligation Procedures on the CLP website in light of the new inside information requirements under the Securities and Futures Ordinance and the Listing Rules.
- Updated CLP's Code of Securities Transactions in light of the new inside information requirements.
- Formalised the reporting to the Human Resources & Remuneration Committee of the training and continuous professional development of Senior Management.
- Continued our two-way communication with institutional and retail investors on our corporate governance.
- Contributed our views on corporate governance issues by responding to formal Consultation Papers issued by the Hong Kong Stock Exchange and the Securities and Futures Commission.

Shareholders

The Board and Senior Management recognise their responsibilities to represent the interests of all shareholders and to maximise shareholder value. The "Shareholder Value and Engagement" 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.

Details of the profile of the shareholders in the Company and aggregate shareholding are set out in the "Shareholder Value and Engagement" section on page 17 of this Annual Report.

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 2012 and has continued to maintain such a float as at 25 February 2013.

Pursuant 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 8 Laguna Verde Avenue, Hung Hom, Kowloon.

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

The most recent shareholders' meeting was the AGM held on 8 May 2012 at the Hong Kong Polytechnic University, Kowloon, Hong Kong. Major items discussed included the amendment to Article 139 of the Company's Article of Association, which allows the Board to:

(a) declare a dividend by way of a distribution in specie of securities in any other company which is to be listed on any stock exchange;
(b) facilitate the procedure for dealing with fractional entitlements that may arise on a distribution in specie;
(c) allow the Company not to make a distribution in specie to Shareholders in territories where such distribution may be unlawful or inexpedient in the absence of compliance with registration or other formalities and such Shareholders will instead be entitled to receive a cash dividend.

The percentage of votes cast in favour of the resolutions relating to the major items are set out below:

- Amendment to the Articles of Association of the Company (99.8289%);
- Election of Mr. Vincent Cheng and re-election of Mr. William Mocatta, Dr. Y. B. Lee, Mr. Peter W. Greenwood and Mr. Vernon Moore as Directors of the Company (98.4004% to 99.7440% in respect of each individual resolution);
- General mandate to Directors to issue additional shares in the Company, not exceeding five per cent of the issued share capital (76.3388%);
- General mandate to Directors to purchase shares in the Company, not exceeding ten per cent of the issued share capital (Share Repurchase Mandate) (99.9964%); and
- General mandate to Directors to aggregate the nominal amount of shares repurchased with the nominal amount of shares which can be issued under the general mandate to issue shares (Aggregation Mandate) (73.7782%).

All resolutions put to shareholders were passed at the 2012 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 also published on the Company's website.

With regard to the Aggregation Mandate, institutional investors have expressed concern about the possibility of increasing the general mandate given to Directors to issue shares from a cap of 5% to, potentially, 15% of the Company's issued shares if the Share Repurchase Mandate were fully exercised. This is evidenced by the increasing percentage of votes cast against the Aggregation Mandate at the AGM – from 20.82% in 2008 to 26.22% in 2012.

The Aggregation Mandate has been sought since the first AGM of CLP Holdings and has never been exercised by the Board. However, in order to address institutional investors' views, the Board has decided to discontinue the practice to propose to shareholders to grant the Aggregation Mandate to Directors when the current Aggregation Mandate expires in the 2013 AGM.

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

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.

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 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 Board discharges the following responsibilities through delegation to the Nomination Committee, Audit Committee and Human Resources & Remuneration Committee:

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review the contribution required from Directors and whether they are spending sufficient time performing their responsibilities to the Company;

(c) to review and monitor the training and continuous professional development of Directors and Senior Management;

(d) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(e) to develop, review and monitor the Code of Conduct applicable to employees; and

(f) to review the Company's compliance with the CLP Code on Corporate Governance and disclosure in the Corporate Governance Report.

The Board is provided with CLP Group Monthly Management Reports which contain year-to-date financials with summaries of key events, outlook, safety and environmental matters of the Group. The Management Report gives a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail.

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 at each period end and of the results and cash flows for that period. In preparing these financial statements for the year ended 31 December 2012, the Directors have selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group.

As at the date of this Report, the Board comprises 17 Directors. Three of them are women. All Directors (with the exception of the CEO and Group Executive Director – Strategy) are non-executive and independent of management, thereby promoting critical review and control of the management process. The Board includes seven influential and active Independent Non-executive Directors to whom shareholder concerns can be conveyed. The non-executive members of the Board also bring a wide range of business and financial experience to the Board, which contributes to the effective direction of the Group. The Board is also characterised by significant diversity, whether considered in terms of gender, nationality, professional background and skills. The Board intends to formalise its existing diversity through the introduction in 2013 of a board diversity policy in contemplation of an incoming amendment to the Stock Exchange Code in this respect.

Details of all Directors are given on pages 90 and 91 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 90) are not considered as independent, due to their association with the Kadoorie Family, who have a substantial interest (33.38%) 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 2012, there were five occasions 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 2012, the Board exceeded the minimum requirements of the Listing Rules as to the appointment of at least three Independent Non-executive Directors (CLP has seven), and that there should be one director with appropriate professional qualifications or accounting or related financial management expertise on the Audit Committee (there are three such directors on CLP's Audit Committee).

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

Board and Committee Attendance

The Board meets in person at least five times per annum 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 2012 are set out in the following table. The overall attendance rate of Directors at Board meetings was 94.6% (2011: 91.7%).

Directors	Meetings **Attended** / Held							
	Board[a]	Audit Committee[b]	Finance & General Committee	Human Resources & Remuneration Committee	Nomination Committee[c]	Provident & Retirement Fund Committee	Sustainability Committee	AGM[b]
Non-executive Directors								
The Hon. Sir Michael Kadoorie	**6** / 7				**1** / 1			**1**
Mr. William Mocatta	**7** / 7		**8** / 8	**2** / 3		**2** / 2		**1**
Mr. R. J. McAulay	**6** / 7							**1**
Mr. J. A. H. Leigh	**7** / 7							**1**
Mr. I. D. Boyce	**7** / 7		**6** / 8					**1**
Dr. Y. B. Lee	**7** / 7							**1**
Mr. Paul A. Theys	**6** / 7							**0**
Mr. Peter P. W. Tse[d]	**6** / 6		**4** / 4					**1**
Independent Non-executive Directors								
Mr. V. F. Moore	**7** / 7	**5** / 5	**6** / 8	**3** / 3				**1**
Professor Judy Tsui	**7** / 7	**5** / 5					**2** / 2	**1**
Sir Rod Eddington	**5** / 7		**3** / 8	**1** / 3				**0**
Mr. Nicholas C. Allen	**7** / 7	**5** / 5	**8** / 8	**3** / 3	**1** / 1		**2** / 2	**1**
Mr. Vincent Cheng[e]	**7** / 7		**7** / 8	**3** / 3	**1** / 1			**1**
Mrs. Fanny Law[f]	**5** / 5	**3** / 3					**2** / 2	N/A
Ms. Irene Lee[g]	**2** / 2	**1** / 1	**2** / 2					N/A
Mr. Hansen C. H. Loh[h]	**1** / 2	**0** / 1			N/A			**0**
Executive Directors								
Mr. Andrew Brandler	**6** / 6		**8** / 8				**2** / 2	**1**
Mr. Peter W. Greenwood	**6** / 6		**7** / 8				**2** / 2	**1**

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

(b) Representatives of the external auditor participated in every Audit Committee meeting and AGM.

(c) Review and approval of nomination of Directors' appointment is by circulars to all the members of the Nomination Committee. In 2012, Directors reviewed by circular the independence of Independent Non-executive Directors who stood for re-election at the 2012 AGM and considered the nominations of Directors for appointment on two separate occasions.

(d) Mr. Peter P. W. Tse retired as an Executive Director and was re-designated as a Non-executive Director with effect from 16 May 2012.

(e) Mr. Vincent Cheng was appointed the Chairman of the Human Resources & Remuneration Committee in place of Mr. William Mocatta with effect from 24 February 2012. Mr. Cheng was also appointed a member of the Nomination Committee with effect from 2 April 2012.

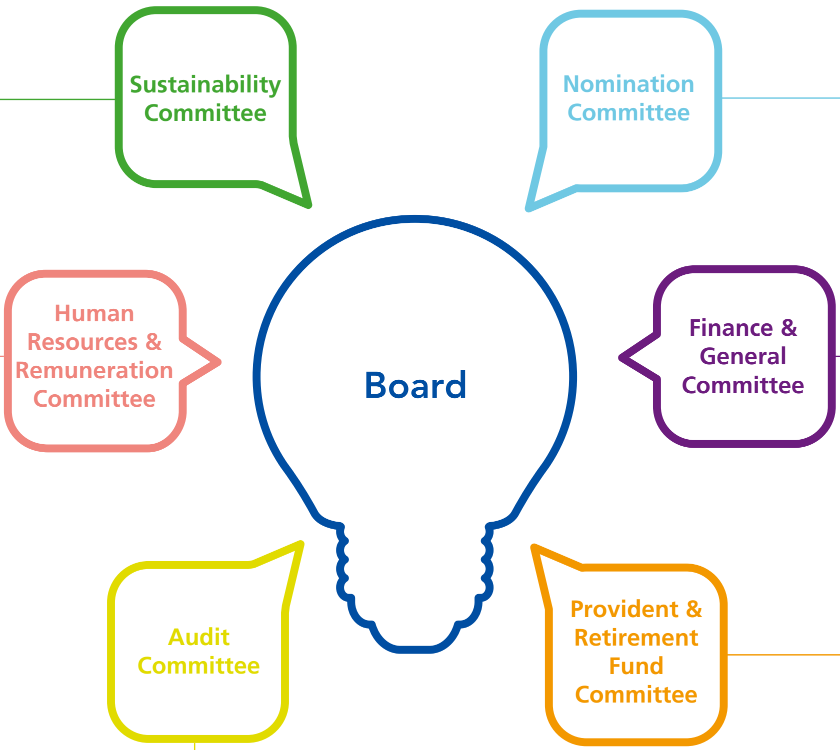
(f) Mrs. Fanny Law resigned as an Independent Non-executive Director and a member of the Audit Committee and the Sustainability Committee with effect from 20 April 2012 to take up a full-time appointment as the Head of the Fourth-term Chief Executive-elect's Office of the Hong Kong Special Administrative Region under a short-term employment contract. Upon conclusion of this contract on 1 July 2012, Mrs. Law was re-appointed as an Independent Non-executive Director and a member of the Audit Committee and the Sustainability Committee with effect from 1 August 2012.

(g) Ms. Irene Lee was appointed as an Independent Non-executive Director with effect from 15 October 2012.

(h) Mr. Hansen C. H. Loh retired as an Independent Non-executive Director after the conclusion of the 2012 AGM held on 8 May 2012. Mr. Loh also resigned as a member of the Audit Committee and Nomination Committee with effect from 2 April 2012.

Board Committees

The following chart explains the responsibilities and the work that each Board Committee undertook on behalf of the Board during 2012 and in 2013 up to the date of this Report (the "Relevant Period"). The terms of reference and membership of all Board Committees are disclosed in full on the websites of CLP and Stock Exchange. They are also available in writing upon request to the Company Secretary. The terms of reference of the Audit Committee, Human Resources & Remuneration Committee and Nomination Committee have been amended to reflect changes arising from the Stock Exchange Code.



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 119 of this Annual Report.

Human Resources & Remuneration Committee

Details of the Human Resources & Remuneration Committee, including its membership, terms of reference and work done during the Relevant Period are set out in the Human Resources & Remuneration Committee Report at page 124 of this Annual Report.

Sustainability Committee

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

Membership of Nomination Committee

A majority of the members are Independent Non-executive Directors. This Committee is chaired by the Chairman of the Board, The Hon. Sir Michael Kadoorie, with Mr. Nicholas C. Allen and Mr. Vincent Cheng as members.

Responsibilities and Work Done

This Committee is responsible for the review of Board structure and composition, 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, assessing the independence of the Independent Non-executive Directors and, as delegated by the Board, reviewing whether Directors are spending sufficient time performing their responsibilities, and reviewing and monitoring the training and continuous professional development of Directors. The work performed by the Committee during the Relevant Period included:

- considering the nomination of Mrs. Fanny Law and Ms. Irene Lee as Independent Non-executive Directors with effect from 1 August 2012 and 15 October 2012 respectively;
- reviewing the current Board structure and composition;
- assessing the independence of all Independent Non-executive Directors, including Mrs. Fanny Law, Ms. Irene Lee and Mr. Nicholas C. Allen who retired and presented themselves for election / re-election by shareholders at the 2013 AGM;
- the review of the contribution required from a Director to perform his / her responsibilities and whether he / she has spent sufficient time performing them;
- reviewing the training and continuous professional development of Directors; and
- reviewing the follow-up actions arising from Board Evaluation Report 2012.

Membership of Finance & General Committee

Mr. William Mocatta (Chairman), Mr. V. F. Moore, Sir Rod Eddington, Mr. Nicholas C. Allen, Mr. Vincent Cheng, Mr. I. D. Boyce, Ms. Irene Lee, Mr. Andrew Brandler, 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 and business performance. 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 2011 and 2012;
- the CLP Group business plan and budget 2013-2017 and capital allocation reviews;
- placement of 5% of the issued share capital in December 2012;
- CLP Group cost of capital study;
- CLP's foreign exchange translation risk and counterparty exposures;
- the Company's funding requirement, undertakings, guarantees and indemnities;
- CLP's interest in development projects in China and India;
- CLP India Wind Business Review, including bids for wind power projects in India;
- China Wind Portfolio Performance;
- development of Fangchenggang Stage II;
- the impact of the Australia Yallourn mine flooding;
- status of discussions with ExxonMobil on their potential divestment in CAPCO;
- CLP Power's USD Hedging for Fuel Payments; and
- follow-up actions arising from Board Evaluation Report 2012.

Membership of Provident & Retirement Fund Committee

Mr. William Mocatta (Chairman), Mr. Mark Takahashi and a Trustee.

Responsibilities and Work Done

This Committee advises the Trustee on investment policy and objectives for the Group's retirement funds, namely the CLP Group Provident Fund Scheme and CLP Group Top-Up Scheme (the Schemes). During the Relevant Period, the Committee reviewed the position of the funds, monitored the performance of the investment managers and made recommendations on the appointments of the Schemes' officers.

Directors' Commitments

The Company has received confirmation from each Director that he/she has given sufficient time and attention to the affairs of the Company for the year. 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 2012, no current Director held directorships in more than five public companies including the Company. No Executive Directors hold any directorship in any other public companies, but they are encouraged to participate in professional, public and community organisations. Directors are also reminded to notify the Company Secretary in a timely manner and bi-annually confirm to the Company Secretary any change of such information. In respect of those Directors who stand for re-election at the 2013 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 90 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 local management and CLP's facilities, as arranged and funded by the Company with appropriate emphasis on the roles, functions and duties of the Directors. This is in addition to Directors' attendance at meetings and review of papers and circulars sent by Management.

Participation in Directors' Continuous Professional Development Programme in 2012

	Reading regulatory updates	Paying visits to local management & CLP's facilities	Hosting Shareholders' Visits	Attending expert briefings/seminars/conferences relevant to the business or directors' duties
Non-executive Directors				
The Hon. Sir Michael Kadoorie	✓	✓		✓
Mr. William Mocatta	✓	✓		✓
Mr. R. J. McAulay	✓	✓		✓
Mr. J. A. H. Leigh	✓			✓
Mr. I. D. Boyce	✓	✓	✓	✓
Dr. Y. B. Lee	✓	✓		✓
Mr. Paul A. Theys	✓			
Mr. Peter P. W. Tse	✓	✓	✓	✓
Independent Non-executive Directors				
Mr. V. F. Moore	✓	✓	✓	✓
Professor Judy Tsui	✓	✓		✓
Sir Rod Eddington	✓	✓		
Mr. Nicholas C. Allen	✓	✓	✓	✓
Mr. Vincent Cheng	✓			✓
Mrs. Fanny Law[(a)]	✓	✓		✓
Ms. Irene Lee[(b)]	✓			✓
Executive Directors				
Mr. Andrew Brandler	✓	✓	✓	✓
Mr. Peter W. Greenwood	✓	✓	✓	✓
Company Secretary				
Mrs. April Chan[(c)]	✓	✓	✓	✓

(a) A refresher induction was conducted for Mrs. Fanny Law who was re-appointed to the Board in August 2012 after her resignation in April 2012.

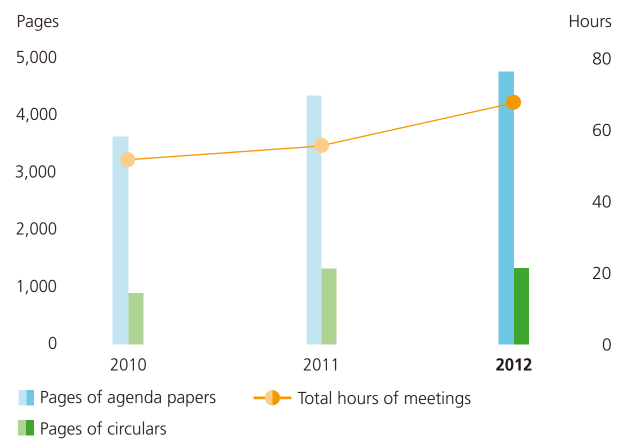
(b) An induction was conducted for Ms. Irene Lee who was newly appointed to the Board in October 2012.

(c) During 2012, Mrs. April Chan served as the Immediate Past President on the Council of The Hong Kong Institute of Chartered Secretaries and of Corporate Secretaries International Association and has exceeded the 15 hours of professional training requirement of the Listing Rules.

We have formal procedures for implementing and documenting the provision to Senior Management of training and continuous professional development.

To further indicate the attention given by our Board to the oversight of CLP's affairs, the following chart summarises the duration of those meetings and the volume of papers submitted to Directors for review during 2012.

Workload of Board and Board Committees



Directors' Interests

The interests in CLP's securities held by Directors as at 31 December 2012 are disclosed in the Directors' Report of this Annual Report at page 134. 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. The Code has recently been updated to reflect the inside information provisions under the Securities and Futures Ordinance and the Listing Rules. 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 2012 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 2013. The remuneration policy and fees paid to each Non-executive Director in 2012 are set out in the Human Resources & Remuneration Committee 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.

Board Evaluation

Towards the end of 2011, the Board engaged an independent consulting firm, Spencer Stuart & Associates (HK) Ltd., to evaluate the performance of the CLP Holdings Board and Board Committees. The evaluation process was carried out through formal interviews with each Director. The evaluation covered the following areas: Board dynamics; organisation of the Board; roles and duties as Directors; Board composition; Board committees, Board involvement and engagement, communication with shareholders and stakeholders; and overall Board effectiveness. Spencer Stuart's findings, as summarised in their report to CLP, were that "CLP's corporate governance policies and processes are strong. They satisfy and / or exceed current Hong Kong Stock Exchange

Governance Code and Listing Rule requirements. Any exceptions to the Code are relatively minor, are recognised by the Company and are capable of being suitably explained." A copy of Spencer Stuart's conclusions has been published on the CLP website. The Board considered the full report from Spencer Stuart at its meeting on 15 October 2012 and agreed that this should be a reference for further improvements in Board effectiveness. For example, each Board Committee has examined the recommendations in the report which relate to their specific terms of reference with a view to considering effective adoption. Board performance will be evaluated on an ongoing basis with an independent evaluation every three years.

Company Secretary

The Company Secretary supports the Chairman, Board and Board Committees by ensuring good information flow and that Board policy and procedures are followed. She advises the Board on governance matters and facilitates the induction and professional development of Directors. The Company Secretary is an employee of the Company and is appointed by the Board. Although the Company Secretary reports to the Chairman and CEO, all Directors may call upon her for advice and assistance at any time in respect to their duties and the effective operation of the Board and Board Committees. The Company Secretary also plays an essential role in the relationship between the Company and its shareholders, including assisting the Board in discharging its obligations to shareholders pursuant to the Listing Rules.

Management and Staff

The task of CLP's management and staff is the successful implementation of 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, which has been aligned across the CLP Group, is set out in full on our website. Management and staff receive training on the Code and its implications periodically. Management and staff above a designated level or in certain functions are required to sign annual statements confirming compliance with the Code.

We have formalised the procedures for reporting actual or potential violations of the Code and other suspected irregularities into a Whistleblowing Policy to encourage employees and related third parties (such as customers and suppliers) who deal with the Company to raise concerns in confidence about misconducts, malpractices or irregularities in any matters related to the Company. During 2012, there were 8 cases of whistleblowing. None of these involved Directors or Senior Management or was material to the Group's financial statements or overall operations.

Non-compliance with the Code of Conduct 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 Director & Chief Financial Officer, Director – Group Legal Affairs and Director – Group Human Resources, in order to ensure the consistency and fairness of treatment. During 2012, there were 14 breaches of the Code. Sanctions applied ranged from reprimands to dismissal. No breaches of the Code involved senior managers or were 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 any other employee.

We have voluntarily extended the CLP Code for Securities Transactions to cover Senior Management (comprising the eight managers, whose biographies are set out on page 92) 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 2012 they complied with the required standard set out in the Model Code and CLP Code for Securities Transactions.

Save for the interests disclosed by the two Executive Directors in the Directors' Report at page 134 of this Annual Report, the interest in 10,600 shares disclosed by the Group Director – Operations and the interest in 600 shares disclosed by the Group Director – Managing Director Hong Kong, the other members of the Senior Management did not have any interests in CLP Holdings' securities as at 31 December 2012.

Members of Senior Management are paid in line with market practice and with regard to their performance. The principles and details of the remuneration of individual members of Senior Management are set out in the Human Resources & Remuneration Committee 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 22 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 2012, 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 regularly by management and by the Audit Committee until corrective measures have been implemented.

External Auditor

The Group's external auditor is PricewaterhouseCoopers (PwC). PwC has written to the Audit Committee confirming that they are independent with respect to the Company and that there is no relationship between PwC and the Company which may reasonably be thought to bear on their independence. In order to maintain their independence, PwC will not be employed for non-audit work unless the non-audit work meets the criteria 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 auditor, with no adverse effect on the independence of their audit work, or the perception of such independence.

During the year, the external auditor (which for these purposes includes any entity under common control, ownership or management with the external auditor 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:

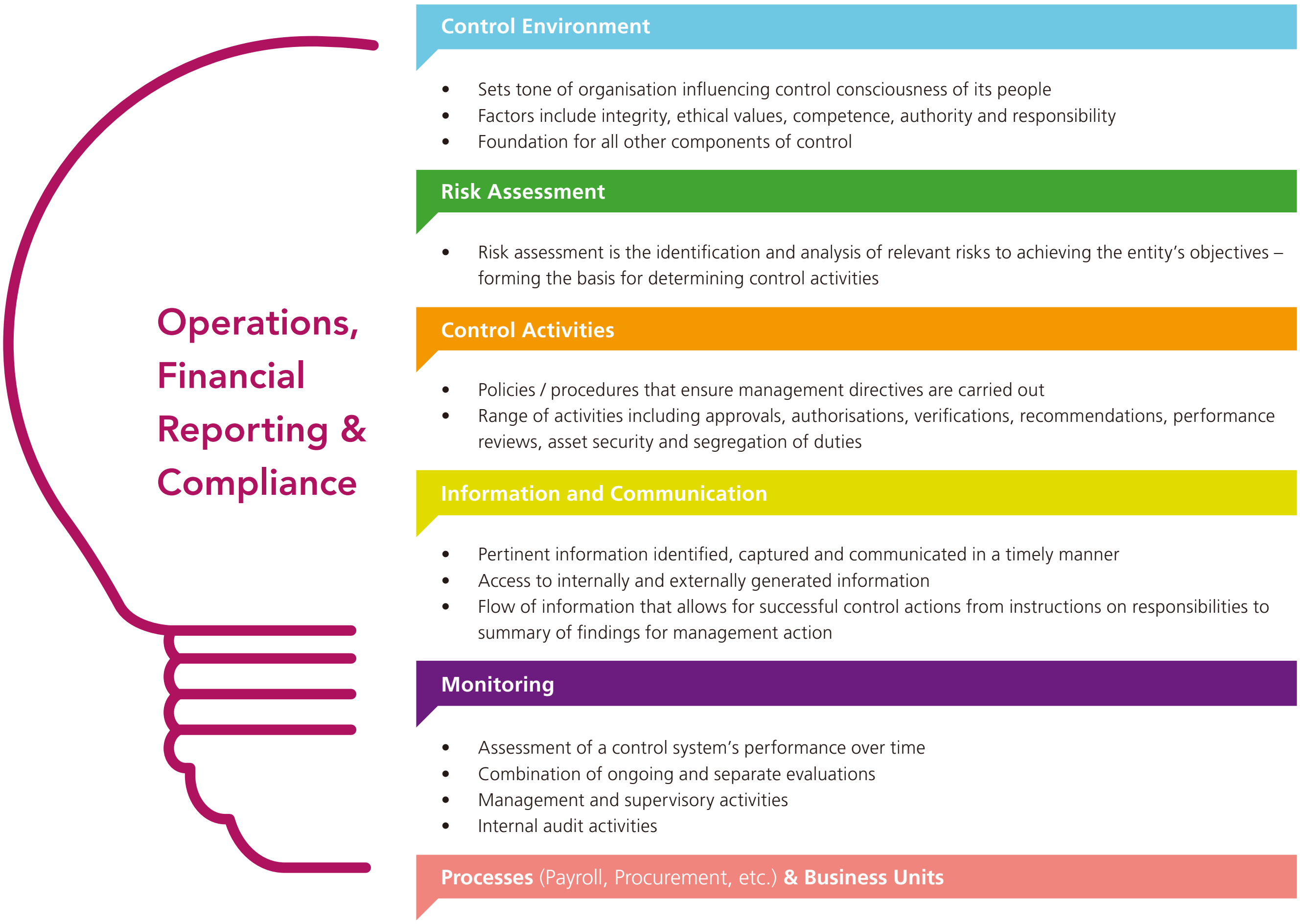
	2012 HK$M	2011 HK$M
Audit	39	42
Permissible non-audit services		
Due diligence and accounting / tax advisory services relating to business developments	14	2
Other services	6	4
Total	59	48

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 online Sustainability Report explain how we discharge our responsibilities to employees, customers, lenders, the environment and the communities in which we operate. SR

Internal Control

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



Under our framework, management (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. Similar controls are implemented at our subsidiaries.

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 and Whistleblowing Policy make it clear that all reports to management will be handled confidentially to the fullest 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 and any possible improprieties in any matters related to the Company.

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 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. Whenever internal control disciplines fall short of those envisaged by Sarbanes-Oxley these will be remedied.

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. High-risk 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 auditor also tests 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 auditor 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 October 2012, a new digital Group Internal Control System was introduced for managers to complete their representation letters. This has enhanced the promptness and thoroughness in completion of the General Representation Letter process with a view to bringing material issues, if any, to the CEO and CFO's attention in a timely manner.

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 has been 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 111. The Audit Committee oversees the development and implementation of the Group Risk Management framework.

Control Effectiveness

The Board is responsible for the Company's internal control system and for reviewing its effectiveness. Group Internal Audit and Management conduct reviews of the effectiveness of the Company's internal control system, 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 internal control system five times a year, and reports annually to the Board on such reviews. In respect of the year ended 31 December 2012, 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 the internal and external auditors before endorsement by the Board.

Inside Information

With respect to procedures and internal controls for the handling and dissemination of inside information, the Company:

- is aware of its obligations under the Securities and Futures Ordinance and the Listing Rules and the overriding principle that inside information should be announced immediately it is the subject of a decision;
- conducts its affairs with close regard to the "Guidelines on Disclosure of Inside Information" and "Recent Economic Developments and the Disclosure Obligations of Listed Issuers" issued by the Securities and Futures Commission in June 2012 and the Hong Kong Stock Exchange in 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 inside 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.

The Company has also published Continuous Disclosure Obligation Procedures which formalised the current practices for monitoring developments in our businesses for inside information and communicating such information to our shareholders, the media and analysts. These Procedures were updated in December 2012 in light of the inside information provisions under the Securities and Futures Ordinance and the Listing Rules. These are on the CLP website.

Integrated 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.

CLP's 2012 online Sustainability Report, published at the same time as this Annual Report, describes in detail our delivery of social and environmental value in 2012 and contributes to integrated reporting about all aspects of our activities. The Report discloses our achievements and shortcomings in managing the social and environmental aspects of our business in a comprehensive, honest and accessible way. It also includes an independent assurance report from PwC. We welcome feedback on both the Annual and Sustainability Reports.

A detailed account of CLP's different channels of communication with our Shareholders is set out in the "Shareholder Value and Engagement" section at page 17 of our Annual Report. The Board has delegated to the Audit Committee the responsibility to review the Shareholders' Communication Policy on a regular basis to ensure its effectiveness.

Reporting via Internet

The CLP website is a major channel for providing 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 and Disclosure

We contribute to the ongoing debate about corporate governance in Hong Kong through frequent and active participation in seminars and workshops. We also make a point of responding to every public consultation by the regulatory authorities on proposed reforms. For example in 2012 we submitted our views on issues as diverse as amendments to the Companies Ordinance, board diversity, trading halts, inside information disclosure, ESG reporting guide and regulation of sponsors. We always post our submissions on our website so that shareholders can judge whether we have properly reflected their views and their interests.

Our own corporate governance practices evolve, not only in line with local requirements, but through our own experience and by reference to international developments. Through this Corporate Governance Report, the CLP Code and the Corporate Governance section of our website, we offer a full view of our practices and policies and how these are evolving. Our objective is that, at all times, our corporate governance meets our shareholders' expectations and serves their interests.

By Order of the Board

April Chan
Company Secretary
Hong Kong, 25 February 2013

Board engagement – Mr. William Mocatta, Vice Chairman and Mr. R. J. McAulay, Non-executive Director, visiting Castle Peak Power Station

Risk Management Report

We are committed to continually improving our risk management capabilities and frameworks across the Group so as to ensure the long-term growth and sustainability of our business.

Risk is inherent in CLP's business. The challenge is to identify risks and then manage these so that their likelihood and impact can be minimised, avoided or understood. This demands a proactive approach to risk management and an effective and robust group-wide risk management framework.

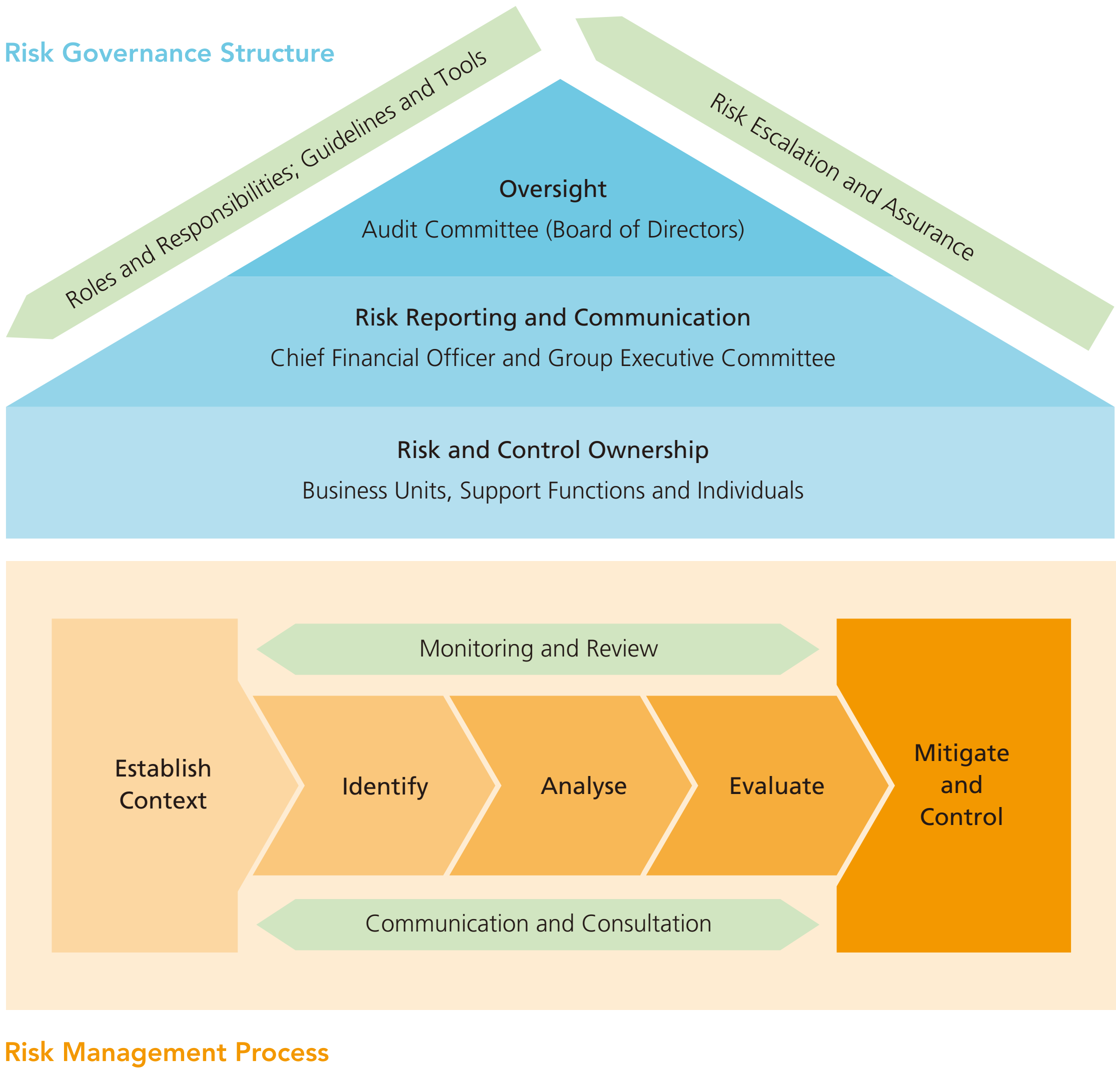
Our overall risk management process is overseen by our Board as an element of solid corporate governance. However, risk management is the responsibility of everyone within CLP. It is embedded in our strategy development, business planning, investment decisions, capital allocation and day-to-day operations.

At an operational level, we aim to identify, analyse, evaluate and mitigate operational hazards and risks in order to create a safe, healthy, efficient and environmentally-friendly workplace for our employees and contractors.

At a corporate level, we focus on the assessment of material risks at the Group, business and functional levels in order to better equip ourselves to pursue the Group's strategic and business objectives.

Our Risk Management Framework

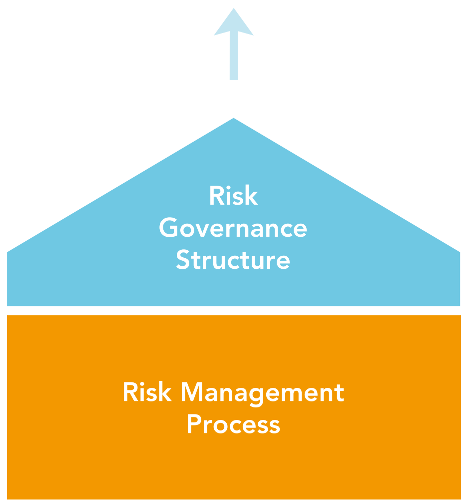
Our risk management framework comprises two key elements: **Risk Governance Structure** and **Risk Management Process**.



Our Risk Governance Structure

- Facilitates risk identification and escalation whilst providing assurance to the Board.
- Assigns clear roles and responsibilities and facilitates implementation with guidelines and tools.
- Consists of three different layers of roles and responsibilities as explained below.

Oversight	**Audit Committee, acting on behalf of the Board** • Oversees material risks that warrant attention and supervises risk management process as part of good corporate governance.
Risk Reporting and Communication	**Chief Financial Officer and Group Executive Committee** • Supported by the Group Risk Management function, communicate and assess the Group's risk profile and material risks at the Group level. • Track progress of mitigation plans and activities of material risks and report on detailed examinations of specific risks as required.
Risk and Control Ownership	**Business Units, Support Functions and Individuals** • Facilitated and coordinated by Group Risk Management, ensure that risk management processes and mitigation plans follow good practices and guidelines established by the Group. • Carry out risk management activities and reporting according to our risk management framework in their day-to-day operations. • CLP Power Hong Kong, EnergyAustralia (EA) and CLP India have comprehensive risk management frameworks of varying degrees of maturity. Risk Management Committees or parallel Executive Committees oversee their risk management policies and activities. Representatives from Group Risk Management participate in these committees. • In other business and functional units, executives meet regularly to review their risk profiles and risk management activities. • Risk managers or coordinators at functional units have been appointed to facilitate communication, experience sharing and risk reporting for specific functions at the Group level.



Our Risk Management Process

- Is embedded in our strategy development, business planning, investment decisions, capital allocation and day-to-day operations.
- Is in line with leading industry standards and practices, including ISO 31000 : 2009 Risk Management - Principles and Guidelines.
- Involves establishing the context, identifying risks, assessing their consequences and likelihood, evaluating risk levels, control gaps and priorities, and developing control and mitigation plans. This is a continuous process with periodic monitoring and review in place.

Our Quarterly Risk Review Process at Group Level	• Every quarter, our business and functional units are required to submit their material risks identified through their risk management process to Group Risk Management. • Group Risk Management, through aggregation, filtering and prioritising processes, compiles a Quarterly Group Risk Management Report for discussion at the Group Executive Committee (GEC), chaired by the CEO. The Committee reviews and scrutinises the material risks and ensures the appropriate controls and mitigation measures are in place or in progress. Emerging risks, which might have a material impact on the Group over a longer timeframe, are monitored and discussed at the Committee. • Following review by the GEC, the Quarterly Group Risk Management Report is submitted to the Audit Committee with a summary of the material risks circulated to the Board. "Deep dive" presentations on selected risks are given to the Audit Committee for more detailed review.
Our Risk Review Process for Investment Decisions	• All new investments must be endorsed by Management's Investment Committee, chaired by the CEO, before seeking approval from the Board or Finance & General Committee. • We require independent functional review and sign-off of any investment proposal before submission to the Investment Committee. Group Risk Management sign-off is part of the investment review process. • Group Risk Management requires that the project owner conducts a risk assessment with proper documentation. Detailed checklists and worksheets are adopted for identifying risks/mitigations and assessing risk level. Material risks and associated mitigations are highlighted and discussed at the Investment Committee.
Our Risk Management in the Business Planning Process	• In our annual business planning process, business units are required to identify all material risks that may impact their achievement of business objectives. Identified risks are evaluated based on the same set of risk criteria as the quarterly risk review process. Plans to mitigate the identified risks are developed for implementation and budget allocation purposes. The material risks set out later have been extracted from our 2012 business planning process.

Evolution of Risk Management

The Group Risk Management function is tasked with enhancing risk management activities, both at the Group and business unit level by bridging any gaps, sharing best practices within the Group, and streamlining the communication of risk information to Senior Management.

Major Initiatives in 2012	
Continued to improve our group-wide risk management framework	• Reviewed and updated the Group risk matrix which defines our risk assessment criteria at Group level. • Improved Quarterly Group Risk Management Report for discussion at the GEC and submission to the Audit Committee. • Facilitated efficient identification of emerging risks by reviewing third-party surveys and information and submitting emerging risks of potential relevance to CLP for discussion at the GEC on a quarterly basis. • Established Group Risk Management's role in reviewing risk management policies of business units.
Facilitated risk management implementation across the Group and shared good practices	• Assisted CLP Power Hong Kong in aligning its risk matrix with the Group and facilitating the aggregation and escalation processes. • Assisted China business unit in developing its risk management framework and processes including risk matrix and risk register template, risk reporting, and risk review by China business unit executives. • Reviewed EA's enhanced risk management policy and framework (see below). Provided risk management oversight through participation in risk management committees of business units or executive meetings on a risk agenda. • Conducted comprehensive risk review of all projects coming to the Investment Committee.
Major risk management initiatives at business unit level	• CLP Power Hong Kong reinforced its risk compilation and review process focusing on cross functional engagement and integration, and participation of senior executives. • EA has strengthened its own corporate governance. Instead of having all executive directors as in the past, the Board now consists of five independent non-executive directors, three CLP executives and one EA executive. In order to assist the Board in fulfilling its risk mitigation role, two standing Board committees, namely the Audit & Risk Committee and the Nomination & Remuneration Committee have been established. All members of these Board committees are non-executive directors (with the exception of one EA director who is also a CLP executive on each committee) and bring in a wide range of experience and expertise. • EA introduced an enhanced risk management framework and supporting tools, developed risk profiles for each of its business units, finalised its investment governance, business continuity and crisis management frameworks and plans, and further developed its energy risk management capabilities and reporting. • CLP India extended its risk management practice to statutory compliance and designed and implemented the Compliance Management System, a framework to track and report its statutory compliance requirements. • China business unit developed and implemented its risk management framework among all majority-owned assets, whereby a bottom-up assessment of risks is conducted and is reviewed by Management of the business on a quarterly basis. The business unit is also beginning to adopt the online risk management platform for reporting and documentation.

Material Risks of the Group

Our 2012 business planning process has identified the following as material risks of the Group.

Regulatory Risk across the Group

Globally, we have seen both a rise in governments' desire to intervene more directly in the privately-owned power sector, with strengthened regulatory control, and public support for such measures. The global financial crisis has brought increased public focus on the affordability of government and/or regulated services, including electricity. Pressure on electricity tariffs is affecting the financial standing and outlook of the power sector. All CLP's businesses operate under various local and national regulatory regimes and are currently facing the risk of adverse regulatory changes.

Risk Identification	Risk Assessment	Key Risk Mitigations
Regulatory and political risk of Hong Kong (HK) business	Rising costs and tariff increases have become a regulatory challenge for the HK business. We are not only encountering short-term risk with Government's difficulty in explaining the cost implications of its own policy decisions, but also long-term risk of adverse regulatory changes to the SoC. Whilst we have improved communication, explaining the link between higher tariffs and the rising cost of gas purchases, many stakeholders continue to express concern about higher tariffs.	• Implement Stakeholder Engagement Plan. • Strengthen cost justification and transparency. • Explore further stringent control over operating costs. • Enhance capital project development and prioritisation process. • Publicity and brand building to reinforce appreciation of CLP's performance and the value of its service to customers. • Help customers mitigate tariff impact. • Prepare for the discussion on future market developments with Government and the public.
Financial distress of Jhajjar power plant due to operational and commercial challenges resulting from State-owned counter-parties' inability to perform obligations, including off-takers and coal supplier	Coal India may not be able to deliver the full Annual Contracted Quantity of domestic coal as per fuel supply agreement due to nationwide coal shortages. This could result in lower availability and heat rate impacting revenue and profitability. Imported coal can alleviate shortage but its higher cost may not always be acceptable to off-takers. Poor domestic coal supply quality, resulting in technical problems and damage to the plant. With the plant now in operation, the off-takers may seek to vary their obligations by raising interpretation issues and commercial disputes over the PPA terms, resulting in delays in receivables, uncertainties and legal costs.	• Revised fuel supply agreement with minimum supply obligation improving to 80% over next three years with higher penalty for coal supply deficit is being executed with Coal India. • To supplement the coal supplies, off-takers have agreed in principle to an increased blending ratio and use of 1.7 million tonnes of imported coal for the financial year 2013-14. This will allow Jhajjar to achieve availability of 80% provided domestic coal supply materialises in line with the revised fuel supply agreement. • Augmenting plant and operational practices to deal effectively with the poor quality coal. • Extensive engagement with off-takers on PPA disputes, supported by improved plant performance and coal supply. Continuous efforts being made to resolve current differences over interpretations of PPA terms and obligations.

Risk Identification	Risk Assessment	Key Risk Mitigations
Difficulty in meeting tightening HK environmental policy and regulations	The HK Government has proposed changing the fuel mix for power generation. In the latest Policy Address, Government has committed to set out clear objectives and a roadmap to achieve cleaner air, better fuel mix, energy conservation and emissions reduction. Government also agreed with the Guangdong Government on a new plan to reduce air emissions.	• Monitor climate change and fuel mix related consultation and policy development. • Obtain approvals and implement projects for the 2014 – 2018 Development Plan that fulfill the commitments in our Energy Vision. • Engage constructively with Government for regulatory clarity and mutually acceptable solutions. • Engage stakeholders and disseminate message of the need for a balance between environment, cost, security of supply and reliability.
Unfavourable retail pricing regulation in Australia impacting EA's business	Retail electricity prices for small customers remain regulated in Australia, except in Victoria, where they were deregulated in 2009. South Australia announced in December 2012 that it would also remove price regulation from February 2013. EA faces considerable risk to margins and expansion from unfavourable regulatory pricing decisions that do not reflect the full costs and risks of supply. A trend in the current round of regulatory pricing determinations is to reduce the wholesale cost allowances in regulated prices to reflect currently subdued wholesale market prices, rather than the long run cost of wholesale supply.	• More diverse or innovative energy products and higher quality services. • Enhance our ability to attract and retain quality customers by strengthening our business continuity, disaster recovery and retail back-office capabilities. • Continue coordinated regular proactive engagement with State and National regulators, industry bodies and policy makers to build on relationships and to effectively advocate our position and influence regulatory change. • In the current period of regulatory uncertainty, it is difficult to quantify the financial exposure to EA's business, although we continue to take this risk into account in our decisions at both the strategic and operational levels.
Delay in payments by India distribution companies	Poor financial health generally of the sector, which is propped up by State Government subsidies, may impact us on a state-by-state basis in terms of off-takers' ability to meet PPA obligations resulting in pressure on working capital. Along with two wind power projects, Theni in Tamil Nadu and Sipla in Rajasthan, Jhajjar in Haryana is also experiencing delays in receivables. The credit ratings of the off-takers for Jhajjar and the Theni wind farm have recently been downgraded.	• Increase due diligence on counterparty risk for new projects. • Invest only in projects in States implementing credible reform programmes and backed by State balance sheets. • Monitor and assess the financial health of State Utilities. • The Cabinet Committee of Economic Affairs has recently approved the debt restructuring package for State-owned electricity bureaux. We understand that those in Tamil Nadu, Haryana and Rajasthan have opted for the debt restructuring package.

Fuel Challenges

Our portfolio, which mainly comprises base load thermal generation with gas and coal as primary fuels, is exposed to disruptions in fuel supply as well as fuel price fluctuations. With a balanced demand and supply situation in 2012, the coal supply risk has been reducing for HK and the Chinese mainland. For example, the global Newcastle Coal Index and domestic Qinhuangdao Coal Index have both dropped by about 20% since January 2012. Gas availability for HK and India remains a challenge.

Risk Identification	Risk Assessment	Key Risk Mitigations
Adverse impact on Paguthan due to gas price and availability issues in India	The lack of cheap domestic gas availability, leading to high electricity tariffs from gas compared to thermal units, is resulting in either poor or no dispatch from Paguthan. Pending a significant ramp up in domestic gas supplies, Paguthan plans to offer availability on spot gas. With limited prospects of securing reasonable quantities of domestic gas for next two to three years, the ongoing low level of power dispatch may continue. Under the PPA, Paguthan receives capacity charges based on availability. However, profitability could decline owing to higher heat rate due to part loading operations. Any extended situation of poor or no dispatch, whilst the off-taker is still paying capacity charges, may have an adverse impact on the off-taker's commitment to respect the PPA.	• Maintain short term or spot gas supply contracts in place ensuring on-time gas deliverability so that any calls for electricity dispatch are fully met by Paguthan. • Work with the Union Government to ensure that supplies under domestic gas allocation improve. • Continue stakeholder engagement with the relevant Government departments to make sure CLP receives the required allocation beyond 2014 when contracts come up for renewal. • Pursue short to medium term gas supply contracts from private suppliers and offer capacity on that basis to mitigate the impact of high tariff to off-taker. • Keep a watch on the market to deal with the prospect of sourcing gas under term contracts and selling electricity on a merchant basis, in the unlikely event of an adverse position arising out of PPA termination.
Gas supply shortage for HK impacting generation and emission compliance	Government approval of the agreement for gas supplies by PetroChina through the West-East Gas Pipeline II (WEPII) is a positive step. This is one of the three gas sources to be developed under the inter-governmental MOU of 2008. Additional requirements for 2015 and 2016 are relatively modest and can be met incrementally by PetroChina supply (and/or additional nuclear). To meet growing demand and declining Yacheng production, we will consider maintaining two pipeline sources if possible, with new supply secured through the existing Yacheng pipeline.	• Ensure timely arrival of the WEPII gas. • Ensure reliable fuel switching capabilities. • Emphasise supply security in development of medium and long term gas strategy. • Secure ability to bring in alternative gas through the HK Branch Line (e.g. PetroChina's Shenzhen LNG Terminal) and existing Yacheng pipeline.

Liquidity Impact on Executing Business Strategy

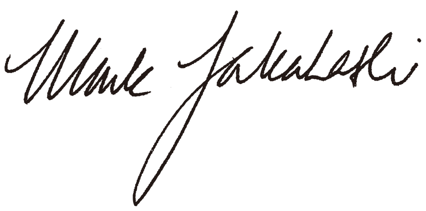
CLP's firepower faces more constraints after the substantial investments of recent years. EA operates in a highly competitive market. A downgrade of EA's BBB credit rating with Standard & Poors' is a risk because of the additional credit support that would be required from the business as a result of the downgrade.

Risk Identification	Risk Assessment	Key Risk Mitigations
Liquidity constraints impacting ability to execute business strategy	CLP continues to face funding requirements which have been eased by the 5% share placement in December 2012. Overhanging event risks (e.g. U.S. fiscal limit, European sovereign debt, geo-political tensions) may disrupt financial markets and cause liquidity drain and/or cost spikes.	• Maintain strong investment grade credit ratings. • Early solicitation of adequate and cost-effective funding in advance of use. • CLP Power Hong Kong will continue debt funding diversification (sources, investor base, tenor and currency) to avoid concentration risk. • Reviewing funding options including slowdown in expansion, sell-down of selective assets, raising hybrid capital or equity at local levels.
Potential downgrade of EA's credit rating	A downgrade(s) of EA's credit rating would negatively impact the business as: • Significant credit support may be required for external parties. • Funding is likely to be more difficult to acquire and more costly. Diminished support from CLP would cause a reduction in EA's credit rating.	• Revisit EA's capital structure. • Ongoing monitoring and reporting of debt profile (interest coverage, gearing, liquidity) to various risk committees on a monthly basis. • Ongoing communication with credit rating agencies. • Ensure that long term funding is available to provide liquidity in the event of a downgrade. • Revisit discretionary operating and capital spending.

Outlook and Major Initiatives for 2013

- Enhance our risk management framework and assist business units in roll-out and implementation of their own frameworks.
- Conduct post-investment reviews for projects entering commercial operations to enhance investment governance.
- CLP Power Hong Kong will apply ISO 22301 standard to its business continuity planning.
- CLP India will migrate to the online risk management platform from a spreadsheet-based risk register and plans to automate its statutory compliance tracking and reporting process.
- EnergyAustralia will further optimise its various supporting frameworks and processes including investment governance, insurance strategy, and energy and credit risk management.

An increasingly challenging business environment and a diversified business which is subject to a wide range of current and emerging risks will demand continuous and effective risk management governance and processes.



Mark Takahashi
Group Director & Chief Financial Officer
Hong Kong, 25 February 2013

Audit Committee Report

The Audit Committee is appointed by CLP Holdings' Board of Directors and has five 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. Mrs. Fanny Law has extensive experience in public administration and Ms. Irene Lee has wide experience in investment banking and financial services.

The Board has given the Committee written terms of reference prepared by reference to the HKICPA's "Guide for Effective Audit Committees", and updated by reference to the Hong Kong Stock Exchange's revised Appendix 14 to the Listing Rules "Corporate Governance Code and Corporate Governance Report". Its terms of reference are set out in the CLP Code on Corporate Governance (CLP Code) and on CLP's and the Exchange's websites. The Committee meets regularly, at least five 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 on the Committee's activities. The Committee's primary responsibilities 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;
- satisfy itself that good accounting, audit and compliance principles, internal controls and ethical practices are applied on a consistent basis throughout the CLP Group; and
- perform the corporate governance duties described further in this Report and fulfill the functions conferred on the Committee pursuant to the CLP Code.

Summary of Work Done

Between 1 January 2012 and the date of this Report (the "Relevant Period"), 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 2012, 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 2012. Individual attendance of members at the five meetings held in 2012 is set out in the Corporate Governance Report on page 99. The work performed by the Committee in 2012 included reviews of:

- the 2011 Annual Report including the Corporate Governance Report, the Directors' Report and Financial Statements for the year ended 31 December 2011 and the annual results announcement, with a recommendation to the Board for approval;
- the 2012 Interim Report including the CLP Group Interim Financial Statements for the six months ended 30 June 2012 and the interim results announcement, with a recommendation to the Board for approval;
- 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 31 Contingent Liabilities to 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 2011*;
- the audit fees payable to the external auditor for the year ended 31 December 2011 for approval by the Board, with a recommendation for their reappointment for 2012, subject to approval by shareholders* (given on 8 May 2012);
- the audit strategy submitted by the external auditor, PricewaterhouseCoopers (PwC) for the year ended 31 December 2012;
- the proposed engagement of the external auditor in respect of audit-related and permissible non-audit services*;
- 30 reports on the CLP Group's affairs submitted by Group Internal Audit during 2011. Of these, two carried an unsatisfactory audit opinion. The issues arising from these audits have been, or are being, addressed;
- the staffing and resources of the Group's Internal Audit department and the Group internal audit review of 2011 and audit plan for 2012, with areas of emphasis identified;
- internal control review approach for 2012;

- the use of insurance as a risk management tool;
- cyber security;
- Audit Protocol between CLP Holdings and EnergyAustralia;
- status of EnergyAustralia's customer management systems;
- independent assurance of non-financial data;
- General Representation Letter process; and
- CLP Group Quarterly Risk Management Report.*

On 18 February 2013, the Audit Committee reviewed this Annual Report, including the Corporate Governance Report, the Directors' Report and Financial Statements for the year ended 31 December 2012 and the annual results announcement with a recommendation to the Board for approval. The Committee was advised that one out of 28 reports on the Group's affairs submitted by Group Internal Audit during the Relevant Period carried an unsatisfactory audit opinion, and that the issues arising from this are being addressed. The Committee reviewed the follow-up actions arising from Board Evaluation Report 2012, changes in accounting policies arising from revised financial reporting standards, the internal audit review for 2012 and audit plan for 2013, 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. The Committee's other work at that meeting included that marked "*" in the above list and in the Corporate Governance section below, save that in each case the work related to the year ended 31 December 2012.

Financial Statements – Judgmental Issues

The Audit Committee paid particular regard to judgmental issues in respect of the Company's Financial Statements for the years ended 31 December 2011 and 2012 and for the six months ended 30 June 2012. Amongst other inputs, the management reports to the Committee and the audit reports submitted by external auditor summarised matters of the CLP Group for the years ended 31 December 2011 and 2012 and for the six months ended 30 June 2012, such as in respect of auditing and accounting matters, taxation issues and internal controls, together with the manner in which they had been addressed.

During the Relevant Period the major judgmental issues included, by way of example, the accounting treatment of the flooding at Yallourn and changes in the tax consolidation rules in Australia, as well as the deferred taxation in India and the impairment review of Jhajjar Power Station. In August 2012 members of the Committee visited Australia and reviewed at

Mrs. Fanny Law and Mr. Nicholas Allen of the Committee inspecting rocks in coal supplied to Jhajjar, which has affected plant operations first-hand the situation at Yallourn. For the purposes of their review of the Financial Statements ended 31 December 2012 the Audit Committee visited India at the end of January 2013 and met local management and local external auditors to consider judgmental issues regarding the accounting treatment of the Company's investments and activities in India.

Internal Control

Based on the information received from management, external auditor and Group Internal Audit, the Committee believes that overall financial and operating controls for the Group during 2012 continue to be effective and adequate. Issues which have been raised by external or internal auditors during 2012 have been, or are being, satisfactorily addressed by management. Further information about control standards, checks and balances and control processes is set out in the Corporate Governance Report on pages 106 to 108. 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.

Corporate Governance

The terms of reference of the Audit Committee were expanded in February 2012 to ensure that these covered all of the corporate governance functions set out in the Hong Kong Stock Exchange's revised Corporate Governance Code and which may be delegated by the Board to the Audit Committee. In addition to its existing role in corporate governance, the Committee reviews:

- existing policies and practices and monitoring their effectiveness (such as the Shareholders' Communication Policy, Code of Conduct, Whistleblowing Policy and Policy and Guidelines on Gifts and Entertainment);
- the adequacy of training programmes and the budget of the accounting and financial reporting functions; and
- new policies and practices on corporate governance matters and making recommendations to the Board.

With respect to corporate governance, the work undertaken by the Committee during the Relevant Period included the matters previously mentioned and the review of:

- compliance by the Company with the Stock Exchange Code throughout the year ended 31 December 2011 and throughout the six months ended 30 June 2012. CLP complies with all the Code Provisions, with one deviation from Recommended Best Practices, which is explained on page 95 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 2011. No breaches were identified*;
- the alignment of the Code of Conduct across the CLP Group, as well as the findings of ethics and controls surveys 2011;
- Code of Conduct issues identified in 2012. None of the 14 breaches of the Code involved senior managers or was material to the Group's financial statements or overall operations; and
- management development, succession planning and training for key finance, accounting and internal audit positions.

External Auditor

PwC were reappointed independent auditor of the Company at the 2012 AGM. PwC audit all companies in the CLP Group which require statutory audit opinions. Details of fees paid to PwC for their audit and permissible non-audit services are set out in the Corporate Governance Report on page 105. Having reviewed PwC's performance during 2012 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 auditor at the forthcoming AGM. A resolution to that effect has been included in the Notice of AGM.

Vernon Moore
Chairman, Audit Committee
Hong Kong, 25 February 2013

Sustainability Committee Report

The Sustainability Committee is appointed by the Board to oversee CLP's position and practices on sustainability issues, principally in relation to social, environmental and ethical matters that affect shareholders and other key stakeholders. The Committee is chaired by Mr. Andrew Brandler and comprises Mr. Nicholas C. Allen, Mr. Peter W. Greenwood, Mrs. Fanny Law, Dr. Jeanne Ng and Professor Judy Tsui.

Summary of Work Done

Between 1 January 2012 and 25 February 2013 (the date of this Report), the Committee reviewed:

- CLP's Sustainability Framework and its implementation in 2012;
- the deployment and progress of CLP's Responsible Procurement Policy Statement;
- the 2011 and 2012 CLP Group online Sustainability Reports and feedback received from stakeholders on the 2011 Report;
- PricewaterhouseCoopers' Report on the assurance process review of selected data in the 2011 Sustainability Report;
- CLP's sustainability and disclosure performance in various external environmental, social and governance (ESG) assessments and surveys;
- the follow-up actions arising from the Board Evaluation Report 2012;
- 2011 and 2012 Group's community investment activities and future plans; and
- CLP's participation and role in international engagements (with a summary of the implications of the RIO+20 Conference).

CLP's Sustainability Framework

The Sustainability Framework, which was introduced in 2012, provides the structure for the Committee's work. The Framework includes 15 sustainability goals. The establishment and achievement of these goals rest on an approach whereby:

- each business sets its own targets as a contribution to the Group's sustainability goals, as part of its business planning process;
- each target should make an efficient, positive contribution to business value – this aspect of CLP's activities is treated as part of everyday business operations and, as with everything we do, should increase the value of the business to its shareholders;
- the initial targets will become more demanding over time;
- performance against the targets will be assessed during the annual business planning process at both business unit and Group level and incorporated into the overall annual CLP Group performance assessment process; and
- internal and external reporting are aligned with the Sustainability Framework.

In that last respect, the Committee noted the introduction of the ESG Reporting Guide by the Hong Kong Stock Exchange (HKEx), as Appendix 27 to the Listing Rules, with effect from 1 January 2013. This ESG Reporting Guide sets out ESG subject areas, aspects, general disclosure and key performance indicators (KPIs) which issuers are encouraged to disclose in their Annual Reports or as a separate report. The Guide is organised around four ESG subject areas: work place quality, environmental protection, operating practices and community involvement. These do not precisely correspond to the four critical areas of our own Sustainability Framework, namely: people, business performance, energy supply and environment.

The overall scope of CLP's Sustainability Framework, which predates the introduction of the ESG Reporting Guide, is wider than that of the Guide. In addition, the Sustainability Framework was constructed around those areas, objectives and goals which we considered most relevant to our business. For that reason, we have not adopted the ESG Reporting Guide in the precise terms of Appendix 27 to the Listing Rules. The Appendix to our Sustainability Report sets out in detail the manner in which CLP has met, and in many respects exceeded, the terms of the ESG Reporting Guide. There are a few matters where the subject areas, aspects, general disclosure and KPIs in Appendix 27 go beyond our Sustainability Framework and the scope of reporting in this Annual Report and Sustainability Report. Where this is the case we have explained the differences, and the reasons, in the Appendix to our Substainability Report. The Five-year Summary of statistics on the Group's environmental and social performance on pages 226 and 227 of this Report includes cross-references to the HKEx's KPIs.

Online Sustainability Report

The following table summarises CLP's sustainability goals, key aspects of delivery against these goals in 2012 and the manner in which this relates to KPIs suggested by the HKEx.

Critical Area – Objective	Goals	2012 Highlights	Relevant KPIs
People – meet the evolving expectations of our stakeholders	• Zero injuries • Support a healthy workforce • Develop committed and motivated employees • Meet customer expectations • Earn and maintain community acceptance • Operate our business ethically	• No employee fatalities with overall improved safety performance • Continued strong employee engagement and customer service excellence • Comprehensive portfolio of community programmes • Higher number of breaches of Code of Conduct vs. 2011. None involved senior managers or was material to the Group's financial statements or overall operations	• Working Conditions • Health & Safety • Labour Standards • Supply Chain Management • Product Responsibility • Anti-Corruption • Community Investment
Business Performance – continually increase business value	• Create long-term shareholders return • Adapt proactively to a changing business environment • Enhance individual and organisational capability	• Consistent increases in ordinary dividends linked to the underlying earnings performance of the business • Comprehensive risk management processes in place with strong credit ratings maintained • Focus on staff development and succession planning	• Working Conditions • Development and Training
Energy Supply – deliver world-class products and services	• Supply energy reliably • Be operationally efficient • Adopt emerging technology in a timely manner	• Continued high levels of reliability and service • Prudent monitoring, assessment, piloting and adoption of various emerging technologies	• Environment & Natural Resources
Environment – minimise environmental impacts	• Move towards zero emissions • Move towards a more sustainable rate of resource use • Move towards no net loss of biodiversity	• Carbon intensity performance on-track • Renewable energy and non-carbon emitting capacity targets met • Development of Group Biodiversity Policy underway	• Emissions • Use of Resources • Environment & Natural Resources

The Sustainability Committee will continue to review its role in offering effective support to the Board and oversight to Management in the development, implementation, measurement and reporting of the Sustainability Framework and the Group's performance on social, environmental and ethical matters as a whole.

Andrew Brandler

Andrew Brandler
Chairman, Sustainability Committee
Hong Kong, 25 February 2013

Human Resources & Remuneration Committee Report

1. Introduction

On behalf of the Board, the Human Resources & Remuneration Committee (HR&RC) 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 HR&RC Report has been reviewed and endorsed by the Committee.

The contents of sections 6, 7, 8 and 10, in the highlighted boxes below, comprise the "auditable" part of the HR&RC Report and have been audited by the Company's Auditor.

2. Membership

A majority of the members of the HR&RC are Independent Non-executive Directors. In line with good practice, there are no Executive Directors on the Committee. Mr. Vincent Cheng, an Independent Non-executive Director, is the Chairman of the Committee. Other members of the Committee include Mr. William Mocatta, Mr. V. F. Moore, Sir Rod Eddington and Mr. Nicholas C. Allen.

3. Responsibilities and Work Done

The HR&RC considers major human resources and pay issues, including the approval of this HR&RC Report. Between 1 January 2012 and 25 February 2013 (the date of this Report), the Committee approved the 2011 and 2012 HR&RC Reports, and reviewed:

- the Group performance for 2011 and 2012 and Group targets for 2012 and 2013;
- EnergyAustralia's performance review for 2011;
- CLP India's performance review for 2012;
- base pay review for 2012 and 2013 for Hong Kong payroll staff, CLP India and China and 2012 for EnergyAustralia;
- the Senior Executive Remuneration, including annual incentive payments for 2011 and 2012 and annual pay review for 2012 and 2013;
- CEO's remuneration;
- Executive Remuneration Policy for EnergyAustralia for 2012;
- Remuneration of Managing Director – EnergyAustralia for 2012;
- Remuneration governance for directors and senior executives in EnergyAustralia;
- Non-executive Directors' fees;
- management development and succession planning;
- training and continuous professional development of Senior Management; and
- the follow-up actions arising from the Board Evaluation Report 2012.

4. Remuneration 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.

5. 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.

In considering the level of remuneration payable to Non-executive Directors, we have referred to the:

- Report of the Committee on the Financial Aspects of Corporate Governance of December 1992 (The Cadbury Report);
- "Review of the Role and Effectiveness of Non-executive Directors" (The Higgs Report) of January 2003; and
- Hong Kong Stock Exchange's Corporate Governance Code and associated Listing Rules.

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 2013 (the 2013 Review). The methodology adopted in the 2013 Review is the same as that used in the previous reviews and as explained to shareholders in the CLP Code. The methodology is aligned with the recommendations of the Higgs Report and includes:

- the application of an hourly rate of HK$4,500 as an average of the partner rates charged by legal, accounting and consulting firms in providing professional services to CLP. This hourly rate of HK$4,500 has remained unchanged since the last review in 2010;
- 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 J.S. Gale & Co, solicitors. Further to CLP's commitment to the adoption of a transparent methodology for determining Non-executive Directors' remuneration, the 2013 Review and the opinion of J.S. Gale & Co on that Review are placed on CLP's website. Compared to the current fees, the increase in fees which is recommended as a result of the 2013 Review is solely attributable to a recorded increase in the time spent by Non-executive Directors, in performing their roles on the Board and Board Committees.

The fee review takes place every three years and the methodology takes into account past and present data, rather than any forward-looking projections. For these reasons, on previous occasions the full amount of the adjustment to annual fees has taken effect upon shareholder approval at the following Annual General Meeting. Whilst maintaining the same methodology, the Board recommends that, instead of taking effect in one go, the adjustment in fees should be partially deferred by being spread out over the next three years.

In line with our policy that no individual should determine his or her own remuneration, the levels of fees set out in the table on page 126 were proposed by Management, reviewed by J.S. Gale & Co and will be put for approval by our shareholders at the Annual General Meeting on 30 April 2013. 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 Corporate Governance Code.

Proposed Fees for Non-executive Directors

	Proposed Fees per annum (w.e.f. 1 May 2015) HK$	Proposed Fees per annum (w.e.f. 1 May 2014) HK$	Proposed Fees per annum (w.e.f. 1 May 2013) HK$	Current Fees per annum HK$
Board				
Chairman	666,900	629,200	593,600	560,000
Vice Chairman	524,000	494,300	466,400	440,000
Non-executive Director	476,400	449,400	424,000	400,000
Audit Committee				
Chairman	463,800	407,700	358,300	315,000
Member	334,700	293,200	256,800	225,000
Finance & General Committee				
Chairman	397,500	394,900	392,400	390,000
Member	287,400	284,900	282,400	280,000
Human Resources & Remuneration Committee				
Chairman	85,300	68,900	55,700	45,000
Member	58,800	49,400	41,600	35,000
Sustainability Committee				
Chairman	106,100	94,500	84,200	75,000
Member	78,400	69,600	61,900	55,000
Nomination Committee*				
Chairman	14,000	14,000	14,000	14,000
Member	10,000	10,000	10,000	10,000
Provident & Retirement Fund Committee*				
Chairman	14,000	14,000	14,000	14,000
Member	10,000	10,000	10,000	10,000

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

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

The increase in the proposed fees compared to those paid between 2010 and 2013 is in line with a recorded and noticeable increase in the workload shouldered by our Non-executive Directors (reflecting the growth in CLP's business and increased regulatory requirements). The methodology applied in determining those fees is unchanged from that used in previous reviews and publicly disclosed. We have also applied the methodology in a conservative manner.

In particular, we have neither assumed nor taken into account:

- any increase in Directors' workload over the coming years to 2016 (despite the rising trend of past years);
- any increase in the hourly rates of professional advisors in the coming years; and
- in benchmarking our own Directors' fees against other companies, any ongoing increase in directors' fees paid by those companies.

6. Non-executive Directors – Remuneration in 2012

The fees paid to each of our Non-executive Directors in 2012 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 reflects the full year service of some of the Independent Non-executive Directors who were appointed in 2011.

Higher levels of fees were paid to Chairmen of the Board and Board Committees and the Vice Chairman of the Board 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	HR&RC	Provident & Retirement Fund Committee	Sustainability Committee	Total 2012	Total 2011
Non-executive Directors									
The Hon. Sir Michael Kadoorie	560,000(C)	–	14,000(C)	–	–	–	–	574,000	574,000
Mr. William Mocatta(1)	440,000(VC)	–	–	390,000(C)	36,475	14,000(C)	–	880,475	889,000
Mr. R. J. McAulay	400,000	–	–	–	–	–	–	400,000	400,000
Mr. J. A. H. Leigh	400,000	–	–	–	–	–	–	400,000	400,000
Mr. I. D. Boyce	400,000	–	–	280,000	–	–	–	680,000	680,000
Dr. Y. B. Lee	400,000	–	–	–	–	–	–	400,000	400,000
Mr. Paul A. Theys	400,000	–	–	–	–	–	–	400,000	400,000
Mr. Peter P. W. Tse(2)	251,366	–	–	–	–	–	–	251,366	–
Independent Non-executive Directors									
Mr. V. F. Moore	400,000	315,000(C)	–	280,000	35,000	–	–	1,030,000	1,030,000
Professor Judy Tsui	400,000	225,000	–	–	–	–	55,000	680,000	680,000
Sir Rod Eddington	400,000	–	–	280,000	35,000	–	–	715,000	715,000
Mr. Nicholas C. Allen	400,000	225,000	10,000	280,000	35,000	–	55,000	1,005,000	1,001,384
Mr. Vincent Cheng(3)	400,000	–	7,486	280,000	43,525(C)	–	–	731,011	255,425
Mrs. Fanny Law(4)	287,432	161,680	–	–	–	–	39,522	488,634	243,726
Ms. Irene Lee(5)	85,246	47,951	–	59,672	–	–	–	192,869	–
Mr. Hansen C. H. Loh(6)	140,984	56,557	2,514	–	–	–	–	200,055	635,000
The Hon. Sir S. Y. Chung(7)	–	–	–	–	–	–	–	–	148,274
							Total	9,028,410	8,451,809

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 2011, he received HK$303,000 as fees for his service on the boards of these companies.

(2) Mr. Peter P. W. Tse retired as an Executive Director and was re-designated as a Non-executive Director with effect from 16 May 2012. During the year, Mr. Tse has also received HK$550,400 for providing consultancy services on property matters under a contract with CLP Properties Limited. The contract terms have been disclosed in the announcement on 16 May 2012 when Mr. Tse was re-designated as a Non-executive Director.

(3) Mr. Vincent Cheng, an Independent Non-executive Director, was appointed the Chairman of the Human Resources & Remuneration Committee in place of Mr. William Mocatta with effect from 24 February 2012. Mr. Cheng was also appointed a member of the Nomination Committee with effect from 2 April 2012.

(4) Mrs. Fanny Law resigned as an Independent Non-executive Director and a member of the Audit Committee and the Sustainability Committee with effect from 20 April 2012. She was re-appointed as an Independent Non-executive Director and a member of the Audit Committee and the Sustainability Committee with effect from 1 August 2012.

(5) Ms. Irene Lee was appointed an Independent Non-executive Director and a member of the Audit Committee and the Finance & General Committee on 15 October 2012.

(6) Mr. Hansen C. H. Loh retired as a Director after the conclusion of the 2012 AGM held on 8 May 2012. He also resigned as a member of the Audit Committee and Nomination Committee with effect from 2 April 2012.

(7) The fee paid to The Hon. Sir S. Y. Chung (a former Director) is included in the table, solely for the purpose of comparing the total fees paid to Non-executive Directors in 2011 with those in 2012.

7. Executive Directors – Remuneration in 2012

The remuneration paid to the Executive Directors of the Company in 2012 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
2012					
CEO					
(Mr. Andrew Brandler)	7.5	7.1	2.8	0.9	18.3
Group Executive Director (Mr. Peter P. W. Tse) (Note B)	2.0	3.6	8.9	0.2	14.7
Group Executive Director – Strategy (Mr. Peter W. Greenwood)	5.6	5.2	–	0.7	11.5
	15.1	15.9	11.7	1.8	44.5
2011					
CEO	7.2	7.0	5.1*	0.8	20.1
Group Executive Director	4.8	4.4	1.7	0.6	11.5
Group Executive Director – Strategy	5.3	5.2	–	0.7	11.2
	17.3	16.6	6.8	2.1	42.8

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 2012 was reviewed and approved by the HR&RC after 31 December 2012. 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 2012 for the last year in excess of the previous accruals made.

(b) The long-term incentive is the incentive for 2009, paid in 2012 when the vesting conditions had been satisfied (the comparative figures are the incentive for 2008 paid in 2011). About 31% of the amount of 2009 long-term incentive payments results from the appreciation of CLP Holdings' share price between 2009 and 2011, with dividends reinvested.

(c) Payment of the annual incentive and granting of the long-term incentive awards relating to 2012 performance will be made in March 2013. These payments and awards are subject to the prior approval of the HR&RC. Details of these will be published on the CLP Group website at the time that the 2012 Annual Report is published.

Note B:

Mr. Peter P. W. Tse retired as an Executive Director and was re-designated as a Non-executive Director with effect from 16 May 2012. The annual incentive of HK$3.6 million for the years 2011 and 2012 was paid to him this year. The long-term incentive of HK$8.9 million for the years 2009, 2010, 2011 and 2012 was paid to him this year. The annual incentive and long-term incentive for the year 2012 were made on a pro rata basis.

* This figure includes an additional discretionary 2008 long-term incentive of HK$2 million paid to Mr. Andrew Brandler in January 2011.

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.

8. Total Directors' Remuneration in 2012

The total remuneration of Non-executive and Executive Directors in 2012 was:

	2012 HK$M	2011 HK$M
Fees	9	8
Base compensation, allowances and benefits in kind	15	17
Performance bonus *		
– Annual incentive	16	17
– Long-term incentive	12	7
Provident fund contributions	2	2
	54	51

* Refer to Note A on performance bonus on page 128.

Of the total remuneration paid to Directors, HK$7 million (2011: HK$6 million) has been charged to the SoC operation.

9. Senior Management – Principles of Remuneration

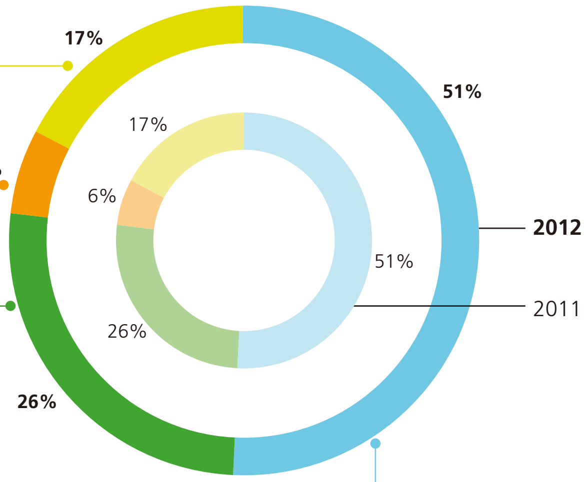
For the purposes of this Section, Senior Management means the managers whose details are set out on page 92. In determining the remuneration of members of Senior Management, the remuneration data of comparable positions in the market, including local and regional companies of comparable size, complexity 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 (with the exception of Richard McIndoe) including the levels of performance bonus, are subject to the approval of the HR&RC. No members of Senior Management serve on the Committee.

Target total remuneration for Executive Directors / Senior Management is determined in relation to the relevant market and internal relativities. A significant proportion of actual total remuneration is performance related, in the form of the annual and long-term incentive schemes. In determining the amount of performance related pay, members of the HR&RC take a broad and balanced view of Group performance in the relevant year. This means that the Committee considers all aspects of our performance including financial, operational, safety, environmental, governance and compliance related. Targets under these headings include making reference to our Group sustainability targets when assessing performance. Both qualitative and quantitative evidence is used to assess performance. However the decision of the committee is based on a balanced overall judgment rather than a mathematical calculation. We have determined not to create a formulaic link between any metrics and performance related pay. In our opinion such an approach fails to capture the complexity of the management task, and also risks encouraging dysfunctional behaviour, as was observed in the banking and financial sector during the global financial crisis.

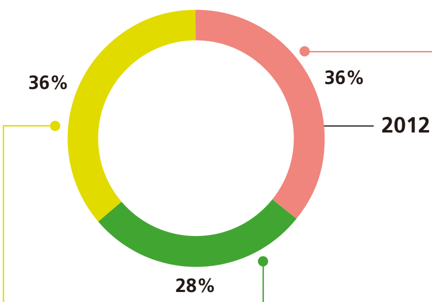
The four components of remuneration of members of Senior Management are explained in the diagram on the following pages, including the proportion of target total remuneration which each component represented in both 2011 and 2012.

In the case of Mr. McIndoe, his employment was transferred from CLP Holdings (as Group Director – Managing Director Australia) to EnergyAustralia (as Managing Director – EnergyAustralia) and he was employed on a local EnergyAustralia contract effective 1 April 2012. His annual incentive and long-term incentive under EnergyAustralia local plans were backdated to 1 January 2012. Mr. McIndoe's remuneration package was aligned with the Australian market and was approved by the HR&RC of CLP Holdings in February 2012. Any subsequent remuneration package changes for Mr. McIndoe will be reviewed by the EnergyAustralia Nomination & Remuneration Committee and approved by the Board of EnergyAustralia.

Senior Management's Remuneration*



Mr. McIndoe's Remuneration**



Base Compensation

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

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 member of Senior Management is assigned a "target" annual incentive of 50% of Base Compensation, which accounted for 26% of his / her total remuneration in 2012. 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 (although this cap may be exceeded in exceptional cases where a discretionary additional annual incentive is awarded by the Committee), with the actual amount being determined by organisational and individual performance.

A payout was made in 2012, based on an assessment of the 2011 performance of the Group and the individuals concerned. The average payout to this group in 2012 was 94% above the target level based on the above target achievement of financial goals, operational and other performance targets and individual objectives for 2011.

Pension Arrangement

The members of 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 6% of his / her target total remuneration in 2012.

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.

Each of the Senior Management members is assigned a "target" LTI of 33.3% of Base Compensation, which accounts for 17% of his / her total remuneration in 2012.

Fixed Annual Remuneration (FAR)

FAR includes base salary and employer contribution to the Australian statutory superannuation scheme. It is reviewed annually taking into consideration the competitive market position, compared to ASX 100 companies, market practice and individual performance.

Annual Incentive

Mr. McIndoe was assigned a "target" annual incentive of 75% of FAR, which accounted for 28% of his total remuneration in 2012. The annual incentive payout depends upon the performance of EnergyAustralia. Key measures include achievement of financial and non-financial goals and the sustainability of value creation.

The target level of performance is set to be stretching. Unless a minimum level of performance against objectives is achieved, no annual incentive will be paid. The amount of annual incentive is capped at twice the "target" annual incentive i.e. 150% of FAR.

Long-Term Incentive

For 2012, Mr. McIndoe was assigned an LTI Award of 100% of FAR. The final 2012 LTI award value to be paid will be decided by the EnergyAustralia Board, depending on the achievement of the LTI Performance Conditions.

The following diagram illustrates the composition of the LTI award for Senior Management other than Richard McIndoe:

Target LTI award set at the beginning of 2012

×

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 75% 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 25% is allocated to a notional cash deposit

Payment of LTI award will be made in 2015

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-year vesting period.

* Two individuals have different arrangements affecting the proportion of target total remuneration which each component represented in 2011 and 2012:

(a) Mr. Peter Greenwood (Group Executive Director – Strategy) did not participate in the LTI before 2010. Due to the increases in target LTI for Senior Executives in 2010 and 2011, his remuneration package was restructured to include an element of LTI with effect from 2010 to ensure that he received the same percentage increase in target total remuneration as other Senior Executives. The proportions of his 2011 & 2012 target total remuneration are Base Compensation (56%), Annual Incentive (28%), Pension (7%) and Long-term Incentive (9%).

(b) Mrs. Betty Yuen was appointed as Vice Chairman – CLP Power Hong Kong on 4 January 2010. This role involved a change in responsibility from her previous role as Group Director – Managing Director Hong Kong and is also part time. To reflect this Mrs. Yuen's total remuneration package was revised on 1 January 2010 so that she no longer participated in the LTI. The proportions of her 2011 & 2012 target total remuneration are Base Compensation (61%), Annual Incentive (31%) and Pension (8%).

** In 2011 the components of Mr. McIndoe's remuneration were the same as for the other members of Senior Management.

10. Senior Management – Remuneration in 2012

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
2012							
Group Director & Chief Financial Officer (Mr. Mark Takahashi)	4.6	4.2	1.5	0.6	–	–	10.9
Vice Chairman – CLP Power Hong Kong (Mrs. Betty Yuen)	3.3	3.9[(a)]	2.2	0.4	–	–	9.8[#]
Group Director – Managing Director Hong Kong (Mr. Richard Lancaster)	4.7	4.1	1.0	0.6	–	–	10.4[##]
Managing Director – EnergyAustralia (Mr. Richard McIndoe)	9.3	10.1	2.1	0.3	–	5.6[(b)]	27.4
Group Director – Operations (Mr. Peter Littlewood)	3.9	3.7	1.1	0.5	–	–	9.2
Managing Director – India (Mr. Rajiv Mishra)	3.3	2.9	0.7	0.4	–	–	7.3
	29.1	28.9	8.6	2.8	–	5.6	75.0
2011							
Group Director & Chief Financial Officer	4.4	4.2	1.4	0.5	–	–	10.5
Vice Chairman – CLP Power Hong Kong	3.1	3.9[(a)]	4.2[(c)]	0.4	–	–	11.6[#]
Group Director – Managing Director Hong Kong	4.4	4.2	0.8	0.6	–	–	10.0[##]
Group Director – Managing Director Australia (Mr. Richard McIndoe)	5.6	5.0	2.1	0.6	–	8.5[(b)]	21.8
Group Director – Operations	3.7	3.6	1.2	0.5	–	–	9.0
Managing Director – India	3.3	3.1	2.0[(c)]	0.4	–	–	8.8
Managing Director – China (Dr. Ko Yu Ming)[(d)]	2.1	2.9	5.3	0.3	7.4	–	18.0
Managing Director – Southeast Asia (Mr. Mark Jobling)[(d)]	1.6	2.9	5.3	0.2	10.0	–	20.0
Director – Group Corporate Finance and Development (Mr. Stefan Robertsson)[(d)]	2.1	2.3	1.0	0.2	–	–	5.6
	30.3	32.1	23.3	3.7	17.4	8.5	115.3

Notes:

(a) These figures include additional discretionary annual incentives of HK$1 million paid to Mrs. Betty Yuen in each year of 2011 and 2012.

(b) Payment for tax equalisation, housing allowance and children's education allowances, if any, for secondment to Australia. For 2012, the figure is for the period from 1 January 2012 to 31 March 2012. Out of this payment, HK$5.2 million (93%) (2011: HK$7.0 million (83%)) was the tax payment to the tax authority of the country where the executive was based during secondment.

(c) These figures include additional discretionary 2008 long-term incentives of HK$2 million and HK$0.8 million paid to Mrs. Betty Yuen and Mr. Rajiv Mishra respectively in 2011.

(d) The remuneration paid to Dr. Y. M. Ko, Mr. Mark Jobling and Mr. Stefan Robertsson were included in the table, solely for the purpose of comparing the total remuneration paid to Senior Management in 2011 with those in 2012.

* Refer to Note A on performance bonus on page 128.

** The final payment is not part of the remuneration arrangement of the Group, but may be payable, on approval by the HR&RC Chairman or CEO where appropriate.

\# HK$1 million (2011: HK$1 million) has been charged to the Non-SoC operation.

\## HK$1 million (2011: HK$1 million) has been charged to the Non-SoC operation.

The five highest paid individuals in the Group included three Directors (2011: one Director), one member of Senior Management (2011: three members) and a senior executive of the Group (2011: a former senior executive of the Group). The total remuneration of the five highest paid individuals in the Group is shown below:

	2012 HK$M	2011 HK$M
Base compensation, allowances and benefits in kind	29	21
Performance bonus *		
– Annual incentive	29	23
– Long-term incentive	14	23
Provident fund contributions	2	2
Final payment ψ	–	30
Other payments @	9	9
	83	108

* Refer to Note A on performance bonus on page 128.
ψ Refer to Note ** above on final payment.
@ Refer to Note (b) above on other payments which also include a lump sum payment to a senior executive upon his joining the Group.

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

	Number of Individuals			Number of Individuals	
	2012	2011		2012	2011
HK$11,000,001 – HK$11,500,000	1	–	HK$11,500,001 – HK$12,000,000	1	–
HK$14,500,001 – HK$15,000,000	1	–	HK$17,500,001 – HK$18,000,000	–	1
HK$18,000,001 – HK$18,500,000	1	–	HK$19,500,001 – HK$20,000,000	–	1
HK$20,000,001 – HK$20,500,000	–	1	HK$21,500,001 – HK$22,000,000	–	1
HK$27,000,001 – HK$27,500,000	1	–	HK$28,000,001 – HK$28,500,000	–	1

11. Continued Scrutiny and Disclosure

The HR&RC 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.

Vincent Cheng
Chairman, Human Resources & Remuneration Committee
Hong Kong, 25 February 2013

Directors' Report

The Directors have pleasure in submitting their Report together with the audited Financial Statements for the year ended 31 December 2012.

Principal Activities

The principal activity of the Company is investment holding and those of its subsidiaries are the generation and supply of electricity. The Company's principal subsidiary companies are listed under Note 12 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, jointly controlled assets and associated companies. Details of the jointly controlled entities and associated companies are provided under Notes 13 and 14 to the Financial Statements.

Earnings and Dividends

	2012 HK$M	2011 HK$M
Total earnings for the year	8,312	9,288
Less: first to third interim dividends of HK$1.59 (2011: HK$1.56) per share paid	(3,825)	(3,753)
Balance after first to third interim dividends	4,487	5,535
The Directors recommend that this balance be dealt with as follows:		
Fourth interim dividend of HK$0.98 (2011: HK$0.96) per share	2,476	2,310
Retained profits for the year	2,011	3,225
	4,487	5,535

This fourth interim dividend will be paid on 21 March 2013.

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 38 to 63 of this Annual Report.

Share Capital

In December 2012, the Company placed 5% of its issued share capital pursuant to the general mandate to issue shares obtained from shareholders at the 2012 AGM. Details of the placing are provided on page 21 of this Annual Report. Details of movements in the share capital of the Company during the year are also set out in Note 26 to the Financial Statements.

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$26,860 million as at 31 December 2012 (2011: HK$27,707 million). Movements in the reserves of the Group and the Company during the year are set out under the consolidated statement of changes in equity and Note 27 to the Financial Statements.

Fixed Assets

Additions to the fixed assets of the Group for the year totalled HK$11,129 million, comprising HK$9,135 million in owned assets (transmission and distribution equipment, land and buildings) and HK$1,994 million in leased assets. In 2011, a total addition of HK$15,675 million was recorded, made up of HK$12,982 million for owned assets and HK$2,693 million for leased assets. Details of movements in the fixed assets of the Group are shown under Note 10 to the Financial Statements.

Bank Loans and Other Borrowings

The total borrowings of the Group as at 31 December 2012 amounted to HK$66,198 million (2011: HK$65,521 million). Particulars of borrowings are set out in Note 21 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 4.2% of the Group's total assets as at 31 December 2012.

Finance Costs Capitalised

Finance costs amounting to HK$384 million (2011: HK$699 million) were capitalised by the Group during the year as set out in Note 5 to the Financial Statements.

Donations

Donations by the Group for charitable and other purposes amounted to HK$4,216,000 (2011: HK$4,331,000).

Five-year Summary

A summary of the results for the year and of the assets and liabilities of the Group as at 31 December 2012 and for the previous four financial years are on pages 224 and 225 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 92 of this Annual Report. Details of their remuneration are set out in the Human Resources & Remuneration Committee 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 58.22% of the Group's total purchases during the year. The five largest suppliers are set out below in descending order:

1. 19.59% from Castle Peak Power Company Limited (CAPCO) of which Mr. James F. Muschalik, Mr. William Mocatta and Mr. Andrew Brandler are directors. CAPCO is 40% owned by CLP Power Hong Kong Limited (CLP Power) and supplies electricity to CLP Power only. CLP Power is a wholly-owned subsidiary of the Company.
2. 14.86% from Ausgrid in which the Group has no interest. EnergyAustralia pays the distribution charges to Ausgrid which owns and operates the electricity distribution network that provides services to customers located in Sydney and the Central Coast and Hunter regions of NSW. EnergyAustralia also pays charges to Ausgrid for certain core services in relation to the operation of EnergyAustralia Retail under the Transition Services Agreement between EnergyAustralia and Ausgrid.
3. 13.60% 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 EnergyAustralia group customers and to whom electricity is sold from EnergyAustralia group generators.
4. 6.70% from Delta Electricity in which the Group has no interest. The Group makes periodic payments to Delta Electricity to cover its costs of operating and maintaining the stations at Mount Piper and Wallerawang, including capital expenditure.
5. 3.47% from Guangdong Nuclear Investment Company, Limited in which the Group has no interest.

As at 31 December 2012, Bermuda Trust Company Limited, Guardian Limited, Harneys 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, New Mikado Holding Inc. (formerly known as Mikado Holding Inc.), Oak CLP Limited, Oak (Unit Trust) Holdings Limited, The Oak Private Trust Company 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, which interests arose from the Company's interests in CAPCO.

Directors

With the exception of Ms. Irene Lee and Mrs. Fanny Law, the Directors of the Company, whose names appear on pages 90 and 91 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 Human Resources & Remuneration Committee Report at page 124 of this Annual Report.

Mr. Hansen C. H. Loh retired as an Independent Non-executive Director of the Company after the conclusion of the 2012 AGM held on 8 May 2012.

Mr. Peter P. W. Tse retired as an Executive Director and was re-designated as a Non-executive Director with effect from 16 May 2012.

Mrs. Fanny Law resigned as an Independent Non-executive Director with effect from 20 April 2012 to take up a full-time appointment as the Head of the Fourth-term Chief Executive-elect's Office of the Hong Kong Special Administrative Region under a short-term employment contract. Upon conclusion of the contract on 1 July 2012, Mrs. Law was re-appointed as an Independent Non-executive Director with effect from 1 August 2012.

Ms. Irene Lee was appointed as an Independent Non-executive Director of the Company with effect from 15 October 2012.

Ms. Irene Lee and Mrs. Fanny Law, both being Independent Non-executive Directors appointed during the year by the Board, retire at the AGM in accordance with Article 109 of the Company's Articles of Association and, being eligible, offer themselves for election by shareholders.

Under the existing Articles of Association of the Company, all the Directors are subject to retirement by rotation and re-election at the AGM. In accordance with Article 103 of the Company's Articles of Association, Mr. Peter P. W. Tse, Mr. Andrew Brandler, Mr. Paul A. Theys, The Hon. Sir Michael Kadoorie and Mr. Nicholas C. Allen retire by rotation. With the exception of Mr. Peter P. W. Tse, all the 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 2012 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 (from 1 January 2012 to 19 January 2012)
Mr. James F. Muschalik, alternate to Mr. Paul A. Theys (appointed with effect from 20 January 2012)

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 2012, 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 2012 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)	459,672,780	18.19441
Mr. William Mocatta	Note (b)	400,000	0.01583
Mr. R. J. McAulay	Note (c)	275,411,649	10.90113
Mr. J. A. H. Leigh	Note (d)	210,914,077	8.34824
Mr. Andrew Brandler (Chief Executive Officer)	Note (e)	10,600	0.00042
Mr. Peter P. W. Tse	Note (f)	20,600	0.00082
Dr. Y. B. Lee	Note (g)	15,806	0.00063
Mr. Peter W. Greenwood	Beneficial owner	600	0.00002
Mrs. Fanny Law	Personal	16,800	0.00066

Notes:

(a) The Hon. Sir Michael Kadoorie was deemed (by virtue of the Securities and Futures Ordinance) to be interested in 459,672,780 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) 236,044,212 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and the founder.

iv) 150,480,670 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and the founder.

v) 3,000,000 shares were ultimately held by two discretionary trusts, both 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 (v) above. The spouse of The Hon. Sir Michael Kadoorie was therefore deemed to be interested in 459,672,780 shares in the Company representing approximately 18.19% 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 459,671,537 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 459,671,537 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 275,411,649 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) 205,251,853 shares were ultimately held by a discretionary trust, of which 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 210,914,077 shares in the Company. These shares were held in the following capacity:

i) 100,000 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) 205,251,853 shares were ultimately held by a discretionary trust. Mr. J. A. H. Leigh was deemed to be interested in such 205,251,853 shares in his capacity as one of the trustees of a trust which was deemed to be interested in such 205,251,853 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, Paul A. Theys, Nicholas C. Allen, Vincent Cheng, Ms. Irene Lee, Professor Judy Tsui and Sir Rod Eddington who are Directors of the Company, and Mr. James F. Muschalik 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 2012. 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 2012.

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 2012.

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 2012, 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.

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 2012:

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	533,798,166	Note (a)	21.13
Guardian Limited	Beneficiary / Interests of controlled corporations	210,814,077	Note (h)	8.34
Harneys Trustees Limited	Interests of controlled corporations	397,160,706	Note (c)	15.72
Lawrencium Holdings Limited	Beneficiary	150,480,670	Note (b)	5.96
Lawrencium Mikado Holdings Limited	Beneficiary	236,044,212	Note (b)	9.34
The Magna Foundation	Beneficiary	236,044,212	Note (b)	9.34
Mikado Investments (PTC) Limited (formerly known as Mikado Investments Limited)	Interest of controlled corporation / Trustee	236,044,212	Note (a)	9.34
The Mikado Private Trust Company Limited	Trustee / Interests of controlled corporations	389,524,882	Note (b)	15.42
New Mikado Holding Inc. (formerly known as Mikado Holding Inc.)	Trustee	236,044,212	Note (a)	9.34
Oak CLP Limited	Beneficiary	205,251,853	Note (d)	8.12
Oak (Unit Trust) Holdings Limited	Trustee	205,251,853	Note (a)	8.12
The Oak Private Trust Company Limited	Trustee / Interests of controlled corporations	219,971,475	Note (d)	8.71
The Hon. Sir Michael Kadoorie	Note (e)	459,672,780	Note (e)	18.19
Mr. R. J. McAulay	Note (f)	275,411,649	Note (f)	10.90
Mr. J. A. H. Leigh	Notes (g) & (h)	210,914,077	Notes (g) & (h)	8.35
Mr. R. Parsons	Trustee	210,814,077	Note (h)	8.34

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, The Oak Private Trust Company 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".

(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 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) The Oak Private Trust Company 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 The Oak Private Trust Company Limited in the shares of the Company include the shares held by a discretionary trust of which Mr. R. J. McAulay is one of the discretionary objects as disclosed in "Interests of Directors and Chief Executive Officer".

(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 210,814,077 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 2012, 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 2012, 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 30 to the Financial Statements. None constitutes a discloseable connected transaction as defined under the Listing Rules.

Corporate Governance

The Company's corporate governance principles and practices are set out in the Corporate Governance Report at page 93 of this Annual Report, whilst our online Sustainability Report describes the Company's actions and initiatives with particular emphasis on the social and environmental aspects of our activities.

Auditor

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

By Order of the Board

William Mocatta
Vice Chairman
Hong Kong, 25 February 2013

Financials

What was an accounting view of our financial performance during 2012 and how we stood at the end of the year?

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 differences arising from the translation of our Australia and India businesses and mark-to-market movements charged to hedging reserve in 2012. 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 2012. 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"

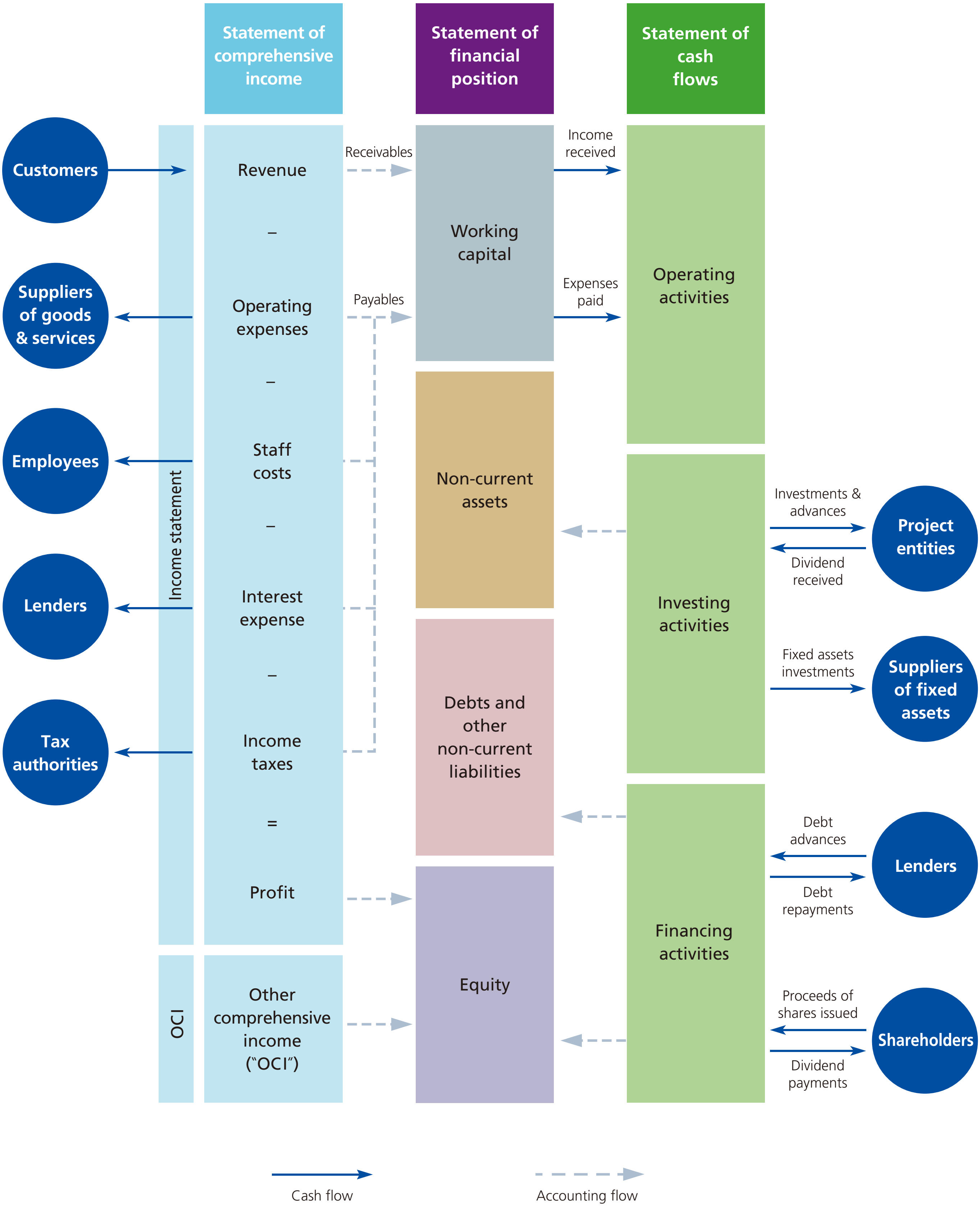
This statement divides the cash flows into operating, investing and financing cash flows. While the operating profit underlies the operating cash flows, certain non-cash charges or credits, such as depreciation, amortisation and fair value changes on derivatives, mean the operating cash flows and the 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 and interest costs and also invests in additional non-current assets. The net balance of revenue, operating expenses, staff and interest costs is the operating profit. After deducting income taxes charged by tax authorities, this profit is available for payment to lenders and for distribution to shareholders (dividends) in return for their contribution of funds to the Group in the form of debt and equity. The Group also makes investments and advances to its project entities and receives dividend income from them in return.

Financial Statements – An Illustration



Accounting Mini-series

Each year in our Annual Report we explain an aspect of our accounts which is of particular importance or relevance to our shareholders. In this year's "Accounting Mini-series", we have chosen to explain the concept of "deferred tax" and to provide some examples of its application throughout the Group.

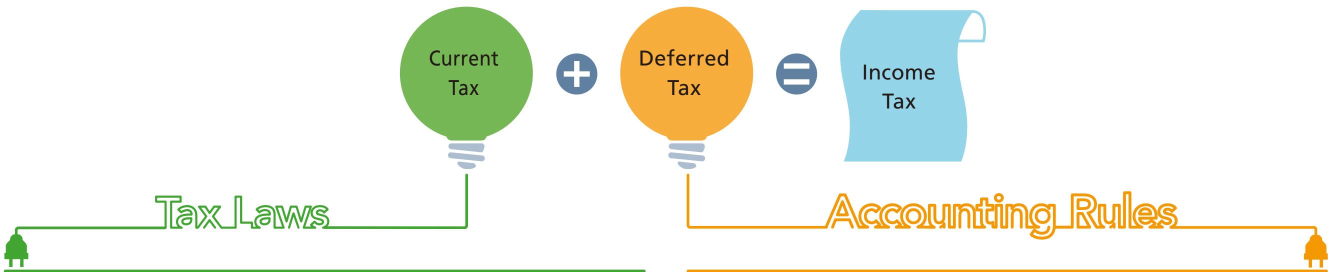
Why Can Tax be Deferred?

Tax laws and accounting rules seldom match with each other. Profits tax is payable or recoverable based on the taxable and deductible amounts assessed by a tax authority according to the prevailing tax laws of respective jurisdictions. However, the recognition of tax expense or credit in our financial statements is governed by accounting standards.

The accounting standard – HKAS 12 "Income Taxes" introduces the concept of "deferred tax" to reconcile this matching of transactions and events with their tax effects. Through the application of this accounting standard, CLP has recognised deferred tax assets of HK$1,025 million and deferred tax liabilities of HK$8,370 million at 2012 year end.

Income Tax

Income tax in the accounting regime comprises both the actual tax levied by a tax authority (i.e. current tax) and future tax consequences (i.e. deferred tax).

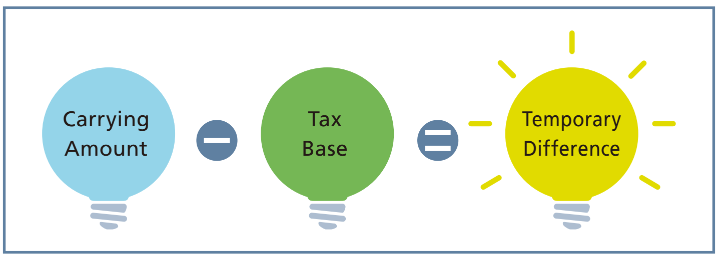


- Tax levied on taxable profit, which equals to accounting profit adjusted for taxable and tax-deductible items
- An unpaid amount is shown as a current tax liability, whereas a recoverable amount is shown as a current tax asset
- Measured at the tax rates and tax laws that have been enacted or substantively enacted

- Reconciles tax consequence from differences between taxable profit and accounting profit
- Reflects the tax consequence of a transaction in the year of its occurrence
- Derived from the temporary difference approach, which also called the balance sheet approach
- Measured at the tax rates that are expected to apply to the period when deferred tax is realised

The "Temporary Difference" Approach

Every asset and liability has a "shadow value" under tax laws for tax computation, which the accounting standard calls its "tax base". For example, the tax base of an asset means the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to an entity when it recovers the carrying amount of the asset. The difference between the carrying amount of an asset or a liability in the financial statements and its tax base is referred to as a "temporary difference". A temporary difference can either be a taxable temporary difference or a deductible temporary difference.

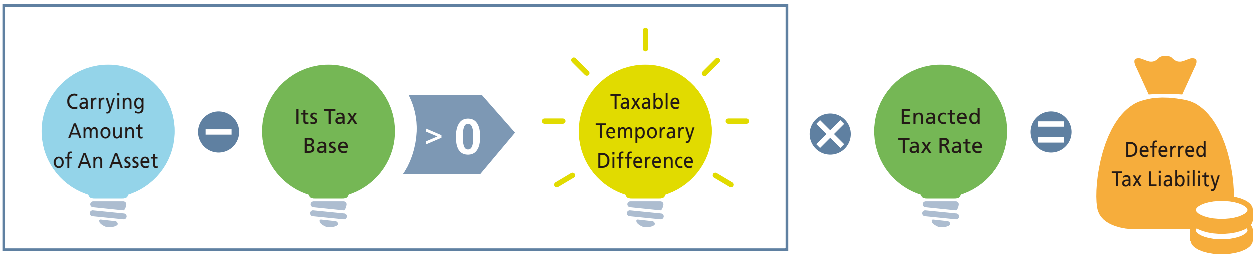


Deferred Tax Liability

A temporary difference that will result in taxable amounts in determining taxable profit of future periods when the carrying amount of an asset or a liability is recovered or settled is regarded as a "taxable temporary difference". It commonly arises from the differences between accounting depreciation and tax depreciation (i.e. capital allowances).

The accounting rules require an asset with a limited useful life to be subject to accounting depreciation. Concurrently, the asset may be eligible for capital allowances under the tax laws. Because governments often use tax policy to encourage capital investment, capital allowances usually depreciate an asset at a faster rate than accounting depreciation. This leads to a higher asset carrying amount (cost less accumulated accounting depreciation) compared to its tax base (cost less accumulated tax depreciation).

The accounting standard requires us to recognise all taxable temporary differences. They are recorded as deferred tax liabilities in the financial statements.



Example: Electricity Business in Hong Kong

Deferred tax liabilities of CLP arise mainly from our Hong Kong electricity business. One example where a deferred tax liability arises is the treatment of equipment such as switchgear and transformer installed in our substations. This equipment is subject to both accounting depreciation and capital allowances under the accounting and Hong Kong Profits Tax regime.

Hong Kong Tax Laws

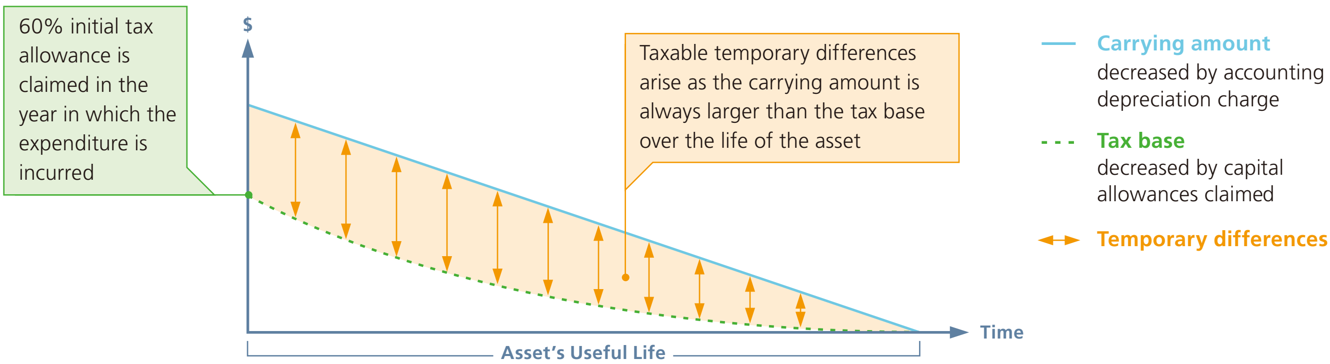
- Inland Revenue Rule No. 2
- 60% initial allowance on cost
- 10% annual allowance on written down value

Accounting Rules

- HKAS 16 Property, Plant and Equipment
- Straight-line depreciation over the estimated useful life of 50 years

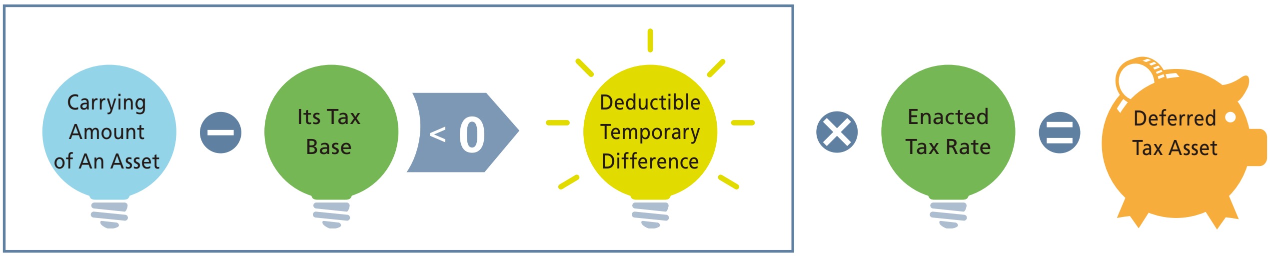
In this example, the Hong Kong tax regime allows for a 60% capital allowance in the year in which the expenditure is incurred, whereas for accounting purposes the equipment is depreciated on a straight-line basis over an estimated useful life of 50 years. This initial capital allowance reduces our current tax liability for that year and results in the tax bases of switchgear and transformer being lower than their carrying amounts throughout their useful lives.

These temporary differences will be reduced gradually to zero over time as accounting depreciation exceeds annual capital allowance. This means higher tax levies in future years, thereby reducing our deferred tax liability over time.



Deferred Tax Asset

A temporary difference which gives rise to deductions in calculating the taxable profit in future years is regarded as a "deductible temporary difference". One example of a deductible temporary difference is asset impairment, which reduces the carrying amount of an asset on the balance sheet, although its tax base under the tax computation is not affected. In other words, the impaired amount is still available for tax deductions in future years.



Deferred tax asset is also applied to unused tax losses and tax credits that are carried forward for tax purposes. This is another kind of deductible temporary difference.

The accounting standard sets out stringent rules on the recognition of a deferred tax asset. It can only be recognised if it is probable that future taxable profits will be available to utilise the deductible temporary differences. Every year, the carrying amount of a deferred tax asset will be reviewed and reduced, if appropriate, to the extent that sufficient taxable profits will be available to allow the benefit of part or all of that deferred tax asset to be utilised.

Example: Energy Business in Australia

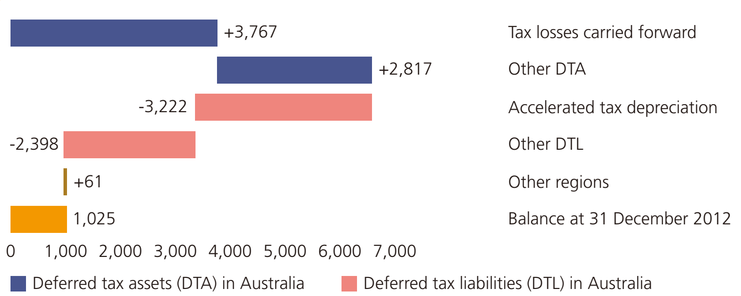
Deferred tax assets recognised in our books mainly relate to tax losses carried forward in our Australia energy business of HK$3,767 million. The majority of these tax losses are operating losses of Yallourn Power Station accumulated in the years prior to its acquisition by the Group in 2003.

As mentioned above, deferred tax assets can only be recognised if it is probable that future taxable profits will be available. This recognition criterion must be satisfied on an ongoing basis. Through our annual Business Planning process, we forecast the taxable profits of EnergyAustralia and our ability to utilise the unused tax losses. In undertaking this assessment, consideration must be given to past performance and the accuracy of previous forecasts as indicators of the likelihood of the current forecasts being realised.

Netting-off Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are required to be disclosed separately in the financial statements. They are allowed to be presented on a net basis only if we have a legally enforceable right to set off current tax assets against current tax liabilities and they are levied by the same tax authority. The chart opposite illustrates the netting-off effect between deferred tax assets and liabilities of our Australia tax consolidation group.

Deferred Tax Assets (HK$M)



Merits of Deferred Tax Accounting

Most transactions and events recorded in the financial statements have a tax consequence which may be immediate or may be deferred. By applying deferred tax accounting, the tax effects of all income and expenditure, gains and losses, assets and liabilities are recognised in the same period in which these items are recognised and not in the period in which they form part of taxable profit. This matching of transactions and events with their tax effects brings investors one step closer to understanding our underlying performance every year.

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 148 to 220 which comprise the consolidated and company statements of financial position as at 31 December 2012, 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 2012 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 25 February 2013

Consolidated Income Statement

for the year ended 31 December 2012

	Note	2012 HK$M	2011 HK$M
Revenue	2	104,861	91,634
Expenses			
Purchases of electricity, gas and distribution services		(50,760)	(43,029)
Operating lease and lease service payments		(13,362)	(12,169)
Staff expenses		(2,935)	(2,623)
Fuel and other operating expenses		(17,682)	(12,287)
Depreciation and amortisation		(7,021)	(6,353)
		(91,760)	(76,461)
Other income		–	776
Other charge		–	(2,761)
Operating profit	4	13,101	13,188
Finance costs	5	(6,423)	(6,005)
Finance income	5	322	146
Share of results, net of income tax			
Jointly controlled entities	13	2,405	2,929
Associated companies	14	579	681
Profit before income tax		9,984	10,939
Income tax expense	6	(1,692)	(1,650)
Profit for the year		8,292	9,289
Earnings attributable to:			
Shareholders	7	8,312	9,288
Non-controlling interests		(20)	1
		8,292	9,289
Dividends	8		
First to third interim dividends paid		3,825	3,753
Fourth interim dividend declared		2,476	2,310
		6,301	6,063
Earnings per share, basic and diluted	9	HK$3.45	HK$3.86

The Income Statement is better known as the "Profit and Loss Account"

The notes and disclosures on pages 155 to 220 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2012

	2012 HK$M	2011 HK$M
Profit for the year	8,292	9,289
Other comprehensive income		
Exchange differences on translation	626	(971)
Cash flow hedges	(501)	325
Net fair value gains on available-for-sale investments	4	27
Share of other comprehensive income of jointly controlled entities	7	(498)
Reclassification adjustments		
Sales of available-for-sale investments	–	(281)
Sale of a jointly controlled entity	–	(320)
Other comprehensive income for the year, net of tax	136	(1,718)
Total comprehensive income for the year	8,428	7,571
Total comprehensive income attributable to:		
Shareholders	8,447	7,565
Non-controlling interests	(19)	6
	8,428	7,571

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 142. Further details of other comprehensive income attributable to shareholders are presented in Note 27.

The notes and disclosures on pages 155 to 220 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

as at 31 December 2012

	Note	2012 HK$M	2011 HK$M
Non-current assets			
Fixed assets	*10(A)*	**132,463**	128,571
Leasehold land and land use rights under operating leases	*10(B)*	**1,866**	1,811
Goodwill and other intangible assets	*11*	**28,479**	27,369
Interests in jointly controlled entities	*13*	**19,197**	18,226
Interest in an associated company	*14*	**1,856**	1,465
Finance lease receivables	*15*	**1,665**	1,847
Deferred tax assets	*23*	**1,025**	1,276
Fuel clause account	*24*	**337**	212
Derivative financial instruments	*16*	**3,285**	5,027
Available-for-sale investments	*17*	**1,289**	1,288
Other non-current assets		**141**	141
		191,603	187,233
Current assets			
Inventories – stores and fuel		**1,667**	1,470
Renewable energy certificates		**1,991**	2,316
Trade and other receivables	*18*	**18,552**	17,103
Finance lease receivables	*15*	**158**	142
Derivative financial instruments	*16*	**1,759**	2,158
Bank balances, cash and other liquid funds	*19*	**13,026**	3,866
		37,153	27,055
Current liabilities			
Customers' deposits	*18(a)*	**(4,420)**	(4,297)
Trade and other payables	*20*	**(21,732)**	(16,990)
Income tax payable		**(233)**	(143)
Bank loans and other borrowings	*21*	**(6,895)**	(12,596)
Obligations under finance leases	*22*	**(2,406)**	(2,200)
Derivative financial instruments	*16*	**(1,762)**	(2,212)
		(37,448)	(38,438)
Net current liabilities		**(295)**	(11,383)
Total assets less current liabilities		**191,308**	175,850

The more familiar name for the Statement of Financial Position is the "Balance Sheet"

	Note	2012 HK$M	2011 HK$M
Financed by:			
Equity			
Share capital	26	12,632	12,031
Share premium		8,119	1,164
Reserves	27		
Declared dividends		2,476	2,310
Others		67,900	65,754
Shareholders' funds		91,127	81,259
Non-controlling interests		74	93
		91,201	81,352
Non-current liabilities			
Bank loans and other borrowings	21	59,303	52,925
Obligations under finance leases	22	24,649	25,196
Deferred tax liabilities	23	8,370	7,979
Derivative financial instruments	16	4,084	5,082
Scheme of Control (SoC) reserve accounts	25	1,245	643
Other non-current liabilities		2,456	2,673
		100,107	94,498
Equity and non-current liabilities		191,308	175,850

William Mocatta

William Mocatta
Vice Chairman
Hong Kong, 25 February 2013

Andrew Brandler

Andrew Brandler
Chief Executive Officer

Mark Takahashi

Mark Takahashi
Chief Financial Officer

The notes and disclosures on pages 155 to 220 are an integral part of these consolidated financial statements.

Company Statement of Financial Position

as at 31 December 2012

	Note	2012 HK$M	2011 HK$M
Non-current assets			
Fixed assets	*10(A)*	171	117
Investments in subsidiaries	*12*	53,093	51,314
Advance to a subsidiary	*12*	39	39
Other non-current assets		25	34
		53,328	51,504
Current assets			
Trade and other receivables	*18*	45	55
Bank balances and cash		2	1
		47	56
Current liabilities			
Trade and other payables	*20*	(273)	(256)
Advances from subsidiaries	*30(D)*	(99)	(232)
Bank loans and other borrowings	*21*	–	(2,638)
		(372)	(3,126)
Net current liabilities		(325)	(3,070)
Total assets less current liabilities		53,003	48,434
Financed by:			
Equity			
Share capital	*26*	12,632	12,031
Share premium		8,119	1,164
Reserves	*27*		
Declared dividends		2,476	2,310
Others		26,876	27,889
		50,103	43,394
Non-current liabilities			
Bank loans and other borrowings	*21*	2,900	5,040
Equity and non-current liabilities		53,003	48,434

William Mocatta

William Mocatta
Vice Chairman
Hong Kong, 25 February 2013

Andrew Brandler

Andrew Brandler
Chief Executive Officer

Mark Takahashi

Mark Takahashi
Chief Financial Officer

The notes and disclosures on pages 155 to 220 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2012

	Attributable to Shareholders					
	Share Capital HK$M	Share Premium HK$M	Reserves HK$M	Total HK$M	Non-controlling Interests HK$M	Total Equity HK$M
Balance at 1 January 2011	12,031	1,164	66,466	79,661	97	79,758
Profit for the year	–	–	9,288	9,288	1	9,289
Other comprehensive income for the year	–	–	(1,723)	(1,723)	5	(1,718)
Dividends paid						
2010 fourth interim	–	–	(2,214)	(2,214)	–	(2,214)
2011 first to third interim	–	–	(3,753)	(3,753)	–	(3,753)
Dividends paid to non-controlling interests of subsidiaries	–	–	–	–	(10)	(10)
Balance at 31 December 2011	12,031	1,164	68,064	81,259	93	81,352
Balance at 1 January 2012	12,031	1,164	68,064	81,259	93	81,352
Profit for the year	–	–	8,312	8,312	(20)	8,292
Other comprehensive income for the year	–	–	135	135	1	136
Issue of shares (Note 26)	601	6,955	–	7,556	–	7,556
Dividends paid						
2011 fourth interim	–	–	(2,310)	(2,310)	–	(2,310)
2012 first to third interim	–	–	(3,825)	(3,825)	–	(3,825)
Balance at 31 December 2012	**12,632**	**8,119**	**70,376**	**91,127**	**74**	**91,201**

The notes and disclosures on pages 155 to 220 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2012

	Note	2012 HK$M	2012 HK$M	2011 HK$M	2011 HK$M
Operating activities					
Net cash inflow from operations	*28*	24,438		18,717	
Interest received		281		145	
Income tax paid		(804)		(800)	
Net cash inflow from operating activities			23,915		18,062
Investing activities					
Capital expenditure		(9,056)		(12,109)	
Capitalised interest paid		(400)		(667)	
Proceeds from disposal of fixed assets		264		490	
Additions of other intangible assets		(985)		(534)	
Additions of available-for-sale investments		–		(7)	
Acquisition of business		–		(15,378)	
Acquisition of subsidiaries		(207)		123	
Asset acquisition in Eastern Star Gas Limited		–		(2,094)	
Reorganisation of OneEnergy Limited and proceeds from sale of interest in Electricity Generating Public Company Limited		–		2,192	
Deferred consideration paid		(540)		(443)	
(Investments in and advances to) / repayment from					
Jointly controlled entities		(272)		(87)	
Associated companies		–		25	
Dividends received from					
Jointly controlled entities		1,686		1,998	
Associated companies		523		1,232	
An available-for-sale investment		61		–	
Net cash outflow from investing activities			(8,926)		(25,259)
Net cash inflow / (outflow) before financing activities			14,989		(7,197)
Financing activities					
Proceeds from long-term borrowings		27,388		53,013	
Repayment of long-term borrowings		(24,698)		(34,588)	
Repayment of obligations under finance leases		(2,302)		(2,251)	
(Decrease) / increase in short-term borrowings		(2,106)		1,612	
Interest and other finance costs paid		(5,928)		(5,438)	
Issue of shares		7,556		–	
Dividends paid to shareholders		(6,135)		(5,967)	
Dividends paid to non-controlling interests of subsidiaries		–		(10)	
Net cash (outflow) / inflow from financing activities			(6,225)		6,371
Net increase / (decrease) in cash and cash equivalents			8,764		(826)
Cash and cash equivalents at beginning of year			3,104		4,023
Effect of exchange rate changes			22		(93)
Cash and cash equivalents at end of year			11,890		3,104
Analysis of balances of cash and cash equivalents					
Deposits with banks			11,961		1,983
Cash at banks and on hand			1,065		1,883
Bank balances, cash and other liquid funds	*19*		13,026		3,866
Excluding: cash restricted for specific purposes			(1,136)		(762)
			11,890		3,104

The notes and disclosures on pages 155 to 220 are an integral part of these consolidated financial statements.

Significant Accounting Policies

Apart from the accounting policies presented within the corresponding notes to the financial statements, other significant accounting policies are set out below.

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 their judgments 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 164 and 165.

2. Effect of New / Revised HKFRS and Comparative Information

(A) Adoption of amendments to HKFRS effective 1 January 2012

The Group has adopted the following amendments to HKFRS for the first time for the financial year beginning 1 January 2012:

- Amendments to HKAS 12 "Deferred Tax: Recovery of Underlying Assets"
- Amendments to HKFRS 7 "Disclosures – Transfers of Financial Assets"

The adoption of these amendments to HKFRS has had no significant impact on the reported results and the financial position of the Group.

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

The following new / revised HKFRS, potentially relevant to the Group's operations, have been issued and are mandatory for adoption by the Group for accounting periods beginning on or after 1 January 2013 or later periods. However, the Group has not early adopted them:

- Amendments to HKAS 1 (Revised) "Presentation of Items of Other Comprehensive Income"
- Amendments to HKFRS 7 "Disclosures – Offsetting Financial Assets and Financial Liabilities"
- Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – "Investment Entities"
- Amendments to HKAS 32 "Offsetting Financial Assets and Financial Liabilities"
- Annual Improvements to HKFRS 2009-2011 Cycle
- HKFRS 9 "Financial Instruments"
- HKFRS 10 "Consolidated Financial Statements"
- HKFRS 11 "Joint Arrangements"
- HKFRS 12 "Disclosure of Interests in Other Entities"
- HKFRS 13 "Fair Value Measurement"
- HKAS 19 (Revised 2011) "Employee Benefits"
- HKAS 27 (Revised 2011) "Separate Financial Statements"
- HKAS 28 (Revised 2011) "Investments in Associates and Joint Ventures"
- HK(IFRIC)-Int 20 "Stripping Costs in the Production Phase of a Surface Mine"

2. Effect of New / Revised HKFRS and Comparative Information (continued)

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

Except for the following and certain presentational changes, the adoption of these new / revised HKFRS is not expected to have significant impact on the results and financial position of the Group:

- HKFRS 9 may have an effect on the classification and the treatment of fair value changes of existing available-for-sale investments;
- HKFRS 11 may have an effect on the classification of joint arrangements; and
- HKFRS 13 may have an effect on the measurement of fair values of the Group's financial instruments.

(C) Comparative Information

Certain comparative amounts have been presented in more detail to conform with current year's presentation. In particular, "Renewable energy certificates" of HK$2,316 million, which was previously included in "Trade and other receivables" on the consolidated statement of financial position at 31 December 2011, is separately presented.

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, jointly controlled assets 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.

Acquisitions of subsidiaries are accounted for using the acquisition method. 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 identifiable net assets.

3. Consolidation (continued)

(B) Subsidiaries (continued)

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised either in profit or loss or other comprehensive income as appropriate. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

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.

On 1 March 2011, the Group completed the acquisition of EnergyAustralia Retail, the Delta Western Gentrader contracts and Project Sites from the New South Wales Government. The related deferred consideration of HK$1,310 million, of which HK$750 million is included in other non-current liabilities, is provided as at 31 December 2012. The acquisition method applied on this acquisition in 2011 can be found in our accounting "mini-series" on our website.

Investments in subsidiaries together with advances from the Company which are neither planned nor likely to be settled in the foreseeable future, are carried on the statement of financial position of the Company at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments within the measurement period. 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, jointly controlled assets and associated companies

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 or joint 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 using 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, net of accumulated impairment losses.

When the Group's share of losses of a jointly controlled entity / an associated company equals or exceeds 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.

3. Consolidation (continued)

(C) Jointly controlled entities, jointly controlled assets and associated companies (continued)

Jointly controlled entities and associated companies (continued)

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.

Jointly controlled assets

Jointly controlled assets are interests in joint ventures, whereby the venturers have contractual agreements that establish joint control over the economic activities of the joint venture assets. The agreements require unanimous agreement among the venturers for financial and operating decisions. The Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers is recognised in the financial statements of the relevant entity and classified according to its nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transactions will flow to / from the Group and their amounts can be measured reliably.

(D) Change in ownership interests

Transactions with non-controlling interests are treated 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. For disposal of ownership interests to non-controlling interests that do not result in loss of control, gains or losses on disposals to non-controlling interests are also recorded in equity.

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 is reclassified to profit or loss where appropriate.

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.

A quick guide to the classification of different entities:

Control → Subsidiary
Joint Control → Jointly Controlled Entity or Jointly Controlled Asset
Significant Influence → Associated Company
Less than Significant Influence → Available-for-sale Investment

4. Impairment of Non-Financial Assets

Non-financial assets that have indefinite useful lives 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. Non-financial 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".

5. 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 intended 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 values of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss, which offset any changes in the fair values 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.

5. Derivative Financial Instruments and Hedging Activities (continued)

(B) Cash flow hedges

The effective portion of changes in the fair values 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.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged items affect profit or loss. Such reclassification from equity will offset the effect on profit or loss of the corresponding hedged item to achieve the overall hedging result. However, when the highly probable forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets), the gains and losses previously deferred 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 when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is reclassified from equity to profit or loss in the same period as the hedged forecast cash flows ultimately affect profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that has been deferred in equity is reclassified 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 values 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.

6. Inventory

Inventory comprises stores and fuel and is stated at the lower of cost and net realisable value. Cost is calculated on the weighted average basis for stores, coal 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.

7. Renewable Energy Products

(A) Renewable energy schemes

Under the Australia Renewable Energy (Electricity) Act, the Group's Australia business is liable to surrender renewable and efficiency energy products under different renewable energy and energy efficiency schemes. The major schemes affecting the Group's Australia business are Renewable Energy Certificates (RECs), New South Wales Greenhouse Gas Abatement Certificates (NGACs) and Victorian Energy Efficiency Certificates (VEEC).

Forward purchased renewable and efficiency energy products are designated as held for trading or own use to satisfy relevant regulatory requirements. Renewable and efficiency energy products that are held for trading are held at fair value through profit or loss.

The renewable and efficiency energy products held for own use are accounted for on an accrual basis. That is, when a buy or sell contract is entered into, no recording is made until legal title transfers.

(B) Carbon units / certificates

As part of the Clean Energy Legislation Package which commenced on 1 July 2012, the Australian Government has announced the establishment of the Energy Security Fund (ESF). A component of the ESF is transitional assistance in the form of allocations of free carbon units and cash payments.

Carbon compensation in the form of cash received is recognised as a government grant in the profit or loss on a systematic basis over the relevant period. Carbon units or other compensation granted by the government free of charge are recognised at nil value. Purchased carbon units / certificates are measured at cost on initial recognition and carried at that cost.

The related liability at the end of each reporting period is recognised based on the expected weighted average price of carbon units for the obligation period. Purchased or earned carbon units / certificates are not treated as a reduction in the "net liability" of surrender obligations.

8. 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 evaluate 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.

9. Employee Benefits

(A) Retirement benefits

The Group operates and / or participates in a number of defined contribution plans in Hong Kong, including the CLP Group Provident Fund Scheme (GPFS) and the Mandatory Provident Fund (MPF) scheme administered by HSBC Life (International) Limited. These schemes are set up as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance. The assets of these schemes are held in separate trustee-administered funds. The pension plans are funded by payments from employees and by the participating companies of the Group, and provide benefits linked to contributions and investment returns on the plans. The Group has no further legal or constructive payment obligations if the fund does not hold sufficient assets to pay all employees the benefit relating to employee service in the current and prior periods, once the contributions have been paid.

The Group's employees outside Hong Kong are primarily covered by the respective defined contribution schemes in accordance with local legislation and practices.

Contributions to the defined contribution plans are recognised as expenses in the year to which the contributions relate, except to the extent that they are capitalised as part of the cost of qualifying assets.

(B) Incentive bonus and employee leave entitlement

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

10. 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 for the purpose of consolidation, 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 recognised in other comprehensive income and as a separate component of equity.

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.

10. Foreign Currency Translation (continued)

Upon disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary / loss of joint control over a jointly controlled entity / loss of significant influence over an associated company that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in a jointly controlled entity or an associated company that do not result in the Group losing joint control or significant influence) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

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.

11. 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 cumulative lease income / expense is 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 held 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. Where assets are leased out under a finance lease, the present value of the lease receipts is recognised as a receivable.

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 an exclusive 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.

Critical Accounting Estimates and Judgments

In preparing the consolidated financial statements, management are required to exercise significant judgments in the selection and application of accounting principles, as well as in making key estimates and assumptions. The following is a review of the more significant judgments and uncertainties made, in respect of which different amounts may be reported under a different set of conditions or using different assumptions.

1. Deferred Tax

At 31 December 2012, a deferred tax asset of HK$3,797 million (2011: HK$5,018 million) in relation to unused tax losses (Note 23) was recognised in the consolidated statement of financial position. Estimating the deferred tax asset to be recognised 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 2012. However, any unexpected changes in assumptions and estimates and in tax regulations could affect the recoverability of this deferred tax asset in future.

2. Asset Impairment

The Group has made substantial investments in tangible long-lived assets, jointly controlled entities and associated companies. The Group conducts impairment reviews of these assets whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable or tests for impairment of goodwill 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 expected cash flows are less than the asset's carrying amount, an impairment loss may arise. During 2012, after reviewing the business environment as well as the Group's objectives and past performance of the investments, management concluded that, except for the impairment loss for the fixed assets of Jhajjar Power Limited (Jhajjar) of HK$350 million and CLP Huanyu (Shandong) Biomass Heat and Power Company Limited (Boxing Biomass) of HK$119 million (2011: Yallourn of HK$2,761 million), there was no material impairment loss for SoC fixed assets of HK$88,909 million (2011: HK$85,836 million), goodwill of HK$22,225 million (2011: HK$21,616 million) and other long-lived assets. As the latest annual impairment models indicated that sufficient 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 2012 year end.

3. 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 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.

4. 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 Tariff Stabilisation Fund and the Rate Reduction Reserve meet the definition of a liability.

5. 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 CLP India Private Limited (CLP India) as lessor (for the Power Purchase Agreement (PPA) with its off-taker). 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.

6. Revenue Recognition

The Group records revenue for retail and wholesale energy sales under the accrual method. Retail electricity and gas revenues are recognised when the commodity is provided to customers on the basis of periodic cycle meter readings and include an estimated accrual for the value of the commodity consumed from the meter reading date to the end of the reporting period. The unbilled revenue is calculated at the end of the reporting period based on estimated daily consumption after the meter reading date to the end of the reporting period. Estimated daily consumption is derived using historical customer profiles adjusted for weather and other measurable factors affecting consumption.

7. Fair Value Estimation of Derivative Financial Instruments

Please refer to "Financial Risk Management" No. 2 Fair Value Estimation on page 218.

Notes to the Financial Statements

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 221 and 222.

These financial statements have been approved for issue by the Board of Directors on 25 February 2013.

2. Revenue

Accounting Policy

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. Operating lease income is recognised on a straight-line basis over the term of the lease. Interest income is recognised on a time proportion basis using the effective interest method.

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

	2012 HK$M	2011 HK$M
Sales of electricity	**91,351**	79,922
Sales of gas	**9,256**	7,836
Lease service income under PPA	**1,454**	2,007
Finance lease income under PPA	**287**	347
Operating lease income under PPA	**742**	–
Other revenue (note)	**2,075**	936
	105,165	91,048
Transfer for SoC (from) / to revenue (Note 25)	**(304)**	586
	104,861	91,634

Note: Including cash assistance of HK$1,035 million (A$129 million) (2011: nil) received by EnergyAustralia Holdings Limited (EnergyAustralia) (formerly known as TRUenergy Holdings Pty Ltd) under the ESF with respect to Yallourn Power Station (Note 20(c)). The cash assistance received is being recognised as revenue over the relevant period from 1 July 2012 to 30 June 2013 on a systematic basis.

2. Revenue (continued)

The lease service income and finance lease income under PPA relate to Paguthan. In accordance with HK(IFRIC)-Int 4 and HKAS 17, servicing income and fuel costs received by Paguthan from the lessee with respect to the leased assets are not part of the minimum lease payments and are recognised as lease service income.

The operating lease income under PPA recognised during the year relates to Jhajjar, whose PPA has been accounted for as an operating lease.

3. Segment Information

Accounting Policy

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive Officer, who is the chief operating decision-maker of the Group. 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 costs 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.

The Group operates, through its subsidiaries, jointly controlled entities, jointly controlled assets 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 2012							
Revenue	33,873	66,843	943	3,178	19	5	104,861
Operating profit / (loss)	10,154	2,941	220	300	(24)	(490)	13,101
Finance costs	(3,565)	(1,843)	(213)	(709)	–	(93)	(6,423)
Finance income	8	208	5	77	5	19	322
Share of results, net of income tax							
Jointly controlled entities	1,253	(8)	898 [(a)]	–	262	–	2,405
Associated companies	–	–	579 [(a)]	–	–	–	579
Profit / (loss) before income tax	7,850	1,298	1,489	(332)	243	(564)	9,984
Income tax expense	(1,117)	(298)	(112)	(165)	–	–	(1,692)
Profit / (loss) for the year	6,733	1,000	1,377	(497)	243	(564)	8,292
Loss attributable to non-controlling interests	–	–	20	–	–	–	20
Earnings / (loss) attributable to shareholders	6,733	1,000 [(b)]	1,397	(497)	243	(564)	8,312
Capital additions	7,571	2,582	100	1,935	–	93	12,281
Depreciation and amortisation	4,068	2,357	209	355	–	32	7,021
Impairment provisions for fixed assets, receivables and others	–	869	119	441	–	–	1,429
At 31 December 2012							
Fixed assets	89,393	25,659	5,001	12,239	–	171	132,463
Goodwill and other intangible assets	–	28,408	39	32	–	–	28,479
Interests in							
Jointly controlled entities	9,294	99	8,049	–	1,755	–	19,197
Associated companies	–	–	1,856	–	–	–	1,856
Deferred tax assets	–	964	61	–	–	–	1,025
Other assets	12,847	18,781	2,861	7,148	77	4,022	45,736
Total assets	111,534	73,911	17,867	19,419	1,832	4,193	228,756
Bank loans and other borrowings	33,435	16,618	3,367	9,878	–	2,900	66,198
Current and deferred tax liabilities	7,852	–	176	575	–	–	8,603
Obligations under finance leases	26,987	68	–	–	–	–	27,055
Other liabilities	12,204	21,297	300	1,663	4	231	35,699
Total liabilities	80,478	37,983	3,843	12,116	4	3,131	137,555

The difference between total assets and total liabilities represents shareholders' financing.

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 2011							
Revenue	31,722	56,325	625	2,923	33	6	91,634
Operating profit / (loss)	9,606	3,097	147	671	138	(471)	13,188
Finance costs	(3,508)	(1,929)	(135)	(382)	–	(51)	(6,005)
Finance income	2	70	4	63	4	3	146
Share of results, net of income tax							
Jointly controlled entities	1,448	11	645 (a)	–	825	–	2,929
Associated companies	–	42	639 (a)	–	–	–	681
Profit / (loss) before income tax	7,548	1,291	1,300	352	967	(519)	10,939
Income tax expense	(874)	(505)	(68)	(198)	(5)	–	(1,650)
Profit / (loss) for the year	6,674	786	1,232	154	962	(519)	9,289
Earnings attributable to non-controlling interests	–	–	(1)	–	–	–	(1)
Earnings / (loss) attributable to shareholders	6,674	786 (b)	1,231	154	962	(519)	9,288
Capital additions	8,042	4,563	1,268	4,710	–	56	18,639
Depreciation and amortisation	3,797	2,205	148	182	–	21	6,353
Impairment provisions for fixed assets, receivables and others	–	3,210	–	23	–	–	3,233
At 31 December 2011							
Fixed assets	86,384	25,511	5,199	11,360	–	117	128,571
Goodwill and other intangible assets	–	27,295	39	35	–	–	27,369
Interests in							
Jointly controlled entities	9,096	98	7,609	–	1,423	–	18,226
Associated companies	–	–	1,465	–	–	–	1,465
Deferred tax assets	–	1,212	63	1	–	–	1,276
Other assets	7,959	19,047	3,605	5,910	49	811	37,381
Total assets	103,439	73,163	17,980	17,306	1,472	928	214,288
Bank loans and other borrowings	27,391	19,127	3,271	8,054	–	7,678	65,521
Current and deferred tax liabilities	7,374	–	146	602	–	–	8,122
Obligations under finance leases	27,328	68	–	–	–	–	27,396
Other liabilities	10,917	18,893	366	1,483	5	233	31,897
Total liabilities	73,010	38,088	3,783	10,139	5	7,911	132,936

Notes:

(a) Out of the total amount of HK$1,477 million (2011: HK$1,284 million), HK$659 million (2011: HK$715 million) was attributed to investments in Guangdong Nuclear Power Joint Venture Company, Limited (GNPJVC) and Hong Kong Pumped Storage Development Company, Limited (PSDC), whose generating facilities serve Hong Kong.

(b) Excluding the costs of Yallourn mine flooding of HK$790 million (2011: impairment provision for Yallourn of HK$1,933 million) and other one-off items, the operating earnings of Australia were HK$1,685 million (2011: HK$2,911 million).

4. Operating Profit

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

	2012 HK$M	2011 HK$M
Charging		
Staff costs		
Salaries and other costs	2,725	2,431
Retirement benefits costs [(a)]	210	192
Auditor's remuneration		
Audit	39	42
Permissible non-audit services [(b)]	20	6
Operating lease expenditure on the agreement with Ecogen	331	328
Net loss on disposal of fixed assets	151	122
Yallourn mine flooding [(c)]	1,129	–
Impairment of fixed assets [(d)]	558	2,761
Impairment of other intangible assets	41	–
Impairment of inventories	27	–
Net fair value (gain) / loss on derivative financial instruments		
Cash flow hedges, reclassified from equity to		
Purchases of electricity, gas and distribution services	(402)	(116)
Fuel and other operating expenses	(99)	(606)
Transactions not qualifying as hedges	570	141
Ineffectiveness of cash flow hedges	(74)	100
Net exchange loss / (gain)	50	(40)
Crediting		
Net rental income from properties	(13)	(18)

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 paid to defined contribution schemes, including GPFS and MPF as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, totalled HK$214 million (2011: HK$204 million), of which HK$63 million (2011: HK$59 million) was capitalised.

Staff employed by the Group entities outside Hong Kong are primarily covered by defined contribution schemes in accordance with local legislation and practices. Total contributions amounted to HK$104 million (2011: HK$91 million).

(b) Permissible non-audit services comprise accounting / tax advisory services for business development, auditor's attestation and system review.

(c) In June 2012, following heavy rain across Gippsland in Victoria, Australia and a subsequent breach in the Morwell River Diversion, the coal mine of Yallourn was flooded and the conveyors to supply coal from the mine to Yallourn Power Station were damaged, resulting in reduced operation of the Yallourn Power Station. Remediation work has been undertaken in order to allow Yallourn Power Station to resume safe and sustainable operations. Total costs of the incident charged to profit or loss, including a provision for river diversions, levees and dewatering and an impairment of fixed assets of HK$38 million (A$5 million) (2011: nil), amounted to HK$1,129 million (after tax: HK$790 million) (A$144 million (after tax: A$101 million)) (2011: nil).

(d) Including an impairment provision for the fixed assets of Jhajjar of HK$350 million (2011: nil) and Boxing Biomass of HK$119 million (2011: nil).

Jhajjar power plant declared commissioning for its first unit on 29 March 2012 and second unit on 19 July 2012. However, due to the low availability of the plant as a result of coal shortages and technical problems caused by the poor quality of coal supplied by Coal India Limited, Jhajjar reported an operating loss for the year. The impairment test for the Jhajjar power plant has resulted in an impairment provision for fixed assets of HK$350 million (after tax: HK$315 million) (Rs.2,470 million (after tax: Rs.2,227 million)) for the year ended 31 December 2012 (2011: nil). The recoverable amount tested for impairment has been determined based on value in use calculations. An estimated pre-tax discount rate of 11.61% has been utilised in estimating the value in use.

An impairment provision of HK$119 million (2011: nil) against the fixed assets of Boxing Biomass was made owing to sustained high fuel prices and low heat demand.

In 2011, an impairment provision for Yallourn's fixed assets of HK$2,761 million (after tax: HK$1,933 million) (A$350 million (after tax: A$245 million)) was recognised following the passing of the Australian Government's Clean Energy legislative package which imposes a cost on the emission of carbon dioxide (CO_2) equivalent, resulted in increased production costs and reduced generation over the longer term at Yallourn.

5. Finance Costs and Income

Accounting Policy

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.

	2012 HK$M	2011 HK$M
Finance costs		
Interest expenses on		
Bank loans and overdrafts	1,874	1,849
Other borrowings		
Wholly repayable within five years	578	628
Not wholly repayable within five years	909	642
Tariff Stabilisation Fund [(a)]	2	2
Customers' deposits, fuel clause over-recovery and others	1	–
Finance charges under finance leases [(b)]	2,735	2,735
Other finance charges	451	548
Fair value loss / (gain) on derivative financial instruments		
Cash flow hedges, reclassified from equity	478	(351)
Fair value hedges	(33)	(153)
Ineffectiveness of cash flow hedges	5	(65)
Loss on hedged items in fair value hedges	28	151
Other net exchange (gain) / loss on financing activities	(221)	718
	6,807	6,704
Less: amount capitalised [(c)]	(384)	(699)
	6,423	6,005
Finance income		
Interest income on short-term investments, bank deposits and fuel clause under-recovery	322	146

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 25).

(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 3.26% – 10.91% (2011: 3.09% – 10.98%) per annum.

6. Income Tax Expense

Accounting Policy No. 8

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

	2012 HK$M	2011 HK$M
Current income tax		
Hong Kong	654	489
Outside Hong Kong	228	126
	882	615
Deferred tax		
Hong Kong	463	385
Outside Hong Kong (note)	347	650
	810	1,035
	1,692	1,650

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 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:

	2012 HK$M	2011 HK$M
Profit before income tax	9,984	10,939
Less: Share of results of jointly controlled entities and associated companies, net of income tax	(2,984)	(3,610)
	7,000	7,329
Calculated at an income tax rate of 16.5% (2011: 16.5%)	1,155	1,209
Effect of different income tax rates in other countries	363	362
Income not subject to tax	(75)	(199)
Expenses not deductible for tax purposes	296	387
Revenue adjustment for SoC not subject to tax (Note 25)	51	(97)
Over-provision in prior years	(3)	(32)
Tax losses not recognised	11	6
Derecognition of deferred tax assets	–	17
Utilisation of previously unrecognised tax losses	(1)	(3)
Tax consolidation benefit (note)	(105)	–
Income tax expense	1,692	1,650

Note: The amount included tax consolidation benefit of HK$105 million (A$14 million) (2011: nil) of EnergyAustralia. On 25 November 2011, the Australian Federal Government announced plans to amend the tax consolidation rules that were enacted in 2010 and the legislation was passed by the Senate on 27 June 2012. The change in legislation required a recalculation of the tax cost bases of certain assets of EnergyAustralia which resulted in a tax credit in current year.

7. Earnings Attributable to Shareholders

Earnings attributable to shareholders have been dealt with in the financial statements of the Company to the extent of HK$5,288 million (2011: HK$5,599 million).

CLP Holdings is the investment holding company. Its earnings were mainly derived from dividends of subsidiaries.

8. Dividends

	2012		2011	
	HK$ per share	HK$M	HK$ per share	HK$M
First to third interim dividends paid	1.59	3,825	1.56	3,753
Fourth interim dividend declared	0.98	2,476	0.96	2,310
	2.57	6,301	2.52	6,063

At the Board meeting held on 25 February 2013, the Directors declared the fourth interim dividend of HK$0.98 per share (2011: HK$0.96 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 2012.

9. Earnings per Share

The earnings per share are computed as follows:

	2012	2011
Earnings attributable to shareholders (HK$M)	8,312	9,288
Weighted average number of shares in issue (thousand shares) (note)	2,410,088	2,406,143
Earnings per share (HK$)	3.45	3.86

Note: The change in weighted average number of shares in issue is due to the share placement during the year (Note 26).

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 2012 (2011: nil).

10. Fixed Assets and Leasehold Land and Land Use Rights under Operating Leases

Accounting Policy

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 costs 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 – 35 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.

10. Fixed Assets and Leasehold Land and Land Use Rights under Operating Leases (continued)

Fixed assets and leasehold land and land use rights under operating leases totalled HK$134,329 million (2011: HK$130,382 million). Included in fixed assets is plant under construction with book value of HK$7,937 million (2011: HK$15,375 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 2011	849	412	10,817	5,907	76,517	21,229	115,731
Acquisition of business	120	–	–	–	–	6,039	6,159
Acquisition of subsidiaries	–	–	89	–	1,969	216	2,274
Additions	5	176	1,515	153	11,462	2,364	15,675
Transfers and disposals	–	(3)	(198)	(13)	(185)	(251)	(650)
Depreciation	–	(13)	(230)	(331)	(3,408)	(1,831)	(5,813)
Impairment charge	–	–	(25)	–	(2,736)	–	(2,761)
Exchange differences	(94)	–	98	–	(2,008)	(40)	(2,044)
Net book value at 31 December 2011	880	572	12,066	5,716	81,611	27,726	128,571
Cost	880	647	15,378	11,652	125,049	50,629	204,235
Accumulated depreciation and impairment	–	(75)	(3,312)	(5,936)	(43,438)	(22,903)	(75,664)
Net book value at 31 December 2011	880	572	12,066	5,716	81,611	27,726	128,571
Net book value at 1 January 2012	880	572	12,066	5,716	81,611	27,726	128,571
Acquisition of a subsidiary	1	–	–	–	38	–	39
Additions	8	–	1,631	246	7,496	1,748	11,129
Transfers and disposals	–	(19)	(64)	(7)	(219)	(149)	(458)
Depreciation	–	(15)	(308)	(338)	(3,759)	(1,996)	(6,416)
Impairment charge	(18)	–	(89)	–	(451)	–	(558)
Exchange differences	(6)	–	6	–	44	112	156
Net book value at 31 December 2012	**865**	**538**	**13,242**	**5,617**	**84,760**	**27,441**	**132,463**
Cost	883	623	16,913	11,875	131,452	51,976	213,722
Accumulated depreciation and impairment	(18)	(85)	(3,671)	(6,258)	(46,692)	(24,535)	(81,259)
Net book value at 31 December 2012	**865**	**538**	**13,242**	**5,617**	**84,760**	**27,441**	**132,463**

Note (a): These leased assets include mainly CAPCO's operational generating plant and associated fixed assets of net book value of HK$26,987 million (2011: HK$27,328 million), which are deployed for the generation of electricity supplied to CLP Power Hong Kong under the Electricity Supply Contract between the two parties; and Delta Electricity's power station at Mount Piper of net book value of HK$5,804 million (2011: HK$5,838 million) under the Delta Western GenTrader contracts. These arrangements have been accounted for as finance leases in accordance with HK(IFRIC)-Int 4 and HKAS 17.

10. Fixed Assets and Leasehold Land and Land Use Rights under Operating Leases (continued)

(A) Fixed Assets (continued)

Although the GenTrader arrangements with respect to both Mount Piper and Wallerawang power stations are accounted for as finance leases, the estimated future costs (primarily fixed capital charges) of Wallerawang will not result in any corresponding future economic benefit. Therefore no value is assigned to the leased assets of Wallerawang Power Station.

Company

The net book value of fixed assets of the Company was HK$171 million (2011: HK$117 million), comprising mainly office furniture, fittings and equipment. The additions, disposals and depreciation for the year were HK$93 million (2011: HK$55 million), HK$7 million (2011: HK$2 million) and HK$32 million (2011: HK$21 million) respectively.

(B) Leasehold Land and Land Use Rights under Operating Leases

Group

	2012 HK$M	2011 HK$M
Net book value at 1 January	1,811	1,729
Additions	101	123
Amortisation	(46)	(44)
Exchange differences	–	3
Net book value at 31 December	1,866	1,811
Cost	2,250	2,149
Accumulated amortisation	(384)	(338)
Net book value at 31 December	1,866	1,811

(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:

	2012 HK$M	2011 HK$M
Held in Hong Kong		
On long-term leases (over 50 years)	123	125
On medium-term leases (10 – 50 years)	2,130	2,089
On short-term leases (less than 10 years)	7	33
	2,260	2,247
Held outside Hong Kong		
On medium-term leases (10 – 50 years)	144	136
	2,404	2,383

11. Goodwill and Other Intangible Assets

Accounting Policy

Goodwill

Goodwill represents the excess of the consideration transferred 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.

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 2 – 34 years or using the unit of production method 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.

	Goodwill [(a)] HK$M	Licences [(b)] HK$M	Others [(c)] HK$M	Total HK$M
Net carrying value at 1 January 2011	7,701	–	1,449	9,150
Acquisition of business	14,011	–	1,797	15,808
Acquisition of subsidiaries	–	–	166	166
Additions	–	2,395	446	2,841
Amortisation	–	–	(496)	(496)
Exchange differences	(96)	17	(21)	(100)
Net carrying value at 31 December 2011	21,616	2,412	3,341	27,369
Cost	21,616	2,566	4,679	28,861
Accumulated amortisation	–	(154)	(1,338)	(1,492)
Net carrying value at 31 December 2011	21,616	2,412	3,341	27,369
Net carrying value at 1 January 2012	21,616	2,412	3,341	27,369
Acquisition of a subsidiary [(d)]	171	–	–	171
Additions	–	118	933	1,051
Cost adjustment	–	(66)	–	(66)
Amortisation	–	(6)	(553)	(559)
Impairment charge	–	–	(41)	(41)
Exchange differences	438	48	68	554
Net carrying value at 31 December 2012	**22,225**	**2,506**	**3,748**	**28,479**

11. Goodwill and Other Intangible Assets (continued)

	Goodwill [a] HK$M	Licences [b] HK$M	Others [c] HK$M	Total HK$M
Cost	22,225	2,669	5,516	30,410
Accumulated amortisation	–	(163)	(1,768)	(1,931)
Net carrying value at 31 December 2012	**22,225**	**2,506**	**3,748**	**28,479**

Notes:

(a) Goodwill predominantly arose from the previous acquisitions in Australia of the Merchant Energy Business (MEB) in 2005 and the energy retailing business from the New South Wales (NSW) Government in 2011. In accordance with the Group's accounting policies, the Group has assessed the recoverable amount of goodwill for the corresponding cash generating units and determined that such goodwill has not been impaired. The recoverable amount of the cash generating units tested for impairment has been determined based on value in use calculations. The value in use calculations use cash flow projections as at 31 December 2012 based on an approved Business Plan which has a forecast covering a period of ten years. Projections for a period of greater than five years have been used on the basis that a longer projection period represents a more appropriate reflection of future cash flows from anticipated legislative, regulatory and structural changes in the industry. The cash flow projections are discounted using a pre-tax discount rate of 13.30% (2011: 12.72%) for the retail business.

The key assumptions used in the value in use calculations are as follows:

- Electricity pool prices, generation volumes, dispatch levels, carbon prices and gas prices were derived using modelling of the electricity wholesales and gas markets. The inputs to the modelling are consistent with management's view of the electricity wholesales and gas markets.
- Retail prices are sensitive to regulatory changes (i.e. regulation and deregulation of retail tariffs). In absence of any known or expected changes to the current pricing structure, our retail price path assumptions are based on management estimates and expectations on current market conditions and regulatory announcements.
- The electricity and gas volumes for purchases and sales represent the forecast projections in the EnergyAustralia Business Plan. We also use external information to verify and where relevant update our internal estimates.
- Electricity and gas network (distribution) cost assumptions are based on published regulated price paths where available. When no estimates are available, network costs are assumed to escalate by the relevant Consumer Price Index.
- Customer account numbers growth for electricity and gas aligns with the EnergyAustralia Business Plan.
- Retail operating costs are escalated by relevant cost drivers using activity-based costing principles.
- Terminal value growth rates have been utilised in estimating cash flows beyond a period of ten years. The terminal growth rate for the current period is 3.0% (2011: 3.0%) which primarily reflects inflation and expected population growth.

(b) Licences include a 20% working level interest in petroleum licences acquired in 2011, giving the Group the right to exploration, extraction and production of petroleum within the licence area, largely within the Gunnedah Basin of New South Wales. A cost adjustment of HK$66 million (A$8 million) was made upon the final settlement of the acquisition during the year.

(c) The balance includes a lease arrangement under the long-term Master Hedge Agreement with Ecogen arising from the acquisition of the MEB in May 2005 and contracted customers.

(d) In June 2012, EnergyAustralia acquired 100% interest in Enhance Place Pty Limited (which holds the Pine Dale coal mine) for consideration of HK$214 million (A$28.5 million). Goodwill of HK$171 million (A$23 million) was recognised which relates to synergy between the Pine Dale coal mine and the Mount Piper and Wallerawang power stations.

For a more detailed discussion and explanation on how goodwill arises and what it implies, please refer to our accounting "mini-series" on our website.

12. Investments in and Advances to Subsidiaries

Accounting Policy No. 3(B)

	2012 HK$M	2011 HK$M
Unlisted shares, at cost	23,635	23,635
Provision for impairment losses	(100)	(100)
Advances to subsidiaries, less provisions (note)	29,558	27,779
	53,093	51,314

Note: The advances to subsidiaries are unsecured, interest-free and have no fixed repayment terms (Note 30(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 (2011: HK$39 million), which is interest-free and due on or after 30 June 2014 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 2012:

Name	Issued Share Capital / Registered Capital	% of Issued Capital Held at 31 December 2012	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	4,995 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 and Hong Kong	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

12. Investments in and Advances to Subsidiaries (continued)

Name	Issued Share Capital / Registered Capital	% of Issued Capital Held at 31 December 2012	Place of Incorporation / Operation	Principal Activity
EnergyAustralia Holdings Limited (formerly known as TRUenergy Holdings Pty Ltd)	533,676,005 ordinary shares of A$1 each	100 (a)	Australia	Energy Business Investment Holding
EnergyAustralia Yallourn Pty Ltd (formerly known as TRUenergy Yallourn Pty Ltd)	15 ordinary shares of A$1 each	100 (a)	Australia	Generation and Supply of Electricity
EnergyAustralia Pty Ltd (formerly known as TRUenergy Pty Ltd)	3,368,686,988 ordinary shares of A$1 each	100 (a)	Australia	Retailing of Electricity and Gas
CLP India Private Limited	2,010,585,909 equity shares of Rs.10 each	100 (a)	India	Generation of Electricity and Power Projects Investment Holding
Jhajjar Power Limited	20,000,000 equity shares of Rs.10 each; 2,240,582,458 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

TRUenergy was renamed as EnergyAustralia in October 2012.

13. Interests in Jointly Controlled Entities

Accounting Policy No. 3(C)

	2012 HK$M	2011 HK$M
Share of net assets	9,522	8,626
Goodwill	154	152
Advances	9,521	9,448
	19,197	18,226

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:

		2012				2011			
		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)	216	–	9,059	9,275	206	–	8,868	9,074
CSEC Guohua International Power Company Limited	(B)	2,963	109	–	3,072	2,855	107	–	2,962
CLP Guangxi Fangchenggang Power Company Limited	(C)	1,745	–	–	1,745	1,432	–	–	1,432
OneEnergy Taiwan Ltd	(D)	1,166	–	313	1,479	937	–	314	1,251
Shandong Zhonghua Power Company, Limited	(E)	996	–	–	996	924	–	–	924
PSDC	(F)	13	–	96	109	12	–	145	157
Others	(G)	2,423	45	53	2,521	2,260	45	121	2,426
		9,522	154	9,521	19,197	8,626	152	9,448	18,226

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:

	2012 HK$M	2011 HK$M
Non-current assets	35,023	35,036
Current assets	5,635	4,650
Current liabilities	(9,251)	(8,005)
Non-current liabilities	(20,029)	(21,301)
Non-controlling interests	(1,856)	(1,754)
Share of net assets	9,522	8,626

13. Interests in Jointly Controlled Entities (continued)

	2012 HK$M	2011 HK$M
Revenue	16,529	16,306
Expenses	(13,504)	(12,838)
Profit before income tax	3,025	3,468
Income tax expense	(474)	(409)
Non-controlling interests	(146)	(130)
Share of profit for the year	2,405	2,929
Share of capital commitments	1,756	2,093
Share of contingent liabilities	59	59

The Group's capital commitments in relation to its interest in the jointly controlled entities are disclosed in Note 29.

Details of the jointly controlled entities are summarised below:

(A) CAPCO is incorporated in Hong Kong and its ordinary share capital is 40% owned by CLP Power Hong Kong and 60% owned by ExxonMobil Energy Limited. 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 10).

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.

An extract of the financial statements of CAPCO for the year ended 31 December is set out as follows:

	2012 HK$M	2011 HK$M
Results for the year		
Revenue	14,696	13,803
Profit after income tax	3,132	3,049

13. Interests in Jointly Controlled Entities (continued)

	2012 HK$M	2011 HK$M
Net assets (note)		
Non-current assets	29,620	28,845
Current assets	6,346	5,292
Current liabilities	(8,707)	(5,438)
Deferred tax	(3,572)	(3,582)
Non-current liabilities	(501)	(2,432)
	23,186	22,685
Group's share of profit after income tax	1,253	1,220

Note: The amounts exclude advances from shareholders.

(B) CSEC Guohua International Power Company Limited, a joint stock company with 70% of its registered capital 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.

(C) CLP Guangxi Fangchenggang Power Company Limited (Fangchenggang) is incorporated in the Chinese mainland and 70% of its registered capital is owned by the Group. 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.

(D) OneEnergy Taiwan Ltd is incorporated in the British Virgin Islands and 50% of its ordinary share capital is owned by each of Mitsubishi Corporation of Japan and the Group. This company owns a 40% interest in Ho-Ping Power Company.

(E) Shandong Zhonghua Power Company, Limited is incorporated in the Chinese mainland and 29.4% of its registered capital is owned by the Group. This company owns four coal-fired power stations, namely Shiheng I, Shiheng II, Heze II and Liaocheng, with a combined installed capacity of 3,060MW. All power generated is for supply to the Shandong power grid.

(F) PSDC is incorporated in Hong Kong and 49% of its ordinary share capital is owned by the Group. 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.

(G) The Group's other investments include the following key projects:

- 33.3% interest in the ordinary share capital of Natural Energy Development Co., Ltd., which is incorporated in Thailand and owns a solar farm in Lopburi Province in Central Thailand, with an installed capacity of 63MW;
- 49% interest in the registered capital of 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 the registered capital of various Chinese jointly controlled entities at a carrying amount of HK$1,357 million (2011: HK$1,348 million) in aggregate acquired in 2009. These jointly controlled entities are incorporated in the Chinese mainland and hold interests in various wind power stations in Shandong and Jilin, with a total installed capacity of 593MW.

14. Interest in an Associated Company

Accounting Policy No. 3(C)

The balance represents the Group's share of net assets of GNPJVC at the end of the year.

Summarised financial information in respect of the Group's associated companies is set out below:

	2012 HK$M	2011 HK$M
Total assets	12,312	12,800
Total liabilities	(4,887)	(6,941)
Net assets	7,425	5,859
Group's share of associated company's net assets	1,856	1,465
Revenue	6,955	7,350
Profit after income tax	2,317	2,565
Group's share of profit after income tax	579	681

At 31 December 2012, the Group's share of capital commitments of its associated company was HK$166 million (2011: HK$95 million).

GNPJVC is unlisted, incorporated in the Chinese mainland and its registered capital is 25% owned by the Group and 75% owned by Guangdong Nuclear Investment Company, Limited. GNPJVC 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:

	2012 HK$M	2011 HK$M
Results for the year		
Revenue	6,955	7,040
Profit after income tax	2,317	2,557
Net assets		
Non-current assets	3,227	3,676
Current assets	9,085	9,124
Current liabilities	(1,873)	(4,100)
Non-current liabilities	(3,014)	(2,841)
	7,425	5,859
Group's share of profit after income tax	579	639

15. Finance Lease Receivables

Accounting Policy No. 11

	Minimum Lease Payments		Present Value of Minimum Lease Payments	
	2012 HK$M	2011 HK$M	2012 HK$M	2011 HK$M
Amounts receivable under finance leases				
Within one year	401	407	158	142
After one year but within five years	993	1,151	126	237
Over five years	1,745	2,036	1,539	1,610
	3,139	3,594	1,823	1,989
Less: unearned finance income	(1,316)	(1,605)		
Present value of minimum lease payments receivable	1,823	1,989		
Analysed as:				
Current (recoverable within 12 months)			158	142
Non-current (recoverable after 12 months)			1,665	1,847
			1,823	1,989

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 CLP India 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 2012 and 2011. The carrying amounts of the finance lease receivables approximate to their fair values.

16. Derivative Financial Instruments

Accounting Policy No. 5

	2012 Assets HK$M	2012 Liabilities HK$M	2011 Assets HK$M	2011 Liabilities HK$M
Cash flow hedges (note)				
Forward foreign exchange contracts	1,414	73	1,752	28
Foreign exchange options	73	–	–	–
Cross currency & interest rate swaps	1,455	534	1,323	216
Interest rate swaps	–	1,564	2	899
Energy contracts	404	633	1,469	2,797
Fair value hedges				
Cross currency & interest rate swaps	258	73	242	39
Interest rate swaps	86	76	–	–
Held for trading or not qualifying as accounting hedges				
Forward foreign exchange contracts	70	30	108	133
Energy contracts	1,284	2,863	2,289	3,182
	5,044	5,846	7,185	7,294
Analysed as:				
Current	1,759	1,762	2,158	2,212
Non-current	3,285	4,084	5,027	5,082
	5,044	5,846	7,185	7,294

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.

Note: Derivative financial instruments qualifying as cash flow hedges at 31 December 2012 have a maturity of up to 15 years (2011: 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:

	2012 HK$M	2011 HK$M
Forward foreign exchange contracts	105,551	104,624
Foreign exchange options	939	–
Interest rate swaps / cross currency & interest rate swaps	44,790	36,598
Energy contracts	23,092	32,210

The maximum exposure to credit risk at the reporting date is the carrying value of the financial instruments.

17. Available-for-sale Investments

Accounting Policy

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. Purchases and sales of financial assets are recognised on their trade date – the date on which the Group commits to purchase or sell the asset. They are initially recognised at fair value plus transaction costs and are subsequently carried at fair value.

Changes in the fair value of monetary investments 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 investments 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 intend to dispose of the investment within 12 months of the end of the reporting period.

The Group's available-for-sale investments are analysed as follows:

	2012 HK$M	2011 HK$M
CGN Wind Power Company Limited (CGN Wind)	1,190	1,190
Others	99	98
	1,289	1,288

In accordance with the Group's accounting policy, the unquoted investment in CGN Wind, which is denominated in Renminbi, is treated for accounting purpose as an available-for-sale investment.

Although termed "available-for-sale" by the accounting standard, investments in this category are generally held for the long-term.

18. Trade and Other Receivables

Accounting Policy

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 uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are recognised in profit or loss.

	Group		Company	
	2012 HK$M	2011 HK$M	**2012 HK$M**	2011 HK$M
Trade receivables [(a)]	**15,536**	12,702	**–**	–
Deposits, prepayments and other receivables	**2,768**	3,951	**27**	18
Dividend receivables from [(b)]				
Jointly controlled entities	**124**	36	**–**	–
An associated company	**10**	349	**–**	–
An available-for-sale investment	**43**	–	**–**	–
Current accounts with [(b)]				
Subsidiaries	**–**	–	**18**	37
Jointly controlled entities	**71**	65	**–**	–
	18,552	17,103	**45**	55

Trade and other receivables attributed to overseas subsidiaries amounted to HK$16,036 million (2011: HK$15,254 million). At 31 December 2012, CLP India has obtained payment for some of its receivables from GUVNL through bill discounting with recourse amounted to HK$213 million (2011: HK$58 million) and the transactions have been accounted for as collateralised borrowings (Note 21).

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable.

Notes:

(a) Trade receivables

13% (2011: 17%) and 73% (2011: 70%) 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 2012, such cash deposits amounted to HK$4,318 million (2011: HK$4,152 million) and the bank guarantees stood at HK$903 million (2011: HK$929 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 terms for trade receivables ranges from about 14 to 60 days.

18. Trade and Other Receivables (continued)

Notes (continued):

(a) Trade receivables (continued)

EnergyAustralia 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. At 31 December 2012, EnergyAustralia held cash deposits of HK$102 million (2011: HK$145 million) and bank guarantees of HK$14 million (2011: HK$1 million) from Commercial and Industrial customers as security in relation to outstanding receivable balances.

The ageing analysis of trade receivables at 31 December based on due date is as follows:

	2012				2011			
	Not impaired HK$M	Subject to impairment testing HK$M	Provision for impairment HK$M	Total HK$M	Not impaired HK$M	Subject to impairment testing HK$M	Provision for impairment HK$M	Total HK$M
Not yet due	10,971	1,824	(76)	12,719	8,928	1,576	(103)	10,401
Overdue								
1 – 30 days	82	1,000	(53)	1,029	346	723	(86)	983
31 – 90 days	89	742	(157)	674	89	464	(123)	430
Over 90 days	770	1,175	(831)	1,114	652	617	(381)	888
	11,912	4,741	(1,117)	15,536	10,015	3,380	(693)	12,702

At 31 December 2012, trade receivables of HK$941 million (2011: HK$1,087 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 the past invoices of CLP India net of refund totalled HK$469 million (Rs.3,306 million) (2011: HK$482 million (Rs.3,306 million)) (Note 31(A)), which is included in the amount aged over 90 days.

According to the accounting standard requirement, when certain receivables are individually impaired, they are written off directly from the books or through the use of an allowance account. If no objective evidence of impairment exists for individual receivables, they are included in a group of receivables with similar credit risk characteristics and collectively assessed for impairment. A majority of the balances under the caption "Subject to impairment testing" relate to EnergyAustralia and are assessed for impairment under this collective approach.

The ageing analysis of trade receivables at 31 December based on invoice date is as follows:

	2012 HK$M	2011 HK$M
30 days or below	13,226	10,951
31 – 90 days	949	644
Over 90 days	1,361	1,107
	15,536	12,702

18. Trade and Other Receivables (continued)

Notes (continued):

(a) Trade receivables (continued)

Movements in the provision for impairment are as follows:

	2012 HK$M	2011 HK$M
Balance at 1 January	693	482
Acquisition of business	–	139
Provision for impairment	804	474
Receivables written off during the year as uncollectable	(387)	(362)
Amounts reversed	(1)	(2)
Exchange differences	8	(38)
Balance at 31 December	1,117	693

"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 of HKFRS.

Invoice date = Date of issue of an invoice
Due date = Invoice date + credit period granted to customers

(b) The amounts receivable from subsidiaries, jointly controlled entities and an associated company are unsecured, interest-free and have no fixed repayment terms.

19. Bank Balances, Cash and Other Liquid Funds

Accounting Policy

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.

	2012 HK$M	2011 HK$M
Trust accounts restricted under TRAA (note)	1,136	762
Bank deposits	10,884	1,272
Bank balances and cash	1,006	1,832
	13,026	3,866

Note: Pursuant to Trust and Retention Account Agreements (TRAA) of CLP India and its subsidiaries with their corresponding lenders, various trust accounts are set up for designated purposes.

The Group's bank balances, cash and other liquid funds denominated in the currencies other than the functional currency of the respective entities amounted to HK$1,515 million (2011: HK$1,087 million) which was mostly denominated in Renminbi (2011: Renminbi).

20. Trade and Other Payables

Accounting Policy

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

	Group		Company	
	2012 HK$M	2011 HK$M	2012 HK$M	2011 HK$M
Trade payables [(a)]	9,704	8,824	–	–
Other payables and accruals	9,253	6,373	237	228
Current accounts with [(b)]				
Subsidiaries	–	–	35	27
Jointly controlled entities	1,447	1,656	1	1
An associated company	103	137	–	–
Deferred revenue [(c)]	1,225	–	–	–
	21,732	16,990	273	256

Notes:

(a) The ageing analysis of trade payables at 31 December based on invoice date is as follows:

	2012 HK$M	2011 HK$M
30 days or below	9,439	8,239
31 – 90 days	137	247
Over 90 days	128	338
	9,704	8,824

At 31 December 2012, trade payables denominated in a currency other than the functional currency of the corresponding Group entities amounted to HK$291 million (2011: HK$311 million), which were mostly denominated in U.S. dollar of HK$173 million (2011: HK$198 million) and Japanese yen of HK$82 million (2011: HK$67 million).

(b) The amounts payable to subsidiaries, jointly controlled entities and an associated company are unsecured, interest-free and have no fixed repayment terms. Of these, HK$1,406 million (2011: HK$1,623 million) is due to CAPCO.

(c) The balance primarily represented cash assistance received by EnergyAustralia under the ESF with respect to Yallourn Power Station. The ESF was established under the Australian Government's Clean Energy Legislation, effected 1 July 2012, which provides transitional assistance over five years to promote the transformation of the electricity generation sector from high to low emissions generation, while addressing risks to energy security that may arise from the introduction of the carbon price. Under the ESF, the compensation is provided as cash compensation for the first year (paid in June 2012) and as permits available annually for four years. The cash assistance received is being amortised to profit or loss over the relevant period from 1 July 2012 to 30 June 2013 and HK$1,035 million (A$129 million) was recognised as revenue for the year (Note 2).

21. Bank Loans and Other Borrowings

Accounting Policy

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.

	Group		Company	
	2012 HK$M	2011 HK$M	2012 HK$M	2011 HK$M
Current				
Short-term bank loans	835	2,802	–	2,638
Long-term bank loans	4,760	1,301	–	–
Other long-term borrowings				
Medium Term Note (MTN) programme (USD) due 2012	–	2,371	–	–
MTN programme (HKD) due 2013 / 2012	1,300	1,000	–	–
Electronic Promissory Notes (EPN) and MTN programme (AUD) due 2012	–	5,122	–	–
	6,895	12,596	–	2,638
Non-current				
Long-term bank loans	26,988	30,298	2,900	5,040
Other long-term borrowings				
MTN programme (USD) due 2020 to 2027	11,020	6,376	–	–
MTN programme (HKD) due 2014 to 2041	10,440	9,095	–	–
MTN programme (JPY) due 2021 to 2026	2,789	2,502	–	–
MTN programme (AUD) due 2021 to 2022	725	434	–	–
EPN and MTN programme (AUD) due 2015	402	394	–	–
U.S. private placement notes (USD) due 2017 to 2027	6,939	3,826	–	–
	59,303	52,925	2,900	5,040
Total borrowings	66,198	65,521	2,900	7,678

21. Bank Loans and Other Borrowings (continued)

Total borrowings included secured liabilities (bank loans and collateralised borrowings) of HK$12,918 million (2011: HK$11,151 million), analysed as follows:

	2012 HK$M	2011 HK$M
CLP India and its subsidiaries [(a)]	9,551	7,880
Subsidiaries in Chinese mainland [(b)]	3,367	3,271
	12,918	11,151

Notes:

(a) Bank loans for CLP India and its subsidiaries are secured by fixed and floating charges over their immovable and moveable properties with total carrying amounts of HK$14,106 million (2011: HK$12,976 million). Collateralised borrowings for CLP India were secured by trade receivables, the carrying amounts of which were HK$213 million (2011: HK$58 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$4,972 million (2011: HK$5,029 million).

Bank loans and other borrowings totalling HK$29,863 million (2011: HK$30,452 million) were attributed to overseas subsidiaries and are non-recourse to the Company.

At 31 December 2012, the Group's bank loans and other borrowings were repayable as follows:

	Bank Loans		Other Borrowings		Total	
	2012 HK$M	2011 HK$M	2012 HK$M	2011 HK$M	2012 HK$M	2011 HK$M
Within one year	5,595	4,103	1,300	8,493	6,895	12,596
Between one and two years	5,454	5,187	1,380	1,300	6,834	6,487
Between two to five years	13,775	16,872	4,464	4,114	18,239	20,986
Over five years	7,759	8,239	26,471	17,213	34,230	25,452
	32,583	34,401	33,615	31,120	66,198	65,521

Of the Company's borrowings, nil (2011: HK$2,638 million) is repayable within one year and HK$2,900 million (2011: HK$5,040 million) is repayable between two to five years.

Another presentation of the Group's liquidity risk is set out on page 217.

At 31 December 2012 and 2011, all of the Group's borrowings are either in the functional currencies of the corresponding Group entities or hedged into those currencies.

21. Bank Loans and Other Borrowings (continued)

The bank loans and other borrowings of the Group are predominantly issued in or swapped into Hong Kong dollar or Australian dollar. The effective interest rates at the end of the reporting period were as follows:

	2012		2011	
	HK$	A$	HK$	A$
Fixed rate loans and loans swapped from variable rates	2.5% – 5.0%	5.1% – 9.1%	2.3% – 5.0%	6.3% – 8.9%
Variable rate loans and loans swapped from fixed rates	0.7% – 2.2%	3.9% – 5.3%	0.6% – 1.7%	5.2% – 6.6%

The fair values of bank loans and other borrowings approximate to their carrying amounts. 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 2012, the Group had undrawn bank loans and overdraft facilities of HK$33,073 million (2011: HK$24,377 million).

22. Obligations under Finance Leases

Accounting Policy No. 11

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	
	2012 HK$M	2011 HK$M
Amounts payable under finance leases		
Within one year	2,406	2,200
After one year but within two years	2,404	2,197
After two years but within five years	7,093	6,565
Over five years	15,152	16,434
	27,055	27,396
Analysed as:		
Amount due for settlement within 12 months	2,406	2,200
Amount due for settlement after 12 months	24,649	25,196
	27,055	27,396

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 2012, the interest rate was 9.99% (2011: 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.

23. Deferred Tax

Accounting Policy No. 8

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:

	2012 HK$M	2011 HK$M
Deferred tax assets	**1,025**	1,276
Deferred tax liabilities	**(8,370)**	(7,979)
	(7,345)	(6,703)

Deferred tax asset = income tax recoverable in the future
Deferred tax liability = income tax payable in the future

An elaboration of the accounting concepts on deferred tax can be found in our accounting "mini-series" on pages 144 to 146.

Most of the deferred tax balances are to be recovered or settled after more than 12 months.

The gross movement on the deferred tax account is as follows:

	2012 HK$M	2011 HK$M
At 1 January	**(6,703)**	(3,380)
Charged to profit or loss (Note 6)	**(810)**	(1,035)
Credited to other comprehensive income	**120**	110
Acquisition of business	**–**	(2,640)
Acquisition of subsidiaries	**(1)**	26
Withholding tax	**9**	80
Exchange differences	**40**	136
At 31 December	**(7,345)**	(6,703)

23. Deferred Tax (continued)

The movement in the deferred tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction) during the year is as follows:

Deferred tax assets (prior to offset)

	Tax Losses [a]		Accruals and Provisions		Others [b]		Total	
	2012 HK$M	2011 HK$M	2012 HK$M	2011 HK$M	2012 HK$M	2011 HK$M	2012 HK$M	2011 HK$M
At 1 January	5,018	5,636	1,027	471	1,564	675	7,609	6,782
(Charged) / credited to profit or loss	(1,318)	(597)	48	(51)	272	886	(998)	238
Credited to other comprehensive income	–	–	–	67	13	4	13	71
Acquisition of business	–	–	–	568	–	–	–	568
Acquisition of subsidiaries	–	–	1	–	–	27	1	27
Exchange differences	97	(21)	17	(28)	31	(28)	145	(77)
At 31 December	3,797	5,018	1,093	1,027	1,880	1,564	6,770	7,609

Deferred tax liabilities (prior to offset)

	Accelerated Tax Depreciation		Withholding / Dividend Distribution Tax		Unbilled Revenue		Intangibles		Others [b]		Total	
	2012 HK$M	2011 HK$M	2012 HK$M	2011 HK$M	2012 HK$M	2011 HK$M	2012 HK$M	2011 HK$M	2012 HK$M	2011 HK$M	2012 HK$M	2011 HK$M
At 1 January	(9,106)	(7,668)	(378)	(429)	(1,717)	(578)	(1,250)	(148)	(1,861)	(1,339)	(14,312)	(10,162)
(Charged) / credited to profit or loss	(294)	451	(6)	(85)	206	(292)	(59)	(677)	341	(670)	188	(1,273)
Credited to other comprehensive income	–	–	–	–	–	–	–	–	107	39	107	39
Acquisition of business	–	(1,905)	–	–	–	(857)	–	(446)	–	–	–	(3,208)
Acquisition of subsidiaries	(2)	(1)	–	–	–	–	–	–	–	–	(2)	(1)
Withholding tax	–	–	9	80	–	–	–	–	–	–	9	80
Exchange differences	(38)	17	7	56	(34)	10	(25)	21	(15)	109	(105)	213
At 31 December	(9,440)	(9,106)	(368)	(378)	(1,545)	(1,717)	(1,334)	(1,250)	(1,428)	(1,861)	(14,115)	(14,312)

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 recognised, 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.

24. 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.

25. SoC Reserve Accounts

The Tariff Stabilisation Fund, Rate Reduction Reserve and Rent and Rates Interim Refunds 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:

	2012 HK$M	2011 HK$M
Tariff Stabilisation Fund (A)	712	637
Rate Reduction Reserve (B)	8	6
Rent and Rates Interim Refunds (C)	525	–
	1,245	643

The movements in SoC reserve accounts during the year are shown as follows:

(A) Tariff Stabilisation Fund

	2012 HK$M	2011 HK$M
At 1 January	637	1,505
Transfer under the SoC [(a)]		
– transfer for SoC from / (to) revenue (Note 2)	304	(586)
– charge for asset decommissioning [(b)]	(229)	(282)
At 31 December	712	637

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$539 million (2011: HK$445 million) recognised under the SoC represents a liability of the Group and is classified in "Other non-current liabilities". The carrying amount of the asset decommissioning liabilities approximates to its fair value.

25. SoC Reserve Accounts (continued)

(B) Rate Reduction Reserve

	2012 HK$M	2011 HK$M
At 1 January	6	4
Interest expense charged to profit or loss (Note 5)	2	2
At 31 December	8	6

(C) Rent and Rates Interim Refunds

CLP Power Hong Kong is challenging the amount of Government rent and rates levied dating back to the year of assessment 1999/2000 and is awaiting the decision of the Lands Tribunal. CLP Power Hong Kong has committed to pass on to customers any refunds of rent and rates awarded through these appeals. During the year, interim refunds of HK$1,601 million were made by the Hong Kong Government without prejudice to the final outcome of the appeals which means that these amounts will be adjusted by reference to the decision of the Lands Tribunal and subsequent appeals.

On the basis of legal advice obtained, CLP Power Hong Kong considers that it has a strong case and that the final outcome of these appeals should see CLP Power Hong Kong recover no less than interim refunds received to date. Therefore, the interim refunds have been classified within the SoC reserve accounts.

While the final resolution of the appeals is pending, in 2012 CLP Power Hong Kong provided customers with a Rent and Rates Special Rebate on the assumption of a favourable outcome of its appeals. In 2012, CLP Power Hong Kong provided customers with a Rent and Rates Special Rebate totalling HK$1,076 million and has announced the continuation of a Rent and Rates Special rebate in 2013. Management estimates that all of the interim refunds received to date will be returned to customers through this special rebate by the end of 2013.

In the 2012 accounts, the amount of the Government Rent and Rates Special Rebates made to customers has been offset against the interim refunds received:

	2012 HK$M
Rent and Rates Interim Refunds	
Interim Refunds Received	1,601
Rent and Rates Special Rebate	(1,076)
	525

In the event that the final amount recovered on conclusion of these appeals is less than the total amount rebated to customers, CLP Power Hong Kong will seek to recover any shortfall in the amounts of Rent and Rates Special Rebate already paid to customers. Similarly, consistent with the commitment to pass on to customers any refunds of rent and rates awarded through these appeals, if the final amount recovered exceeds the special rebates paid out, these additional amounts will be rebated to customers.

The carrying amounts of the SoC reserve accounts approximate to their fair values.

26. Share Capital

	2012 Number of Ordinary Shares of HK$5 Each	2012 Amount HK$M	2011 Number of Ordinary Shares of HK$5 Each	2011 Amount HK$M
Authorised, at 31 December	3,000,000,000	15,000	3,000,000,000	15,000
Issued and fully-paid				
At 1 January	2,406,143,400	12,031	2,406,143,400	12,031
Issue of shares (note)	120,307,170	601	–	–
At 31 December	2,526,450,570	12,632	2,406,143,400	12,031

Note: On 20 December 2012, the Company completed the placement of 120,307,170 shares in accordance with the terms and conditions of the Placing Agreement dated 13 December 2012 at the price of HK$63.25 per share. The net proceeds from the placement, after deduction of all related costs, fees, expenses and commissions, amounted to HK$7,556 million. The Company intends to utilise the net proceeds to meet expected investment needs across the business including, but not limited to, ongoing investment in the Hong Kong electricity business, such as in infrastructure related to gas supply from the mainland, and in additional generating capacity in those markets where the Group is already present, such as the expansion of Fangchenggang and the development of renewable energy projects.

27. 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 2011	2,492	7,683	1,182	843	54,266	66,466
Earnings attributable to shareholders	–	–	–	–	9,288	9,288
Other comprehensive income						
Exchange differences on translation of						
Subsidiaries	–	(1,246)	–	–	–	(1,246)
Jointly controlled entities	–	279	–	–	–	279
Associated companies	–	(9)	–	–	–	(9)
Cash flow hedges						
Net fair value gains	–	–	1,391	–	–	1,391
Reclassification adjustment for amount included in profit or loss	–	–	(1,073)	–	–	(1,073)
Transfer to assets	–	–	1	–	–	1
Tax on the above items	–	–	6	–	–	6
Available-for-sale investments						
Fair value gains	–	–	–	27	–	27
Share of other comprehensive income of jointly controlled entities	–	(345)	–	(153)	–	(498)
Reclassification adjustments						
Sales of available-for-sale investments	–	–	–	(319)	–	(319)
Tax on the above item	–	–	–	38	–	38
Sale of a jointly controlled entity	–	(346)	26	–	–	(320)
Total comprehensive income attributable to shareholders	–	(1,667)	351	(407)	9,288	7,565
Revaluation reserve realised due to depreciation of fixed assets	–	–	–	(2)	2	–
Appropriation of reserves of jointly controlled entities	–	–	–	24	(24)	–
Dividends paid						
2010 fourth interim	–	–	–	–	(2,214)	(2,214)
2011 first to third interim	–	–	–	–	(3,753)	(3,753)
Balance at 31 December 2011	2,492	6,016	1,533	458	57,565 [(b)]	68,064

27. 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 2012	2,492	6,016	1,533	458	57,565	68,064
Earnings attributable to shareholders	–	–	–	–	8,312	8,312
Other comprehensive income						
Exchange differences on translation of						
Subsidiaries	–	517	–	–	–	517
Jointly controlled entities	–	111	–	–	–	111
An associated company	–	(3)	–	–	–	(3)
Cash flow hedges						
Net fair value losses	–	–	(598)	–	–	(598)
Reclassification adjustment for amount included in profit or loss	–	–	(23)	–	–	(23)
Tax on the above items	–	–	120	–	–	120
Available-for-sale investments						
Fair value gains	–	–	–	4	–	4
Share of other comprehensive income of jointly controlled entities	–	–	6	1	–	7
Total comprehensive income attributable to shareholders	–	625	(495)	5	8,312	8,447
Revaluation reserve realised due to depreciation of fixed assets	–	–	–	(2)	2	–
Appropriation of reserves						
Subsidiaries	–	–	–	4	(4)	–
Jointly controlled entities	–	–	–	20	(20)	–
Dividends paid						
2011 fourth interim	–	–	–	–	(2,310)	(2,310)
2012 first to third interim	–	–	–	–	(3,825)	(3,825)
Balance at 31 December 2012	**2,492**	**6,641**	**1,038**	**485**	**59,720 [(b)]**	**70,376**

27. Reserves (continued)

Company

	Capital Redemption Reserve [a] HK$M	Retained Profits HK$M	Total HK$M
Balance at 1 January 2011	2,492	28,075	30,567
Profit and total comprehensive income for the year	–	5,599	5,599
Dividends paid			
2010 fourth interim	–	(2,214)	(2,214)
2011 first to third interim	–	(3,753)	(3,753)
Balance at 31 December 2011	2,492	27,707 [b]	30,199
Balance at 1 January 2012	2,492	27,707	30,199
Profit and total comprehensive income for the year	–	5,288	5,288
Dividends paid			
2011 fourth interim	–	(2,310)	(2,310)
2012 first to third interim	–	(3,825)	(3,825)
Balance at 31 December 2012	**2,492**	**26,860** [b]	**29,352**

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 2012 was HK$2,476 million (2011: HK$2,310 million). The balance of retained profits after the fourth interim dividend of the Group was HK$57,244 million (2011: HK$55,255 million) and of the Company was HK$24,384 million (2011: HK$25,397 million).

At 31 December 2012, distributable reserves of the Company amounted to HK$26,860 million (2011: HK$27,707 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.

28. Note to the Consolidated Statement of Cash Flows

Reconciliation of profit before income tax to net cash inflow from operations:

	2012 HK$M	2011 HK$M
Profit before income tax	9,984	10,939
Adjustments for:		
Finance costs	6,423	6,005
Finance income	(322)	(146)
Dividend income from available-for-sale investments	(104)	–
Share of results of jointly controlled entities and associated companies, net of income tax	(2,984)	(3,610)
Depreciation and amortisation	7,021	6,353
Impairment charge	1,429	3,233
Net loss on disposal of fixed assets	151	122
Gains on sales of available-for-sale investments	–	(319)
Gain on sale of a jointly controlled entity	–	(457)
Fair value loss under fair value hedges and net exchange difference	568	134
SoC items		
Increase in customers' deposits	166	173
(Increase) / decrease in fuel clause account (under-recovery)	(122)	84
Increase in Rent and Rates Interim Refunds	525	–
Decrease in Tariff Stabilisation Fund for asset decommissioning charge for a jointly controlled entity	(135)	(128)
Transfer for SoC	304	(586)
	738	(457)
Increase in trade and other receivables	(1,956)	(3,539)
Decrease in finance lease receivables	114	61
Increase in cash restricted for specific purposes	(374)	(29)
Decrease in derivative financial instruments net liabilities	(917)	(440)
Increase in trade and other payables	4,883	589
(Decrease) / increase in current accounts due to jointly controlled entities and associated companies	(216)	278
Net cash inflow from operations	24,438	18,717

29. Commitments and Operating Lease Arrangements

(A) Capital expenditure on fixed assets, leasehold land and land use rights under operating leases, as well as intangible assets contracted or authorised but not recorded in the statement of financial position is as follows:

	Group		Company	
	2012 HK$M	2011 HK$M	**2012 HK$M**	2011 HK$M
Contracted but not provided for	**10,458**	10,158	**2**	54
Authorised but not contracted for	**11,347**	14,257	**45**	106
	21,805	24,415	**47**	160

(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 2012	Remaining Balance to be Contributed	Expected Year for Last Contribution
Haifang wind power project	RMB92 million	RMB18 million (HK$21 million)	RMB74 million (HK$93 million)	2014
CGN CLP Energy Services (Shenzhen)	RMB29 million	RMB14 million (HK$17 million)	RMB15 million (HK$18 million)	2013

(C) The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Group		Company	
	2012 HK$M	2011 HK$M	**2012 HK$M**	2011 HK$M
Within one year	**871**	883	**30**	7
Later than one year but not later than five years	**3,335**	2,862	**95**	5
Over five years	**7,102**	6,704	**94**	–
	11,308	10,449	**219**	12

Of the above amount with respect to the Group, HK$7,798 million (2011: HK$6,973 million) relates to the operating lease element of the Electricity Supply Contract between CLP Power Hong Kong and CAPCO, and HK$2,118 million (2011: HK$2,421 million) relates to the 20-year Master Hedge Agreement between EnergyAustralia and Ecogen. Under the latter Agreement, EnergyAustralia 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.

The operating lease commitments of the Company primarily relate to a 10-year lease of the office at Laguna Verde at Hung Hom entered with Kar Ho Development Company Limited, a wholly-owned subsidiary of the Company.

29. Commitments and Operating Lease Arrangements (continued)

(D) The 25-year power purchase arrangements between Jhajjar and its off-takers are accounted for as operating leases. Under the agreements, the off-takers are obliged to purchase the output of Jhajjar power plant at predetermined price. The future aggregate minimum lease receipts under non-cancellable operating leases are as follows:

	2012 HK$M	2011 HK$M
Within one year	1,023	–
Later than one year but not later than five years	3,782	–
Over five years	11,269	–
	16,074	–

30. Related Party Transactions

Accounting Policy

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 or jointly 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.

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.

Below are the more significant transactions with related parties for the year ended 31 December:

(A) Purchases of electricity from jointly controlled entities and an associated company

Details of electricity supply contracts relating to the electricity business in Hong Kong with jointly controlled entities and an associated company are shown below:

	2012 HK$M	2011 HK$M
Lease and lease service payment to CAPCO (a)	17,067	16,018
Purchases of nuclear electricity from GNPS (b)	4,636	4,879
Pumped storage service fee to PSDC (c)	528	512
	22,231	21,409

30. Related Party Transactions (continued)

(A) Purchases of electricity from jointly controlled entities and an associated company (continued)

(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.

Amounts due to the related parties at 31 December 2012 are disclosed in Note 20.

(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$1,358 million (2011: HK$1,312 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)(a) above.

Amounts due from the related parties at 31 December 2012 are disclosed in Note 18.

No provision has been made for the amounts owed by the related parties.

(C) The advances made to jointly controlled entities totalled HK$9,521 million (2011: HK$9,448 million) (Note 13). Of these, HK$9,059 million (2011: HK$8,868 million) was in the form of interest-free advances from CLP Power Hong Kong to CAPCO.

At 31 December 2012, the Group did not have any guarantees which were of a significant amount given to or received from these parties (2011: nil).

30. Related Party Transactions (continued)

(D) The Company provides necessary funding to support its subsidiaries' operations. Of the total advances of HK$29,558 million (2011: HK$27,779 million) made to its subsidiaries (Note 12), HK$20,143 million (2011: HK$19,981 million) and HK$5,256 million (2011: HK$5,541 million) were made to CLP Power Asia Limited and CLP Asia Finance Limited respectively to fund investments in overseas power projects. Another advance of HK$3,891 million (2011: HK$694 million) was made to CLP Treasury Services Limited for treasury operations purpose.

The Company also has advances from a subsidiary, CLP Properties Limited, of HK$99 million (2011: HK$232 million). These advances are unsecured, interest free and have no fixed repayment terms.

(E) Emoluments of key management personnel

Under HKAS 24 "Related Party Disclosures", key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any directors (whether executive or otherwise) of the Group. The total remuneration of the key management personnel shown below comprises the Non-executive Directors and the Senior Management Group. Members of the Senior Management Group include the Executive Directors and six (2011: six) senior management personnel.

	2012 HK$M	2011 HK$M
Fees	9	8
Base compensation, allowances and benefits in kind	44	47
Tax equalisation, allowances and benefits in kind for secondment to overseas offices	6	9
Performance bonus		
Annual incentive	45	49
Long-term incentive	20	30
Provident fund contributions	5	6
Final payment (note)	–	17
	129	166

Note: In 2011, the final payment included payment in lieu of notice, discretionary performance bonus, ex-gratia payment and compensation for loss of office paid to two former senior management personnel upon leaving.

At 31 December 2012, the CLP Holdings' Board was composed of 15 Non-executive Directors and two Executive Directors. Remuneration of all Directors for the year totalled HK$54 million (2011: HK$51 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 (2011: one Director), one member of Senior Management (2011: three members) and a senior executive (2011: a former senior executive) of the Group. The total remuneration of these five highest paid individuals amounted to HK$83 million (2011: HK$108 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 6, 7, 8 and 10 (as highlighted) of the Human Resources & Remuneration Committee Report on pages 127 to 129, 132 and 133 respectively. These sections form the "auditable" part of the Human Resources & Remuneration Committee Report and are part of the financial statements.

31. Contingent Liabilities

Accounting Policy

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.

(A) CLP India – Deemed Generation Incentive Payment and Interests on Deemed Loans

Under the original power purchase agreement between CLP India and its off-taker GUVNL, GUVNL was required to make a "deemed generation incentive" payment to CLP India when the plant availability of the Paguthan Plant (Paguthan) 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 Paguthan 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 (HK$1,029 million). CLP India's position, amongst other arguments, is that Paguthan 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 CLP India has wrongly received interest on "deemed loans" under the existing power purchase agreement. GUVNL's claim rests on two main grounds: (i) CLP India 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 (HK$118 million) (2011: Rs.830 million (HK$121 million)).

On 18 February 2009, the GERC made an adjudication on GUVNL's claims. On the issue related to the payment to CLP India of "deemed generation incentive", the GERC decided that the "deemed generation incentive" was not payable when Paguthan was declared with availability to generate on naphtha. However, the GERC also decided that GUVNL's claim against CLP India in respect of deemed generation incentive 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 (HK$410 million). The GERC also dismissed GUVNL's claim to recover interest on the "deemed loans".

31. Contingent Liabilities (continued)

(A) CLP India – Deemed Generation Incentive Payment and Interests on Deemed Loans (continued)

CLP India 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. On 19 January 2010, the ATE dismissed both CLP India and GUVNL's appeals and upheld the decision of the GERC. CLP India 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 (HK$529 million) from January to March 2010 invoices after adjustment for a previous deposit of Rs.500 million (HK$71 million), which included tax on incentive relating to deemed generation on naphtha, and delayed payment charges on associated incentive calculated up to March 2010.

Subsequent to the above deduction, CLP India represented to GUVNL that during April 2004 to March 2006, gas was available for generation and therefore should not be considered as availability (deemed generation) on naphtha. GUVNL accepted the representation and refunded the base amount of Rs.292 million (HK$41 million) and interest of Rs.150 million (HK$21 million) in March 2011. However, during the first and last quarter of 2011, with the spot gas availability being constrained, Paguthan was forced to declare availability on naphtha for certain periods, which resulted in deduction of incentive revenue by GUVNL under deemed generation of Rs.17 million (HK$2 million). At 31 December 2012, the total amount of the claim plus interest and tax with respect to the "deemed generation incentive" amounted to Rs.8,543 million (HK$1,211 million) (2011: Rs.8,543 million (HK$1,245 million)).

On the basis of legal advice obtained, the Directors are of the opinion that CLP India 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.

The application of the accounting concepts on provision and contingent liabilities to the "deemed generation incentive" lawsuit can be found on our website as part of our accounting "mini-series".

(B) Indian Wind Power Projects – Enercon's Contracts

CLP Wind Farms (India) Private Limited, CLP India and its subsidiaries (CLP India group) have invested (or are committed to invest) in around 730MW of wind power projects to be developed with Wind World India Limited (formerly known as Enercon India Limited) (WWIL). WWIL's major shareholder, Enercon GmbH, has commenced litigation against WWIL claiming infringement of intellectual property rights. CLP India group, as a customer of WWIL, has been named as a defendant. Enercon GmbH is also seeking an injunction restraining CLP India group's use of certain rotor blades acquired from WWIL. As at 31 December 2012, the Group considered that CLP India group has good prospects of defending these claims and the legal proceedings are unlikely to result in any material outflow of economic benefits from the Group.

31. Contingent Liabilities (continued)

(C) Land Premium of a Property in Hong Kong

The Group has received a demand note from the relevant authorities in the Hong Kong Government in an amount of HK$237 million as land premium relating to the Group's new office at Laguna Verde at Hung Hom. The Group considers, including on the basis of legal and other professional advice, that no payment is due. Exchanges are continuing regarding both the principle and quantum of any such premium.

(D) Redbank Power Purchase Hedge Agreement

A dispute exists between Redbank Project Pty Ltd (Redbank) and Ausgrid in connection with an existing Power Purchase Hedge Agreement (PPHA). The dispute relates to the entitlement of Redbank Project to pass through under the PPHA carbon costs incurred under the Australian Federal Government's Clean Energy Act, 2011 to Ausgrid. If Ausgrid is found to be liable to Redbank, under an On Sale Agreement between Ausgrid and EnergyAustralia as a result of the NSW acquisition in 2011, EnergyAustralia may be liable to Ausgrid.

At 31 December 2012, the parties had undertaken arbitration and are awaiting the outcome of the proceedings.

32. Reclassification of Assets Held for Sale

In July 2012, the Group classified the related assets and liabilities of Waterloo Wind Farm, in South Australia, as "held for sale" following completion of stage 1 of the sale process and the subsequent short listing of bidders.

Following negotiations with the short-listed bidders, as at 31 December 2012 no suitable outcome has been reached. At this date, the Group are not actively marketing Waterloo Wind Farm and there is no longer a process with a view to sale. As a result, Waterloo Wind Farm is no longer classified as held for sale.

There has been no impact in the financial statements in current year or any prior year as a result of this change in classification.

Financial Risk Management

1. Financial Risk Factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, fair value 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 for the purpose of understanding price movements engaged by EnergyAustralia, all derivative financial instruments are employed solely for hedging purposes.

Risk management for Hong Kong operations, predominantly the Company and its major subsidiary CLP Power Hong Kong, is carried out by the Company's central treasury department (Group Treasury) under policies approved by the Board of Directors or the Finance and General Committee of those companies. Overseas subsidiaries 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 future commercial transactions, and from recognised assets and liabilities and net investments in foreign operations. This is 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 from recognised assets and 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. CLP Power Hong Kong uses forward contracts and currency swaps to hedge all its debt repayment obligations denominated in foreign currencies for the full tenor, and a significant portion of its U.S. dollar obligations on fuel and nuclear power purchases, 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.

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:

	2012 HK$M	2011 HK$M
Increase / (decrease) in the hedging reserve		
Hong Kong dollar against U.S. dollar		
If Hong Kong dollar weakened by 0.6% (2011: 0.6%)	**445**	499
If Hong Kong dollar strengthened by 0.6% (2011: 0.6%)	**(446)**	(499)
Hong Kong dollar against Japanese yen		
If Hong Kong dollar weakened by 5% (2011: 7%)	**51**	77
If Hong Kong dollar strengthened by 5% (2011: 7%)	**(46)**	(67)

Foreign currency risk (continued)

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 2012, the Group's net investment subject to translation exposure was HK$59,083 million (2011: HK$57,906 million), arising mainly from our investments in Australia, the Chinese mainland, India, and Southeast Asia and Taiwan. This means that, for each 1% (2011: 1%) average foreign currency movement, our translation exposure will vary by about HK$591 million (2011: HK$579 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 currencies of the Group entities against the U.S. dollar and Renminbi, with all other variables held constant. The sensitivity rates in U.S. dollar and Renminbi used are considered reasonable given the current level of exchange rates and the volatility observed in the different functional currencies of the Group entities. These are 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. The extent of the impact to post-tax profit or equity due to exchange rate movements of U.S. dollar and Renminbi against different functional currencies of Group entities, with all other variables held constant, is as follows:

	2012 HK$M	2011 HK$M
U.S. dollar		
If U.S. dollar strengthened by 5% (2011: 0.6% / 10%)		
Post-tax profit for the year	(42)	(31)
Equity – hedging reserve	(4)	10
If U.S. dollar weakened by 5% (2011: 0.6% / 10%)		
Post-tax profit for the year	42	35
Equity – hedging reserve	5	(3)
Renminbi		
If Renminbi strengthened by 3% (2011: 2%)		
Post-tax profit for the year	43	19
Equity – hedging reserve	–	–
If Renminbi weakened by 3% (2011: 2%)		
Post-tax profit for the year	(43)	(19)
Equity – hedging reserve	–	–

Energy price risk

EnergyAustralia sells and purchases electricity to / from the Australian National Electricity Market. Although EnergyAustralia 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, EnergyAustralia 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.

EnergyAustralia 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 an Audit & Risk Committee which acts on behalf of EnergyAustralia's Board.

EnergyAustralia 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. EnergyAustralia'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-year 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 EnergyAustralia's energy contract portfolio at 31 December 2012 was HK$474 million (2011: HK$679 million). The change reflects a reduction of holding volatile positions. During 2012, the VaR ranged between a low of HK$374 million (2011: HK$326 million) and a high of HK$772 million (2011: HK$809 million).

Analyses below show the effect on post-tax profit and equity if market prices were 15% (2011: 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% (2011: 15%) has been selected based on historical data relating to the level of volatility in the electricity commodity prices. The sensitivity assumed does not reflect the Group's expectations as to the future movement in commodity prices. The extent of impact to post-tax profit or equity due to market price movements on derivatives, with all other variables held constant, is as follows:

	2012 HK$M	2011 HK$M
If market prices were 15% (2011: 15%) higher		
Post-tax profit for the year	427	603
Equity – hedging reserve	(229)	(730)
If market prices were 15% (2011: 15%) lower		
Post-tax profit for the year	(453)	(591)
Equity – hedging reserve	229	730

Energy price risk (continued)

The potential movement in post-tax profit is mainly attributable to an increase / decrease in the fair value of certain energy derivative instruments which are economic hedges but do not satisfy the requirements for hedge accounting. The potential movement in equity is due to an increase / decrease in the fair value of energy hedging instruments designated as cash flow hedges.

In addition to VaR analysis, EnergyAustralia also uses Volumetric Limits. The Volumetric Limits are measures of the net physical energy and capacity exposure to spot and forward markets over time in the portfolio. It is used to provide guidance on portfolio hedging against the maximum long and short volumes allowable in megawatt (MW) terms on an energy and capacity basis for the net spot and forward market exposures.

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 risks are managed by monitoring an appropriate mix between fixed and floating rate borrowings, and by the use of interest rate swaps.

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 2012, 57% (2011: 64%) 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 impact of shift in yield curve on energy contracts) and equity (as a result of change in the fair value of derivative instruments which qualify as cash flow hedges). 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.

Interest rate risk (continued)

	2012 HK$M	2011 HK$M
Hong Kong dollar		
If interest rates were 0.1% (2011: 0.1%) higher		
Post-tax profit for the year	(15)	(13)
Equity – hedging reserve	(51)	–
If interest rates were 0.1% (2011: 0.1%) lower		
Post-tax profit for the year	15	13
Equity – hedging reserve	51	(1)
U.S. dollar		
If interest rates were 0.1% (2011: 0.1%) higher		
Post-tax profit for the year	–	–
Equity – hedging reserve	51	10
If interest rates were 0.1% (2011: 0.1%) lower		
Post-tax profit for the year	–	–
Equity – hedging reserve	(51)	(10)
Indian rupee		
If interest rates were 1% (2011: 0.2%) higher		
Post-tax profit for the year	(33)	(6)
Equity – hedging reserve	–	–
If interest rates were 1% (2011: 0.2%) lower		
Post-tax profit for the year	33	6
Equity – hedging reserve	–	–
Australian dollar		
If interest rates were 0.5% (2011: 0.5%) higher		
Post-tax profit for the year	8	(17)
Equity – hedging reserve	230	151
If interest rates were 0.5% (2011: 0.5%) lower		
Post-tax profit for the year	(8)	16
Equity – hedging reserve	(230)	(148)

The Company's sensitivity to interest rates was not significant and therefore is not presented at 31 December 2012 and 2011.

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 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. EnergyAustralia has policies in place to ensure that sales of products and services are made to customers of an appropriate credit quality. For EnergyAustralia, receivables are due for settlement no more than 14 to 30 days after issue and collectability is reviewed on an ongoing basis.

CLP India sell a majority of its electricity output to various state electricity boards in India through power purchase agreements for 13 to 25 years. Receivables are due for settlement in 15 to 60 days after billing and the management closely monitor the credit quality and collectability of receivables from those off-takers.

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 monitor rolling forecasts of the Group's undrawn borrowing facilities and cash and cash equivalents on the expected cash flows.

The table opposite 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.

Liquidity risk (continued)

	Within 1 year HK$M	Between 1 and 2 years HK$M	Between 2 to 5 years HK$M	Over 5 years HK$M	Total HK$M
At 31 December 2012					
Non-derivative financial liabilities					
Bank loans	7,458	6,854	16,340	10,218	40,870
Other borrowings	2,595	2,606	7,650	30,771	43,622
Obligations under finance leases	4,988	4,744	12,683	23,647	46,062
Customers' deposits	4,420	–	–	–	4,420
Trade and other payables	21,732	–	–	–	21,732
SoC reserve accounts	–	–	–	1,245	1,245
	41,193	14,204	36,673	65,881	157,951
Derivative financial liabilities					
Net settled					
Interest rate swaps	364	353	560	387	1,664
Energy contracts	1,168	743	1,638	–	3,549
Gross settled					
Forward foreign exchange contracts	17,136	23,883	61,708	1,760	104,487
Cross currency & interest rate swaps	1,580	922	2,888	25,178	30,568
	20,248	25,901	66,794	27,325	140,268
At 31 December 2011					
Non-derivative financial liabilities					
Bank loans	5,446	6,419	18,780	10,604	41,249
Other borrowings	9,624	2,231	6,454	20,550	38,859
Obligations under finance leases	4,823	4,604	12,473	26,134	48,034
Customers' deposits	4,297	–	–	–	4,297
Trade and other payables	16,990	–	–	–	16,990
SoC reserve accounts	–	–	–	643	643
	41,180	13,254	37,707	57,931	150,072
Derivative financial liabilities					
Net settled					
Interest rate swaps	235	225	296	171	927
Energy contracts	–	24	1,059	887	1,970
Gross settled					
Forward foreign exchange contracts	13,927	15,980	72,554	1,323	103,784
Cross currency & interest rate swaps	3,142	1,286	1,930	15,514	21,872
	17,304	17,515	75,839	17,895	128,553

At 31 December 2012, the maturity profile of the Company's bank loans (with current tenor less than one year under revolving facility with maturity falling beyond one year), included in the Group amounts shown above, was HK$29 million (2011: HK$2,720 million) repayable within one year, HK$29 million (2011: HK$72 million) between one and two years and HK$2,927 million (2011: HK$5,226 million) between two to five years.

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 2012				
Assets				
Available-for-sale investments	26	–	1,263	1,289
Forward foreign exchange contracts	–	1,484	–	1,484
Foreign exchange options	–	73	–	73
Cross currency & interest rate swaps	–	1,713	–	1,713
Interest rate swaps	–	86	–	86
Energy contracts	–	266	1,422	1,688
	26	3,622	2,685	6,333
Liabilities				
Forward foreign exchange contracts	–	103	–	103
Cross currency & interest rate swaps	–	607	–	607
Interest rate swaps	–	1,640	–	1,640
Energy contracts	–	40	3,456	3,496
	–	2,390	3,456	5,846

3. Fair Value Hierarchy of Financial Instruments (continued)

	Level 1 HK$M	Level 2 HK$M	Level 3 HK$M	Total HK$M
At 31 December 2011				
Assets				
Available-for-sale investments	25	–	1,263	1,288
Forward foreign exchange contracts	–	1,860	–	1,860
Cross currency & interest rate swaps	–	1,565	–	1,565
Interest rate swaps	–	2	–	2
Energy contracts	–	890	2,868	3,758
	25	4,317	4,131	8,473
Liabilities				
Forward foreign exchange contracts	–	161	–	161
Cross currency & interest rate swaps	–	255	–	255
Interest rate swaps	–	899	–	899
Energy contracts	–	395	5,584	5,979
	–	1,710	5,584	7,294

During 2012 and 2011, there were 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:

	2012			2011		
	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	(2,716)	(1,453)	1,264	247	1,511
Total (losses) / gains recognised in						
Profit or loss	–	(838)	(838)	(4)	627	623
Other comprehensive income	–	831	831	–	182	182
Acquisition of business	–	–	–	–	(3,338)	(3,338)
Purchases	–	774	774	3	181	184
Sales	–	–	–	–	(5)	(5)
Settlements	–	(85)	(85)	–	(610)	(610)
Closing balance	1,263	(2,034)	(771)	1,263	(2,716)	(1,453)
Total (losses) / gains for the year included in profit or loss and presented in fuel and other operating expenses	–	(838)	(838)	(4)	627	623
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	–	(391)	(391)	–	(534)	(534)

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 2012 and 2011.

The Group monitors capital using "total debt to total capital" and "net debt to total capital" ratios. These ratios are as follows:

	2012 HK$M	2011 HK$M
Total debt [(a)]	**66,198**	65,521
Net debt [(b)]	**53,172**	61,655
Total equity	**91,201**	81,352
Total capital (based on total debt) [(c)]	**157,399**	146,873
Total capital (based on net debt) [(d)]	**144,373**	143,007
Total debt to total capital (based on total debt) ratio (%)	**42.1**	44.6
Net debt to total capital (based on net debt) ratio (%)	**36.8**	43.1

The decreases of total debt to total capital and net debt to total capital ratios were mainly due to a 5% share placement by the Company to raise HK$7,556 million cash in December 2012. The proceeds from this placement reduced the debt amounts whilst the issued new shares increased the share capital and share premium accounts which are components of total equity.

Certain entities of the Group are subject to certain loan covenants. For both 2012 and 2011, there is no material non-compliance 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.

Scheme of Control Statement

CLP Power Hong Kong Limited and Castle Peak Power Company Limited

Overview

In Hong Kong, CLP Power Hong Kong Limited (CLP Power Hong Kong) operates a vertically integrated electricity generation, transmission and distribution business. The generating plants in Hong Kong are owned by Castle Peak Power Company Limited (CAPCO), which is 40% owned by CLP Power Hong Kong and 60% owned by ExxonMobil Energy Limited. CLP Power Hong Kong builds and operates CAPCO's power stations under contract and is the sole customer for CAPCO's electricity which CLP Power Hong Kong transmits and distributes to its customers in Kowloon and the New Territories. CLP Power Hong Kong owns the transmission and distribution network.

Since financial year 1964, the electricity-related operations of CLP Power Hong Kong and CAPCO (the SoC Companies) have been governed by a Scheme of Control Agreement (SoC) with the Hong Kong Government. The SoC specifies the SoC Companies' obligations to supply adequate and reliable electricity supplies to customers at the lowest reasonable cost and the mechanism for Hong Kong Government to monitor their financial affairs and operating performance. In return, CLP Power Hong Kong is allowed to charge tariffs designed to recover the operating costs (including tax) and allowed net return of the SoC Companies.

The current SoC took effect from 1 October 2008. 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 2012 was 9.12% (2011: 9.10%).

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 2012, 64% (2011: 63%) of the net return was allocated to CLP Power Hong Kong and 36% (2011: 37%) 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 223 are in accordance with the SoC and the agreements between the SoC Companies.

For the year ended 31 December

	2012 HK$M	2011 HK$M
SoC revenue	33,944	30,928
Expenses		
Operating costs	3,698	3,516
Fuel	10,061	8,784
Purchases of nuclear electricity	4,636	4,879
Provision for asset decommissioning	229	282
Depreciation	4,146	3,863
Operating interest	783	742
Taxation	1,772	1,528
	25,325	23,594
Profit after taxation	8,619	7,334
Interest on increase in customers' deposits	–	–
Interest on borrowed capital	859	841
Adjustment for performance incentives / penalties	(47)	(45)
Adjustments required under the SoC (being share of profit on sale of electricity to the Chinese mainland attributable to the SoC Companies)	(43)	(62)
Profit for SoC	9,388	8,068
Transfer (to) / from Tariff Stabilisation Fund	(75)	868
Permitted return	9,313	8,936
Deduct interest on / Adjustment for		
Increase in customers' deposits as above	–	–
Borrowed capital as above	859	841
Performance incentives / penalties as above	(47)	(45)
Tariff Stabilisation Fund to Rate Reduction Reserve	2	2
	814	798
Net return	8,499	8,138
Divisible as follows:		
CLP Power Hong Kong	5,425	5,139
CAPCO	3,074	2,999
	8,499	8,138
CLP Power Hong Kong's share of net return		
CLP Power Hong Kong	5,425	5,139
Interest in CAPCO	1,229	1,200
	6,654	6,339

Five-year Summary: CLP Group Statistics

Economic

	2012	2011	2010	2009	2008
Consolidated Operating Results, HK$M					
Revenue					
Electricity business in Hong Kong (HK)	**33,643**	31,518	29,944	28,297	30,191
Energy business in Australia	**66,843**	56,325	25,182	19,166	19,432
Others	**4,375**	3,791	3,284	3,205	4,674
Total	**104,861**	91,634	58,410	50,668	54,297
Operating profit	**13,101**	13,188	12,397	10,847	13,307
Earnings					
Electricity business in HK	**6,654**	6,339	6,129	5,964	7,549
Energy business in Australia	**1,685**	2,911	1,303	736	604
Other investments / operations	**1,631**	1,581	2,173	2,271	1,960
Gains on sales of assets	**–**	876	356	153	657
Provisions for fixed assets / jointly controlled entities / associated companies	**(409)**	(1,933)	(258)	(477)	–
Valuation gain on Hok Un redevelopment	**–**	225	–	–	–
Tax consolidation benefit from Australia	**105**	–	989	–	–
Other one-off items from Australia	**(790)**	(192)	97	(17)	19
Unallocated net finance costs	**(74)**	(48)	(18)	(21)	(21)
Unallocated Group expenses	**(490)**	(471)	(439)	(413)	(345)
Total	**8,312**	9,288	10,332	8,196	10,423
Dividends	**6,301**	6,063	5,967	5,967	5,971
Capital expenditure, owned and leased assets	**11,230**	15,798	20,032	9,713	7,760
Depreciation & amortisation, owned and leased assets	**7,021**	6,353	5,065	4,332	4,055
Consolidated Statement of Cash Flows, HK$M					
Net cash inflow from operating activities	**23,915**	18,062	16,085	14,529	15,238
Consolidated Statement of Financial Position, HK$M					
SoC fixed assets	**63,599**	60,142	57,247	54,712	52,132
Other fixed assets	**70,730**	70,240	60,213	44,146	36,991
Goodwill and other intangible assets	**28,479**	27,369	9,150	8,105	6,324
Interests in jointly controlled entities	**19,197**	18,226	20,476	18,838	17,791
Interests in associated companies	**1,856**	1,465	2,378	1,813	242
Other non-current assets	**7,742**	9,791	11,177	9,588	8,166
Current assets	**37,153**	27,055	18,714	19,329	11,185
Total assets	**228,756**	214,288	179,355	156,531	132,831
Shareholders' funds	**91,127**	81,259	79,661	70,761	63,017
Non-controlling interests	**74**	93	97	107	105
Equity	**91,201**	81,352	79,758	70,868	63,122
Bank loans and other borrowings	**66,198**	65,521	44,623	39,431	26,696
Obligations under finance leases	**27,055**	27,396	27,100	21,855	21,765
SoC reserve accounts	**1,245**	643	1,509	1,654	1,826
Other current liabilities	**28,147**	23,642	16,420	14,023	11,205
Other non-current liabilities	**14,910**	15,734	9,945	8,700	8,217
Total liabilities	**137,555**	132,936	99,597	85,663	69,709
Equity and total liabilities	**228,756**	214,288	179,355	156,531	132,831
Per Share Data, HK$					
Shareholders' funds per share	**36.07**	33.77	33.11	29.41	26.19
Earnings per share	**3.45**	3.86	4.29	3.41	4.33
Dividends per share	**2.57**	2.52	2.48	2.48	2.48

A ten-year summary is on our website

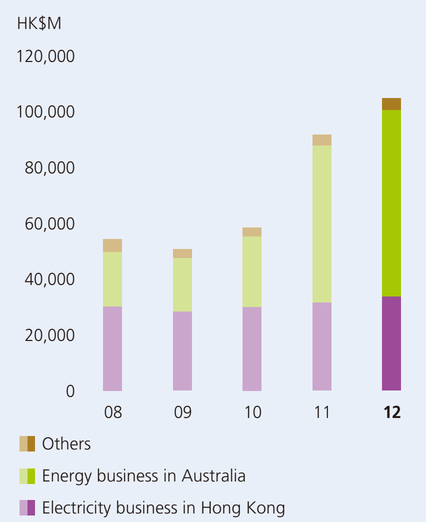
	2012	2011	2010	2009	2008
Per Share Data, HK$ (continued)					
Closing share price					
Highest	**68.95**	74.95	64.65	57.55	70.50
Lowest	**62.30**	59.95	52.15	51.15	42.85
As at year-end	**64.85**	66.05	63.10	52.45	52.60
Ratios					
Return on equity, %	**10.1** #	11.5	13.7	12.3	16.4
Total debt to total capital, %	**42.1**	44.6	35.9	35.7	29.7
Net debt to total capital, %	**36.8**	43.1	33.3	30.7	29.1
Interest cover, times	**4**	4	7	8	9
Price / Earnings, times	**19**	17	15	15	12
Dividend yield, %	**4.0**	3.8	3.9	4.7	4.7
Dividend pay-out (total earnings), %	**74.5**	65.3	57.8	72.8	57.3
Dividend pay-out (operating earnings), %	**65.9**	58.8	65.2	69.9	61.3
Group Generating Capacity					
(owned / operated / under construction) *, MW					
– by region					
Hong Kong	**6,908**	6,908	6,908	6,908	6,908
Australia	**5,616**	5,616	3,211	3,188	3,132
Chinese mainland **	**5,911**	5,957	5,899	5,578	5,206
India **	**2,947**	2,594	2,461	2,420	2,183
Southeast Asia & Taiwan	**285**	282	868	832	796
	21,667	21,357	19,347	18,926	18,225
– by status					
Operational	**21,175**	19,707	17,145	16,473	15,636
Construction	**492**	1,650	2,202	2,453	2,589
	21,667	21,357	19,347	18,926	18,225

The 2012 figure excludes the effect of the 5% share placement on 20 December 2012 to give a more accurate average shareholders' funds in 2012.

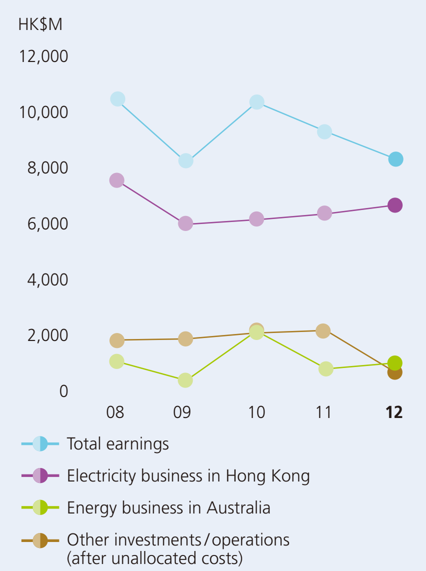
* Group generating capacity (in MW) is incorporated on the following basis: (a) CAPCO on 100% capacity as stations operated by CLP Power Hong Kong; (b) PSDC and Ecogen on 100% as having right to use; and (c) other stations on the proportion of the Group's equity interests.

** Including our interests in wind farms held through Roaring 40s for 2008. CLP acquired these wind farms from Roaring 40s during 2009.

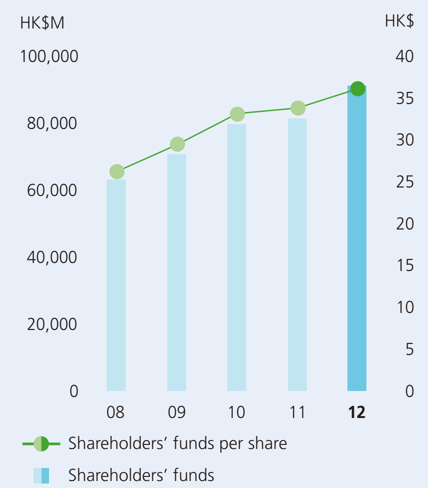
Revenue



Earnings



Shareholders' Funds



Environmental

Performance Indicators	Units	2012	2011	2010	2009	2008	Global Reporting Initiative Reference	HKEx ESG Reporting Guide Reference
Resource Use & Emissions[(1)]								
Coal consumed (for power generation)	TJ	361,819	419,357	370,427	469,509	445,211	EN3	B2.1
Gas consumed (for power generation)	TJ	86,200	101,166	135,556	102,160	105,821	EN3	B2.1
Oil consumed (for power generation)	TJ	8,200	1,508	1,272	7,185	6,452	EN3	B2.1
Biomass consumed (for power generation)	TJ	1,745	1,848	1,375	1,012	–	EN3	B2.1
Carbon dioxide equivalent (CO_2e) emissions (from power generation)	kT	38,464	44,450	41,908	49,761	–	EN16	B1.2
Carbon dioxide (CO_2) emissions (from power generation)[(2)]	kT	38,319	44,298	41,784	49,631	44,251	EN16	B1.2
Nitrogen oxides emissions (NO_x)	kT	42.9	48.1	39.3	43.8	47.6	EN20	B1.1
Sulphur dioxide emissions (SO_2)	kT	35.1	35.8	37.4	53.0	55.3	EN20	B1.1
Total particulates emissions	kT	4.7	6.2	6.4	6.8	6.8	EN20	B1.1
Water withdrawal							EN8	B2.2
from marine water resources	Mm^3	4,648.6	4,688.6	4,670.7	3,163.9	–		
from freshwater resources	Mm^3	35.4	37.9	41.7	42.0	–		
from municipal sources	Mm^3	5.8	5.5	4.3	4.1	–		
Total	Mm^3	4,689.6	4,732.0	4,716.6	3,210.0	–		
Water discharged							EN21	
cooling water to marine water bodies	Mm^3	4,648.6	4,688.6	4,670.7	3,163.9	–		
treated wastewater to marine water bodies	Mm^3	1.1	0.8	0.8	1.0	–		
treated wastewater to freshwater bodies	Mm^3	14.0	18.1	18.4	15.5	–		
wastewater to sewerage	Mm^3	1.7	1.8	1.6	1.7	–		
wastewater to other destinations	Mm^3	0.3	0.6	0.7	0.7	–		
Total	Mm^3	4,665.7	4,710.0	4,692.1	3,182.9	–		
Hazardous waste produced[(3)]	T (solid) / kl (liquid)	262 / 1,500	799 / 912	803 / 1,167	771 / 1,011	–	EN22	B1.3
Hazardous waste recycled[(3)]	T (solid) / kl (liquid)	25 / 1,023	36 / 831	39 / 844	57 / 636	–	EN22	
Non-hazardous waste produced[(3)]	T (solid) / kl (liquid)	10,830 / 21	6,301 / 0	8,029 / 2	5,160 / 0	–	EN22	B1.4
Non-hazardous waste recycled[(3)]	T (solid) / kl (liquid)	2,719 / 4	3,699 / 0	3,199 / 0	2,369 / 0	–	EN22	
Environmental regulatory non-compliances resulting in fines or prosecutions	number	0	0	0	0	–	EN28	
Environmental licence limit exceedances & other non-compliances	number	1	5	3	1	–	EN28	
Climate Vision 2050 Target Performance (Equity Basis)[(4)]								
Total renewable energy generation capacity	% (MW)	20.2 (2,734)	18.3 (2,424)	16.8 (2,286)	11.3 (1,494)	8.4 (1,066)	EN6	
Non-carbon emitting generation capacity	% (MW)	23.8 (3,226)	22.0 (2,916)	20.4 (2,778)	15.0 (1,986)	12.3 (1,558)	EN6	
Carbon dioxide emissions intensity of CLP Group's generation portfolio	kg CO_2 / kWh	0.77	0.80	0.80	0.83	0.84	EN16	B1.2

Notes:

(1) Covered operating facilities where CLP has operational control for the full calendar reporting year.

(2) Includes Yallourn and Hallett facilities' CO_2e emissions as CO_2 emissions data were not available.

(3) Waste categorised in accordance with local regulations.

(4) "Equity basis" includes all majority and minority share facilities in the CLP Group portfolio.

All 2012 environmental data on this page have been independently verified by AECOM Asia Company Limited.

Social

Performance Indicators	Units	2012	2011	2010	2009	2008	Global Reporting Initiative Reference	HKEx ESG Reporting Guide Reference
Employees								
Employees based on geographical location							LA1	A1.1
Hong Kong	number	4,345	4,259	4,228	4,164	4,165		
Chinese Mainland	number	539	552	574	546	525		
Australia	number	1,302	1,111	939	841	856		
India	number	391	374	309	207	143		
Other locations (Southeast Asia & Macau)	number	4	20	25	19	28		
Total	number	6,581	6,316	6,075	5,777	5,717		
Employees eligible to retire within the next five years(1)							EU15	
Hong Kong	%	14.0	13.4	12.5	11.4	9.9		
Chinese Mainland	%	11.9	9.6	11.3	7.3	2.1		
Australia	%	11.9	9.6	9.5	10.1	8.6		
India	%	0.8	1.1	1.3	1.5	1.4		
Other locations (Southeast Asia & Macau)	%	n/a(2)	0	0	0	0		
Group	%	12.6	11.6	11.3	10.3	8.8		
Voluntary staff turnover rate	%	5.2	4.9	5.3	2.7	5.8	LA2	A1.2
Training per employee	average man days	5.6	5.4	5.5	4.9	5.9	LA10	A3.2
Safety(3)								
Fatalities (employees only)	number	0	0	1	0	0	LA7	A2.1
Cases of disabling injuries (employees only)	number	5	9	2	3	9	LA7	
Days lost / charged (employees only)	number	240	674	6,010	45	109	LA7	A2.2
Governance								
Convicted cases of corruption	cases	0	0	0	0	0	SO4	C3.1
Breaches of Code of Conduct	cases	14	6	4	8	8		

Notes:

(1) The percentages given refer to the full-time permanent staff (based on the location of their employing Group entity) within each location, and of the Group as a whole, who are eligible to retire within the next five years.

(2) Not applicable as there were no CLP full-time permanent staff in 2012.

(3) Covered operating facilities where CLP has operational control for the full calendar reporting year.

All 2012 social data on this page have been independently verified by AECOM Asia Company Limited.

Five-year Summary: Scheme of Control Financial & Operating Statistics

CLP Power Hong Kong Limited and Castle Peak Power Company Limited

	2012	2011	2010	2009	2008
SoC Financial Statistics, HK$M					
Combined Profit & Loss Statement					
Profit for SoC	**9,388**	8,068	8,420	8,052	10,418
Transfer (to)/from Tariff Stabilisation Fund/ Development Fund *	**(75)**	868	148	103	(133)
Permitted return	**9,313**	8,936	8,568	8,155	10,285
Less: Interest on/Adjustment for					
Increase in customers' deposits	**–**	–	–	–	2
Borrowed capital	**859**	841	763	625	608
Performance incentives/penalties	**(47)**	(45)	(43)	(41)	–
Tariff Stabilisation Fund/Development Fund *	**2**	2	3	3	132
Net return	**8,499**	8,138	7,845	7,568	9,543
Combined Balance Sheet					
Net assets employed					
Fixed assets	**95,243**	91,187	87,713	83,811	79,445
Non-current assets	**1,904**	2,310	1,698	774	1,552
Current assets	**11,530**	4,913	4,367	3,929	3,612
	108,677	98,410	93,778	88,514	84,609
Less: current liabilities	**22,248**	17,439	15,194	17,658	14,394
Net assets	**86,429**	80,971	78,584	70,856	70,215
Exchange fluctuation account	**(907)**	(1,428)	(962)	(346)	(165)
	85,522	79,543	77,622	70,510	70,050
Represented by					
Shareholders' funds	**43,070**	41,845	39,960	37,197	42,366
Long-term loans and other borrowings	**28,254**	25,283	25,248	21,598	16,616
Deferred liabilities	**13,486**	11,778	10,909	10,062	9,312
Tariff Stabilisation Fund/Development Fund *	**712**	637	1,505	1,653	1,756
	85,522	79,543	77,622	70,510	70,050
Other SoC Information					
Total electricity sales	**33,842**	30,824	29,917	28,349	30,288
Capital expenditure	**8,621**	7,774	7,748	7,798	7,665
Depreciation	**4,146**	3,863	3,427	3,149	3,005
SoC Operating Statistics					
Customers and Sales					
Number of customers (thousand)	**2,400**	2,378	2,347	2,321	2,291
Sales analysis, millions of kWh					
Commercial	**12,917**	12,670	12,642	12,488	12,312
Manufacturing	**1,890**	1,886	1,952	1,938	2,202
Residential	**8,900**	8,594	8,457	8,331	7,890
Infrastructure and Public Services	**8,288**	8,018	7,878	7,813	7,661
Local	**31,995**	31,168	30,929	30,570	30,065
Export	**1,838**	2,957	2,609	3,731	3,552
Total Electricity Sales	**33,833**	34,125	33,538	34,301	33,617
Annual change, %	**(0.9)**	1.8	(2.2)	2.0	(1.1)
Local consumption, kWh per person	**5,466**	5,373	5,365	5,353	5,260
Local sales, HK¢ per kWh (average)					
Basic tariff	**84.2**	80.1	80.1	77.5	85.6
Fuel clause charge	**17.8**	14.1	11.5	11.8	7.3
SoC rebate	**–**	–	–	(0.2)	(0.8)
Special rebate	**–**	–	–	–	(1.6)
Total tariff	**102.0**	94.2	91.6	89.1	90.5
Rent & Rates Special Rebate **	**(3.3)**	–	–	–	–
Net tariff	**98.7**	94.2	91.6	89.1	90.5
Annual basic tariff change, %	**5.1**	–	3.4	(9.5)	(2.8)
Annual total tariff change, %	**8.3**	2.8	2.8	(1.5)	3.8
Annual net tariff change, %	**4.8**	2.8	2.8	(1.5)	3.8

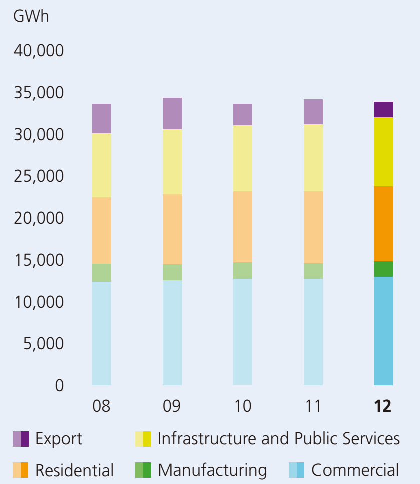
A ten-year summary is on our website

	2012	2011	2010	2009	2008
Generation (Including Affiliated Generating Companies)					
Installed capacity, MW	**8,888**	8,888	8,888	8,888	8,888
System maximum demand					
Local, MW	**6,769**	6,702	6,766	6,389	6,749
Annual change, %	**1.0**	(0.9)	5.9	(5.3)	7.4
Local and the Chinese mainland, MW	**7,431**	7,798	7,349	7,616	8,199
Annual change, %	**(4.7)**	6.1	(3.5)	(7.1)	6.1
System load factor, %	**57.5**	55.3	57.2	56.4	51.1
Generation by CAPCO stations, millions of kWh	**25,894**	26,800	26,019	26,410	25,722
Sent out, millions of kWh –					
From own generation	**24,102**	24,955	24,552	24,920	24,324
Net transfer from / (to)					
Landfill gas generation	**3**	5	5	5	5
GNPS / GPSPS / Others	**11,172**	10,558	10,350	10,773	10,653
Total	**35,277**	35,518	34,907	35,698	34,982
Fuel consumed, terajoules –					
Oil	**7,900**	1,044	844	895	1,048
Coal	**182,651**	188,407	148,229	169,753	153,565
Gas	**50,420**	57,665	83,007	70,393	77,487
Total	**240,971**	247,116	232,080	241,041	232,100
Cost of fuel, HK$ per gigajoule – Overall	**40.56**	35.33	34.13	29.14	29.06
Thermal efficiency, % based on units sent out	**36.0**	36.4	38.1	37.2	37.7
Plant availability, %	**82.1**	85.4	79.2	83.0	85.8
Transmission and Distribution					
Network, circuit kilometres					
400kV	**555**	555	554	555	554
132kV	**1,581**	1,531	1,528	1,488	1,386
33kV	**27**	27	27	60	62
11kV	**12,074**	11,809	11,658	11,444	11,240
Transformers, MVA	**60,136**	59,454	58,929	57,700	57,187
Substations –					
Primary	**216**	213	213	214	214
Secondary	**13,536**	13,361	13,208	13,074	12,914
Employees and Productivity					
No. of SoC employees	**3,791**	3,734	3,709	3,708	3,758
Productivity, thousands of kWh per employee	**8,504**	8,375	8,340	8,189	7,892

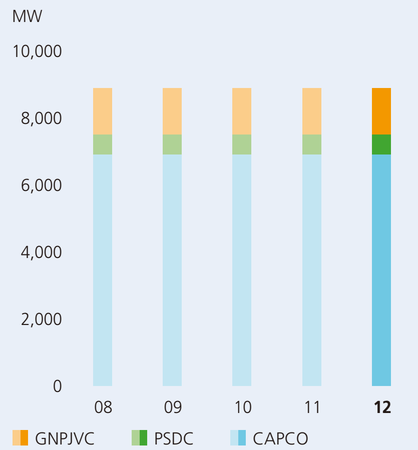
* The Tariff Stabilisation Fund has replaced the Development Fund under the new SoC effective from 1 October 2008.

** While pending the decision of the Lands Tribunal on our rent and rates appeals, CLP Power Hong Kong provided customers with a Rent and Rates Special Rebate of 3.3 cents per unit in 2012. In the event of an unfavourable outcome of the appeals, CLP Power Hong Kong will recover any shortfall in the amounts of Rent and Rates Special Rebate already paid to the customers.

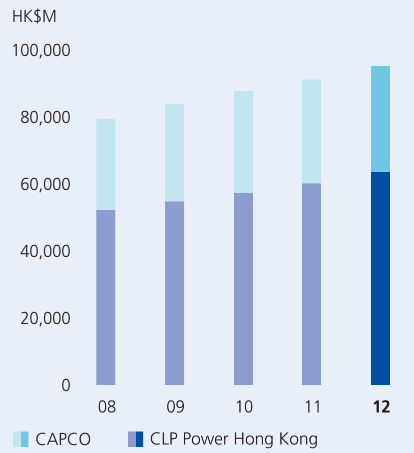
Electricity Sales by Sector



Installed Capacity



SoC Net Fixed Assets



How Can You Contact Us?

Annual Report

Printed in English and Chinese languages, available on our website at www.clpgroup.com on 11 March 2013 and posted to Shareholders on 26 March 2013.

Those Shareholders who (a) received our 2012 Annual Report electronically and would like to receive a printed copy or vice versa; or (b) received our 2012 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.

Register of Shareholders

To be closed on 12 March 2013 for the 2012 fourth interim dividend and closed from 29 April 2013 to 30 April 2013, both days inclusive, for the 2013 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

Contact Us

Address:	**8 Laguna Verde Avenue, Hung Hom, Kowloon, Hong Kong**	
Telephone:	**(852) 2678 8228** (Shareholders' hotline)	**(852) 2678 8322** (Investor Relations' hotline)
Facsimile:	**(852) 2678 8390** (Company Secretary)	**(852) 2678 8530** (Director - Investor Relations)
E-mail:	cosec@clp.com.hk (Company Secretary)	ir@clp.com.hk (Director - Investor Relations)

April Chan
Company Secretary

Gloria Kwan
Director - Investor Relations

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 30 April 2013. 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 26 March 2013.

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

Hong Kong Association for Cleft Lip and Palate (HKACLP)

In 2007 we supported another "CLP" in Hong Kong – the Hong Kong Association for Cleft Lip and Palate (HKACLP). This is a registered non-profit patients' self-help organisation which provides assistance to the affected children in both physical and psychological aspects, through mutual support and experience-sharing among their parents.

This year we are supporting HKACLP's two-year speech therapy programme which will include:

- Direct service to patients – speech assessment and speech therapy for 2 to 6 years old children whose speech is affected by cleft lip and cleft palate;
- Train the trainer programme for HKACLP volunteers who will help the parents of children below 2 years old to start speech sound development and oral-motor exercises;
- Social education programme in local primary and secondary schools to enhance people's understanding and acceptance of the patients.

Helping Our Community

Every year since 2003 CLP, with the generous support of our shareholders and other stakeholders, has used 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 online Sustainability Report. The maximum donation amount is set at HK$350,000 (which we have raised from HK$300,000 last year). SR

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 2013.

Hong Kong Neuro-Muscular Disease Association Ltd. (HKNMDA)

Last year we donated HK$300,000 to the HKNMDA. This organisation provides support services to patients suffering from neuro-muscular diseases and to their families.

The donation from CLP was applied by HKNMDA to two projects. The first of these was a "Computer Training Programme". This, amongst other benefits, provided participants with basic knowledge of computer applications and the internet. The programme helped strengthen participants' social network by enabling them to communicate with others electronically. It also helped to train participants' hand-eye coordination. The "Handicraft Training Programme" offered participants artistic and decorative activities aimed at improving their hand muscle strength, as well as providing an interactive environment which encouraged patients in the skill of overcoming difficulties through cooperation.

These two programmes did not use the entirety of CLP's donation. The HKNMDA has advised that one of its most demanded services from neuro-muscular patients is transport assistance. Due to the reduction of services provided by its current transport service provider, HKNMDA is unable to maintain its current level of service. As a result, HKNMDA will be using the remaining amount of CLP's donation, approximately HK$89,000, to procure a shuttle service for wheelchair users from alternative service providers. The subsidy from CLP for travel costs in 2013 will allow HKNMDA more time to develop a long-term plan for the continued provision of transportation services.

This year, as every year, we thank you for your support.

CLP welcomes your views...

CLP 中電

Section A – Feedback on 2012 Annual Report

The Annual Report is a key document in the communication between us and our shareholders and other stakeholders.

1. To enhance the quality of our annual reporting, please let us have your views, by circling the appropriate number below.

		Easy to understand?				Did this provide helpful information?			
		strongly disagree			strongly agree	strongly disagree			strongly agree
2	5-Minute Annual Report	1	2	3	4	1	2	3	4
6	Chairman's Statement	1	2	3	4	1	2	3	4
10	CEO's Strategic Review	1	2	3	4	1	2	3	4
17	Shareholder Value and Engagement	1	2	3	4	1	2	3	4
26	Financial Review	1	2	3	4	1	2	3	4
Performance and Business Outlook									
38	Hong Kong	1	2	3	4	1	2	3	4
45	Australia	1	2	3	4	1	2	3	4
51	Chinese Mainland	1	2	3	4	1	2	3	4
57	India	1	2	3	4	1	2	3	4
62	Southeast Asia and Taiwan	1	2	3	4	1	2	3	4
Capitals									
65	Manufactured Capital – our assets and investments	1	2	3	4	1	2	3	4
69	Financial Capital – our funding resources and capability	1	2	3	4	1	2	3	4
78	Intellectual Capital – our expertise	1	2	3	4	1	2	3	4
80	Relationship Capital – our values, reputation and community involvement	1	2	3	4	1	2	3	4
83	Human Capital – our people	1	2	3	4	1	2	3	4
86	Environmental Capital – our contribution to the environment	1	2	3	4	1	2	3	4
Process									
93	Corporate Governance Report	1	2	3	4	1	2	3	4
111	Risk Management Report	1	2	3	4	1	2	3	4
119	Audit Committee Report	1	2	3	4	1	2	3	4
122	Sustainability Committee Report	1	2	3	4	1	2	3	4
124	Human Resources & Remuneration Committee Report	1	2	3	4	1	2	3	4
Financials									
142	How Can You Approach Our Financial Statements?	1	2	3	4	1	2	3	4
144	Accounting Mini-series	1	2	3	4	1	2	3	4
148	Financial Statements	1	2	3	4	1	2	3	4
Questions and Answers with CLP Management		1	2	3	4	1	2	3	4

2. Your overall rating of this Annual Report is:
(Please " ✓ " appropriate box)

Poor ☐ Fair ☐ Good ☐ Very Good ☐ Excellent ☐

3. Was there any additional information you expected to receive in the Annual Report? Please specify.

____

____

.../cont'd

4. Do you have any question to be addressed in next year's Annual Report or answered on the "Frequently Asked Questions" section of the Company's website? If so, please ask.

____

____

5. Any other comments / suggestions?

____

____

Section B – Request for Additional Information

Our Annual Report identifies those areas where additional information, beyond that set out in the Report itself, is available through our website (www.clpgroup.com) or in other printed publications.

You can get hard copies of that web information (if you do not have ready access to the Internet) and / or printed copies of other publications by indicating as appropriate below:

Name of Shareholder(s) ______________________________

Address ______________________________

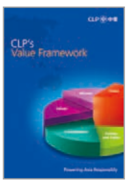
____

(Please " ✓ " appropriate box)

☐ Web Information Required (Please specify which) ______________________________

____

☐ CLP's Value Framework (2012 update)



☐ CLP Code on Corporate Governance (2012 update)

Please send your feedback or requests for additional information 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

"Personal Data" in this statement has the same meaning as "personal data" in the Personal Data (Privacy) Ordinance, Cap 486 ("PDPO"), which will include your name, mailing address and your opinion.

Your Personal Data provided in this form may be used in connection with our management of your request, inquiry, comments and suggestions or conducting and publishing statistical and data analysis. Your supply of Personal Data is on a voluntary basis. However, we may not be able to follow up your request or inquiry unless you provide us with your Personal Data.

Your Personal Data will not be transferred to any third party.

Your Personal Data will be retained for such period as may be necessary for the above purposes and its directly related purpose(s) and will be destroyed within two years after the date of receipt of your Personal Data.

You have the right to request access to and/or correction of your Personal Data in accordance with the provisions of the PDPO. 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: Personal Data Privacy Officer
Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

By e-mail to: hkinfo@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

CLP Holdings Limited

8 Laguna Verde Avenue
Hung Hom, Kowloon, Hong Kong
T (852) 2678 8111
F (852) 2760 4448
www.clpgroup.com

Stock Code: 00002

This Annual Report is printed on environmentally friendly paper.