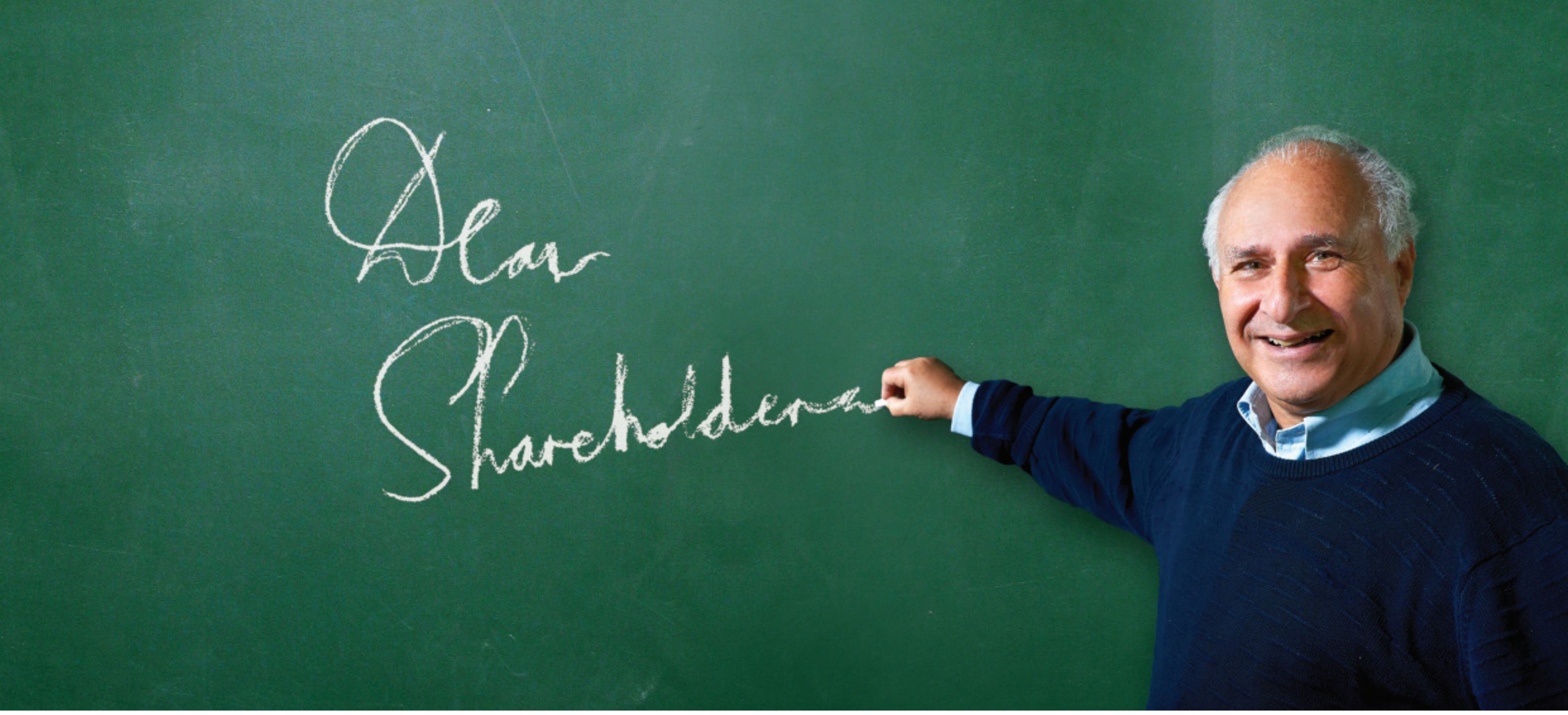


The Hon. Sir Michael Kadoorie, Chairman

In this year's Chairman's Statement,

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

Strong Financial Results

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

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

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

Hong Kong

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

Australia

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

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

Chinese Mainland

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

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

India

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

Southeast Asia and Taiwan

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

The Changing Shape of our Hong Kong Electricity Business

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

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

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

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

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

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

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

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

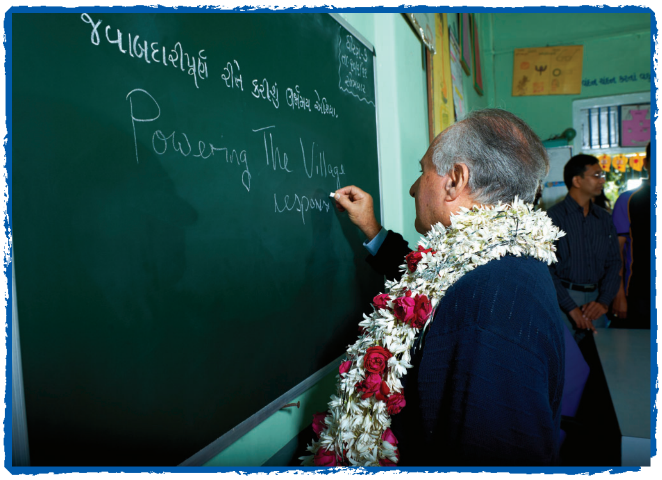
CLP has a responsibility to play its part in putting our community's mind at ease. We have, therefore, been working with the HKSAR Government, China Guangdong Nuclear Power Holding Company, Limited (CGNPC) and the Beijing authorities to seek ways in which the longstanding processes of public information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

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

Powering Asia Responsibly

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

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



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