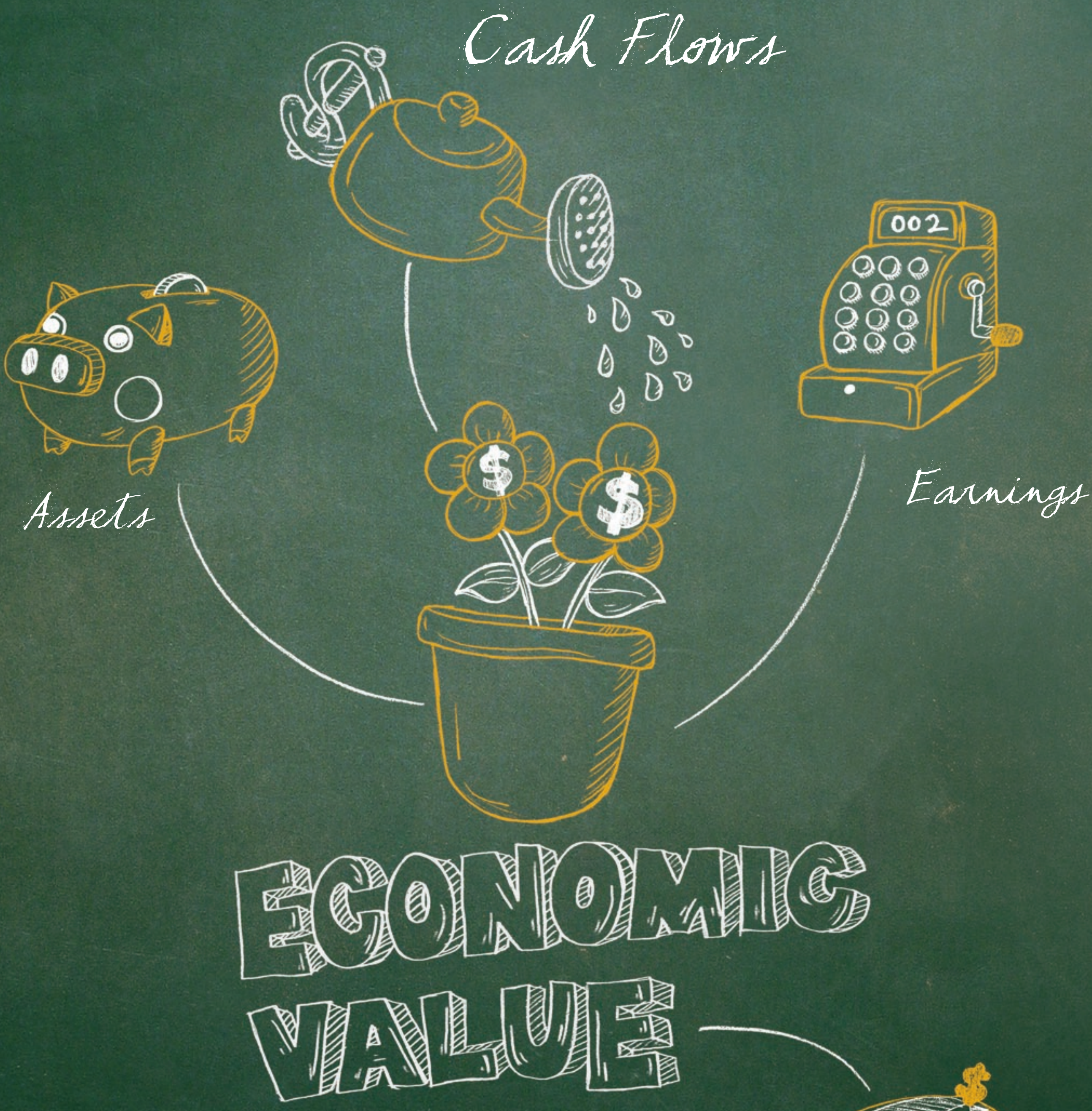


Good performance in the management and operation of our assets delivers economic value to our capital providers (shareholders and lenders). This is explained in the following Financial Review.

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

POWERING ASIA RESPONSIBLY

Financial Review

How can you approach our Financial Statements?

Financial Statements Decoded

The purpose of financial statements is to communicate the Group's financial information to its stakeholders, especially shareholders, investors and lenders. In this section we try to help readers who are not familiar with accounting rules and financial expressions to understand our financial information, by explaining the functions and relationships between the essential financial statements: the statement of comprehensive income, the statement of financial position and the statement of cash flows. For comprehensive and authoritative definitions and explanations, readers should turn to the relevant accounting standards, but we hope this section offers useful guidance.

Statement of comprehensive income

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

This statement comprises
(a) profit or loss and
(b) other comprehensive income ("OCI") which represents changes in net assets / equity not arising from transactions with owners (i.e. shareholders).

An example of OCI in CLP is the exchange gain arising from the translation of our Australia and India businesses in 2010 which increased our net assets in these two regions. Transactions with owners such as dividends are presented in the statement of changes in equity.

Statement of financial position

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

This statement sums up the Group's economic resources (non-current assets and working capital), obligations (debts and other non-current liabilities) and owners' equity at a particular point of time, in this case, our year end at 31 December 2010. It also shows how the economic resources contributed by lenders and shareholders are used in the business. In the past, we used to call this statement a "balance sheet" because at any given time, assets must equal liabilities plus owners' equity (in other words, be in balance). The current name reflects its function more accurately.

Statement of cash flows

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

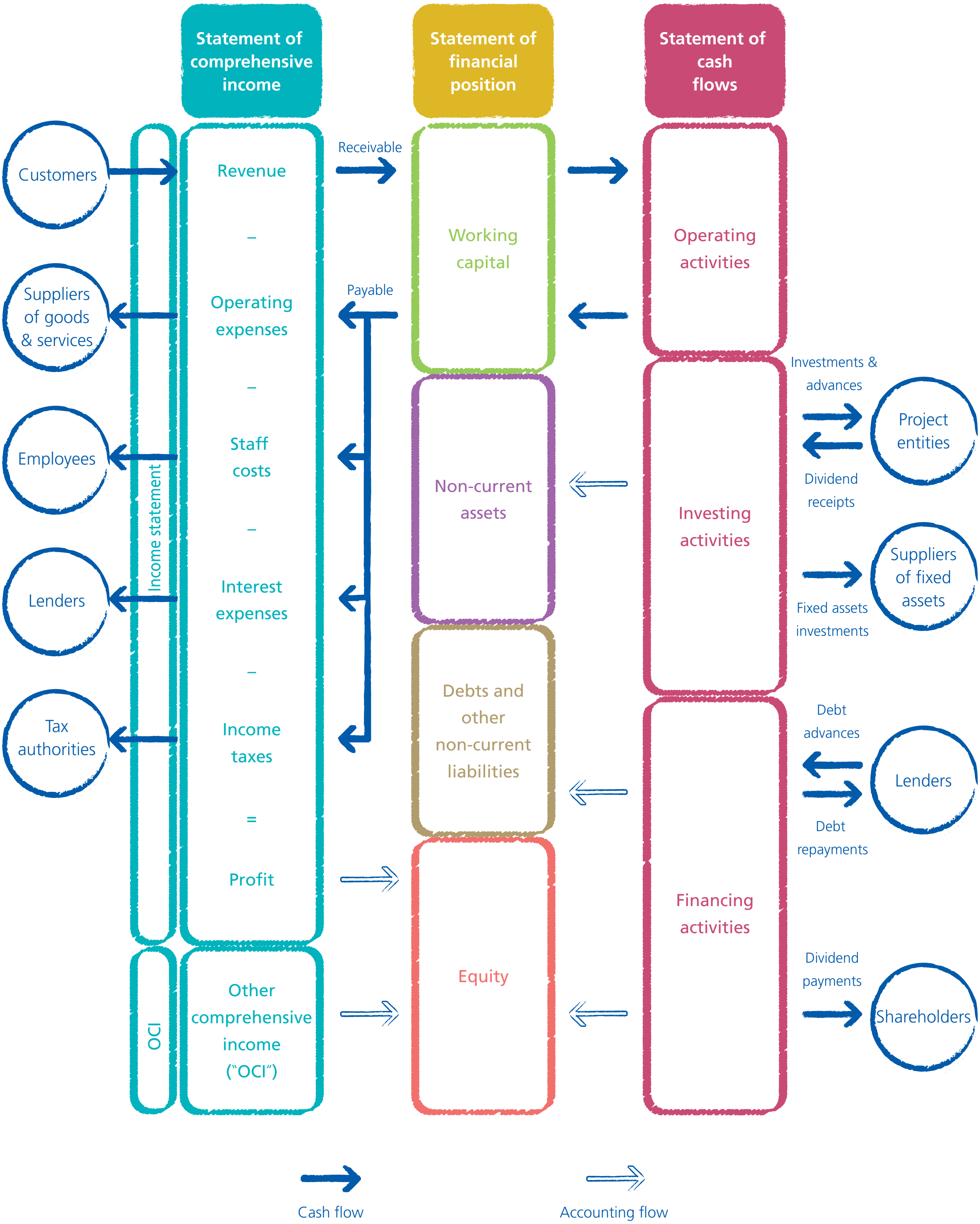
This statement divides the cash flows into operating, investing and financing cash flows. While the operating profit underlies the operating cash flows, certain non-cash charges or credits, such as depreciation, amortisation and fair value changes on derivatives, mean the operating cash flows and the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

Financial Statements Illustrated

The diagram opposite illustrates the relationships between the statement of comprehensive income, the statement of financial position and the statement of cash flows, as well as their links with the Group's stakeholders.

On the one hand, the Group earns revenue from customers through the deployment of non-current assets and working capital. On the other hand, it pays operating expenses to suppliers of goods and services, incurs staff costs and also invests in additional non-current assets. The net balance of revenue, operating expenses and staff costs is the operating profit. After deducting income taxes charged by tax authorities, this profit is available for payment to lenders (interest expenses and debt repayment) and for distribution to shareholders (dividends) in return for their contribution of funds to the Group in the form of debt and equity. Moreover, the Group also makes investments and advances to its project entities and receives dividend income from them in return.

Financial Statements – An Illustration



CLP Group's Financial Results and Position at a Glance

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

Financial statements are the scorecard of a business and the window to a company's operations. The Group's strategy drives investment decisions and business performance, which then translate into a set of numbers in the financial statements. This chart summarises how we delivered economic value in 2010.

Strategy to Diversify Electricity Business

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

The Results Achieved

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

Last Year's Consolidated Statement of Financial Position

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

Beyond Last Year's Statement of Financial Position*

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

* Details can be found on page 80.

Consolidated Statement of Comprehensive Income for Two Years

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

Consolidated Profits Retained for This Year

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

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

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

Consolidated Statement of Cash Flows for This Year

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

Breakdown of Capital Expenditure and Investments

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

Today's Consolidated Statement of Financial Position

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

Beyond Today's Statement of Financial Position*

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

* Details can be found on page 80.

Strategy to Optimise Financial and Capital Structure

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

The Results Achieved

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

Strategy to Manage Risks

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

The Results Achieved

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

Strategy to Reduce Carbon Intensity

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

The Results Achieved

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

Financial Analysis

Group's Financial Results

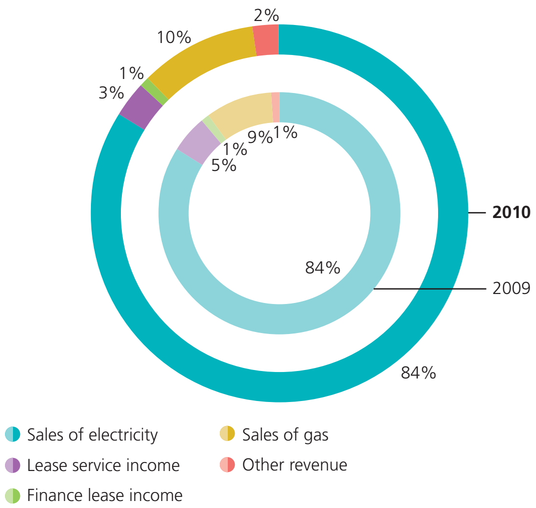
Financial results	*Accounting Policy*	*Notes to the Financial Statements*	2010 HK$M	2009 HK$M	Increase / (Decrease) HK$M	%
Revenue	*16*	*2*	58,410	50,668	7,742	15.3
Expenses			(46,413)	(39,974)	6,439	16.1
Finance costs	*13*	*6*	(4,212)	(3,477)	735	21.1
Income tax expense	*14*	*7*	(844)	(1,665)	(821)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

Revenue and Expenses

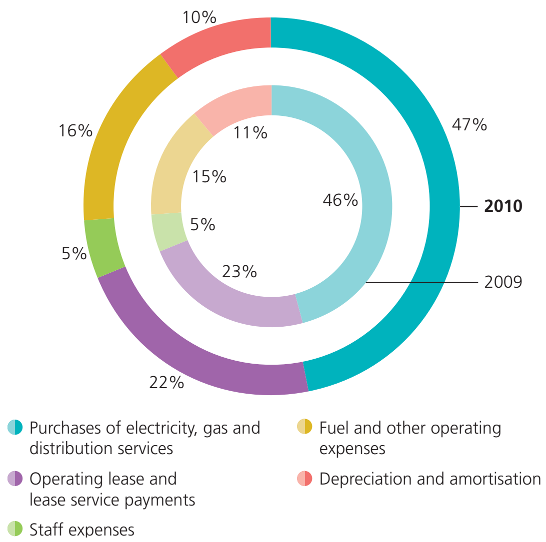
The Australian dollar increased in value by an average of 15.6% over the Hong Kong dollar causing a lift to both revenue and expenses. In Australia, revenue grew through the increase in retail electricity prices and the higher retail sales volumes. Expenses increased because of the rise in electricity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

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

Analysis of Revenue



Analysis of Expenses



Finance Costs

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

Income Tax Expense

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

Earnings Attributable to Shareholders

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

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

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

Hong Kong

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

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

Australia

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

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

Chinese Mainland

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

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

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

India

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

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

Southeast Asia and Taiwan

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

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

One-off Items

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

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

Group's Financial Position

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

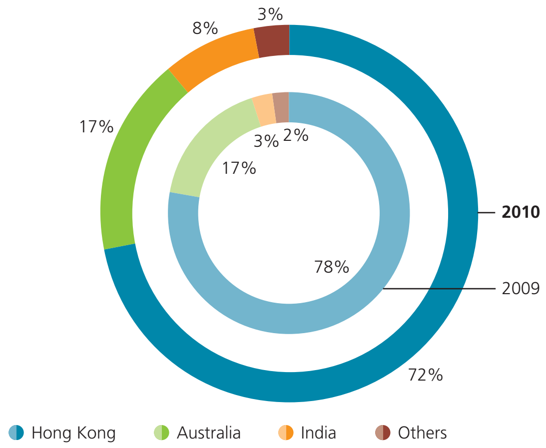
On the statement of financial position

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

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

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

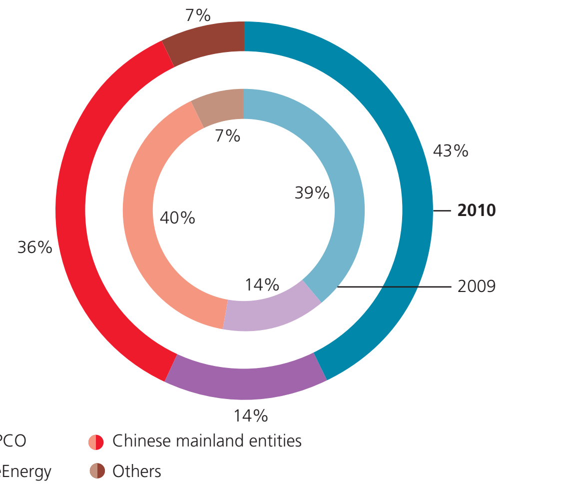
Fixed Assets, Leasehold Land and Land Use Rights under Operating Leases by Geographical Location



Interests in Jointly Controlled Entities

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

The Group's Major Jointly Controlled Entities



Deferred Tax Assets

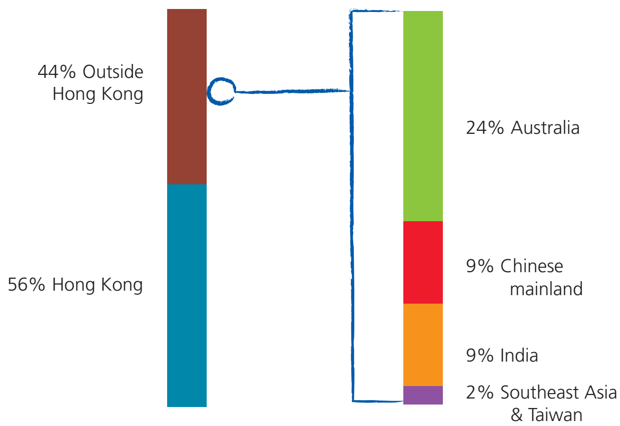
The deferred tax assets primarily related to TRUenergy's unused tax losses. The balance increased after the recognition of additional deferred tax assets of HK$989 million by TRUenergy following amendments to the tax consolidation rules in Australia. HK$600 million of the tax losses were utilised against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

Total Assets and Net Assets

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

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

Total Assets by Geographical Location in 2010



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

Group's Financial Position

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

On the statement of financial position

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

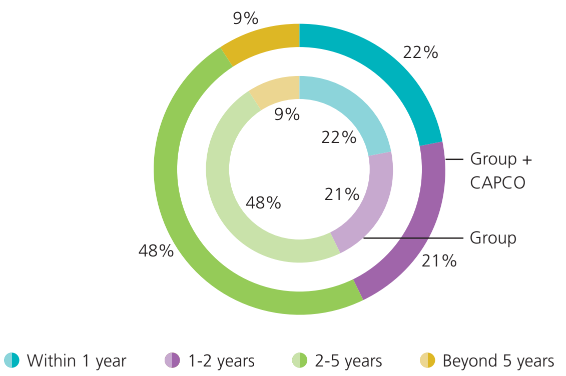
* Including current and non-current portions

Derivative Financial Instruments and Hedging

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

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

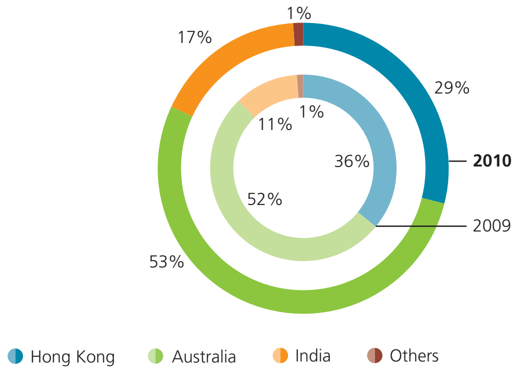
Maturity Profile in 2010



Trade and Other Receivables

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

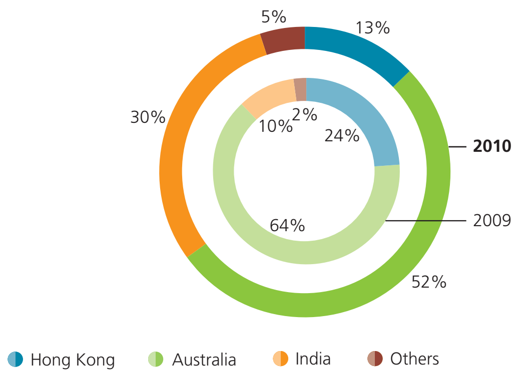
Trade Receivables by Segments



Trade and Other Payables

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

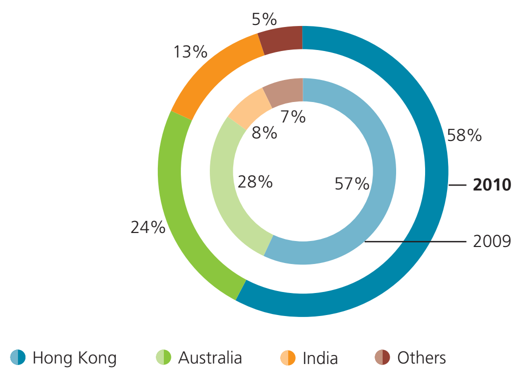
Trade Payables by Segments



Bank Loans and Other Borrowings

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

Bank Loans and Other Borrowings by Segments



Shareholders' Funds

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

Group's Financial Position

Beyond the statement of financial position

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

Charges on Assets

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

Operating Commitments

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

Contingent Liabilities

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

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

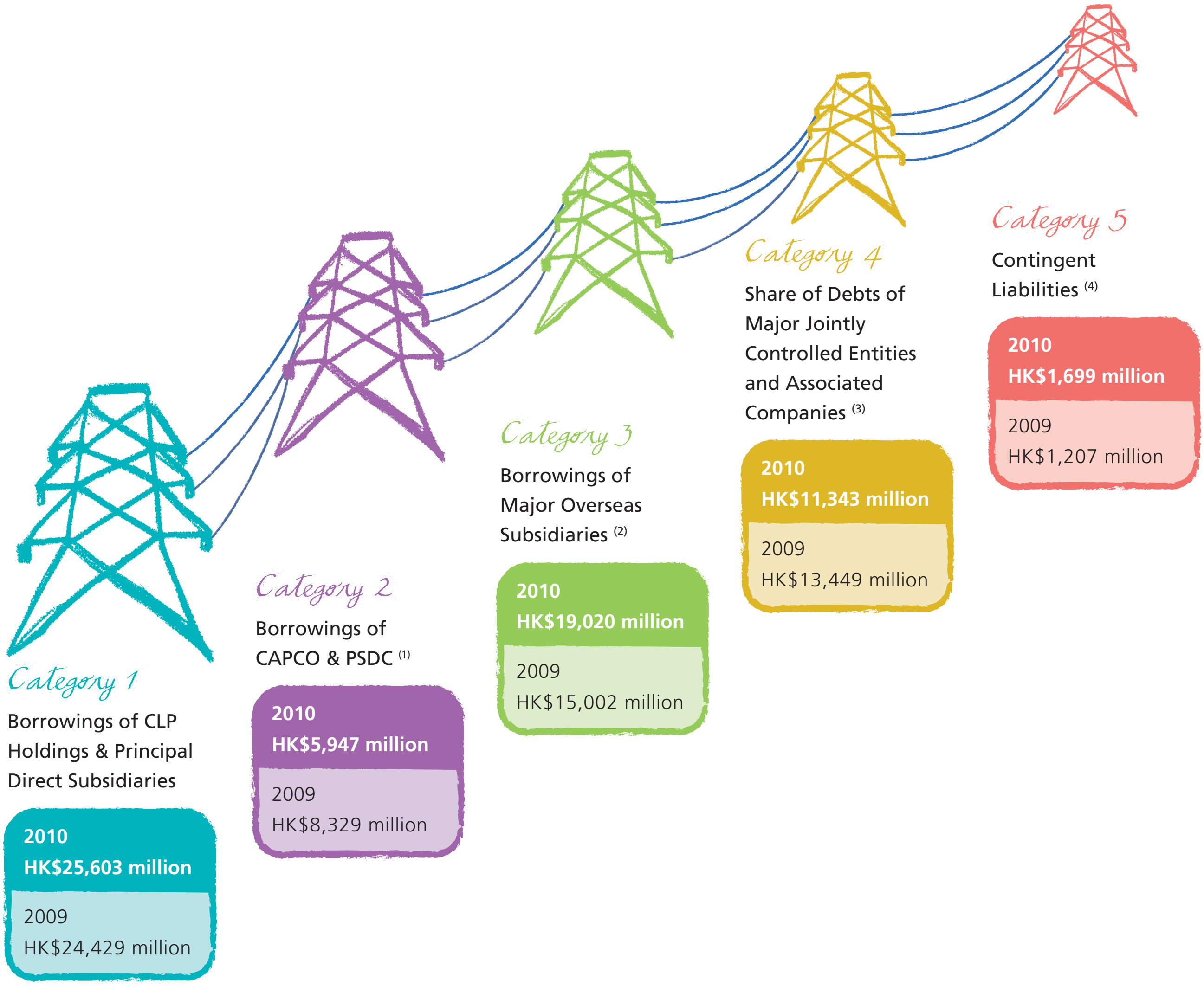
Capital Commitments

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

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

CLP Group's Financial Obligations at a Glance

The financial risks associated with borrowings and unconsolidated financial obligations of listed companies continue to be of market concern. Our policy is to adopt a conservative approach to such matters. The purpose of the following diagram is to explain the total financial obligations of CLP Group by classifying them into five categories according to their degree of recourse to CLP Holdings. Obligations under finance leases have not been included in the diagram.



Notes:

(1) 100% of the debts of CAPCO and PSDC. Although the Group holds only a 40% interest in CAPCO and a 49% interest in PSDC, CLP Power Hong Kong has commitments to these companies through power purchase and service agreements, as explained in the SoC Statement on pages 207 to 209 and Note 31 to the Financial Statements.

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

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

(4) Details of the contingent liabilities of CLP Holdings and its subsidiaries are set out in Note 32 to the Financial Statements.

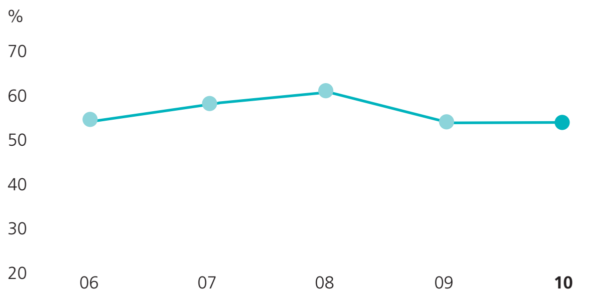
A Broader Perspective

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

Performance Indicators

The performance indicators tell you how well a company is performing. As the electricity business is highly capital intensive, the fixed assets turnover ratio provides an overview on how efficiently a company is generating sales from using its fixed assets. On the other hand, the return on equity demonstrates how effectively a company is investing its shareholders' funds.

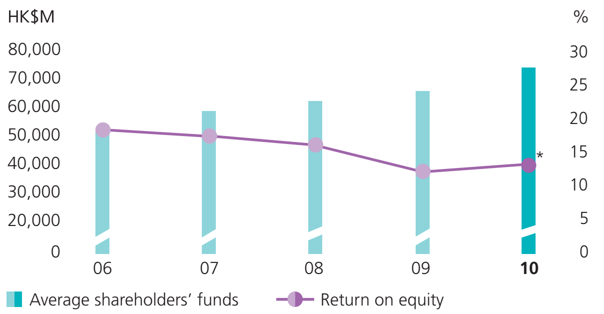
Fixed Assets Turnover Ratio



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

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

Return on Equity



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

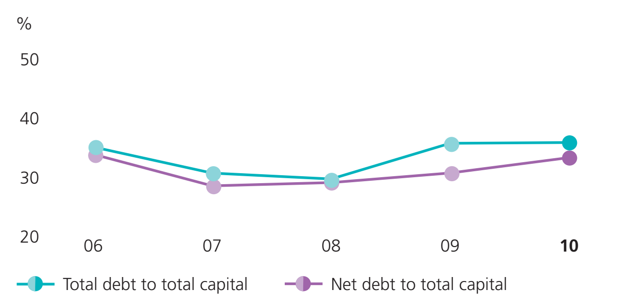
$$\text{Return on Equity} = \frac{\text{Earnings}}{\text{Average Shareholders' Funds}}$$

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

Financial Health Indicators

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

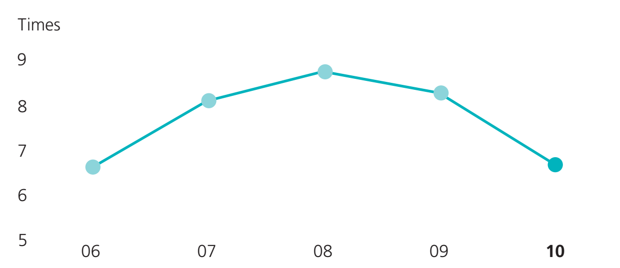
Gearing



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

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

Interest Cover Ratio



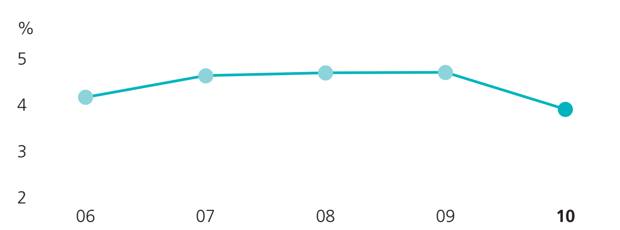
$$\text{Interest Cover Ratio} = \frac{\text{Profit before Income Tax and Interest}}{\text{Interest Charges + Capitalised Interest}}$$

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

Investors' Return Indicators

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

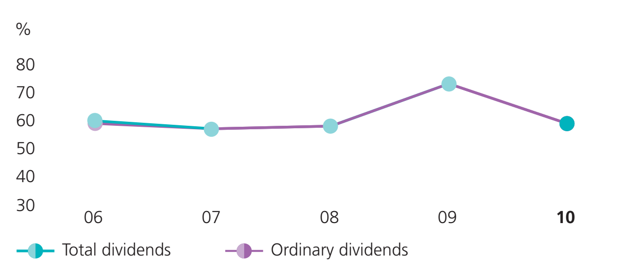
Dividend Yield



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

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

Dividend Pay-out



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

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