

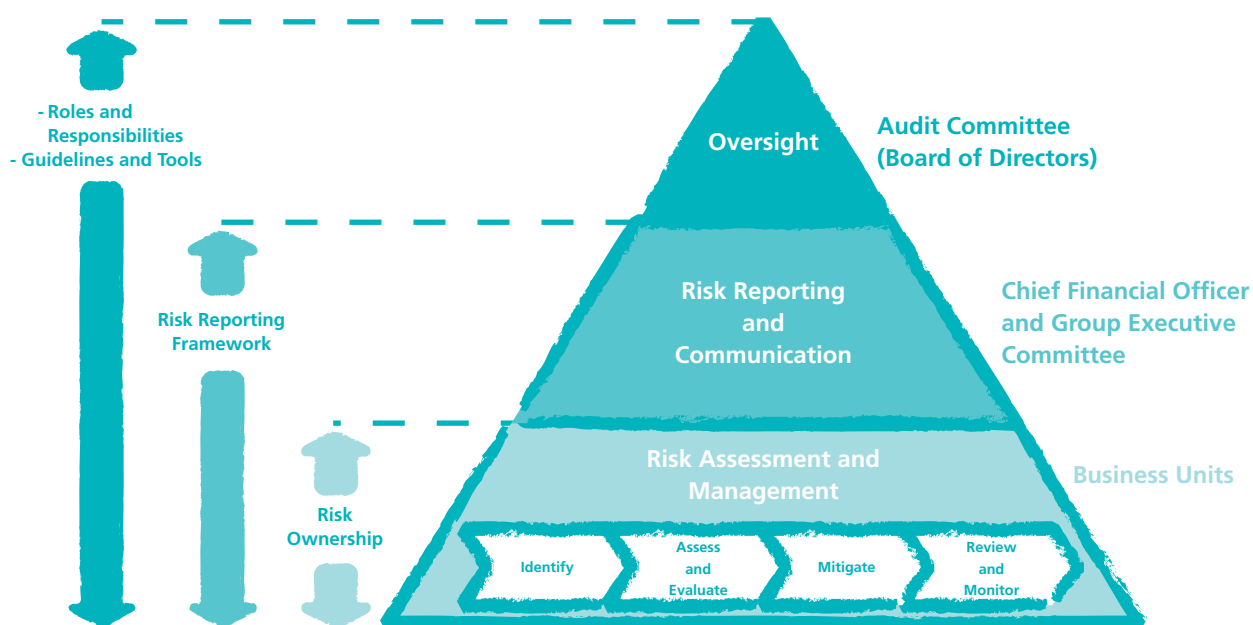
# Risk Management Report

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

## Our Current Framework

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

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



## Risk Management in 2010

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

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

## Risk Management Report

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

### Financial Risks

The Group's investments and operations have resulted in exposure to various financial risks – cash flow and liquidity risks, credit and counterparty risks, interest rate risks, and foreign currency risks.

#### The way we manage

- We manage these risks through periodic reviews, treasury and risk management policies and enforcement through standardised approval and review procedures, rather than taking a view on future financial market movements.
- We prohibit speculation and/or trading (except for limited trading activities conducted by TRUenergy) using derivative instruments and do not permit using investment or hedging instruments with leveraged or structured features.
- We rely on effective, vanilla type of derivatives to minimise the impact of rate and price fluctuations on earnings, reserves and tariff charges to customers.
- We adopt simple, cost-efficient and HKAS 39 hedge-effective instruments. For instance, we prefer foreign currency forward contracts, cross currency and interest rate swaps to options and structured products.
- We monitor our risk exposures with the assistance of "Value-at-Risk" (VaR) methodology and stress testing techniques.
- Our philosophy is to contract out financial risk exposure to qualified, creditworthy financial institutions with appropriate exposure limits, so that CLP's Management can focus on delivery of good business performance.

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



Mr. Mark S McCombe, OBE

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

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

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

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

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

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

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



Andrew Brandler

Chief Executive Officer

## Climate Change Risk

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

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

## The way we manage

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

### Fuel Supply Risk

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

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

### The way we manage

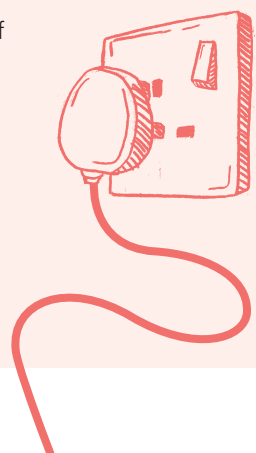
- In many of our markets, we focus on securing long-term fuel supply contracts when available and long-term tariff and off-take agreements which allow us to recover fluctuations in prices for fuel consumed.
- We explore back-up sources and alternative arrangements on an ongoing basis for assets with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

### Information Technology Risk

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

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

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





### The way we manage

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

### Reputational Risk

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

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

### The way we manage

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

### Human Resources

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

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

### The way we manage

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

### Safety

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

### The way we manage

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

### *The Way Ahead*

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



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

**Mark Takahashi**

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



# Audit Committee Report

## *The Audit Committee*

The Audit Committee is appointed by CLP Holdings' Board of Directors and has four members, all of whom are Independent Non-executive Directors. The Chairman, Mr. Vernon Moore, Professor Judy Tsui and Mr. Nicholas Allen have appropriate professional qualifications, including membership of the Hong Kong Institute of Certified Public Accountants (HKICPA), and experience in financial matters. Mr. Hansen C. H. Loh has wide business experience. The Board has given the Committee written terms of reference prepared by reference to "A Guide for Effective Audit Committees" published by the HKICPA, and updated by reference to the Hong Kong Stock Exchange's "Code on Corporate Governance Practices" (the Stock Exchange Code). Its terms of reference are set out in the CLP Code on Corporate Governance and published on the CLP website. 

The primary responsibilities of the Audit Committee are to

- assure that adequate internal controls are in place and followed;
- assure that appropriate accounting principles and reporting practices are followed;
- satisfy itself as to the adequacy of the scope and direction of external and internal auditing; and
- satisfy itself that good accounting, audit and compliance principles, internal controls and ethical practices are applied on a consistent basis throughout the CLP Group.

The Committee regularly meets four times per annum so that full attention can be given to the matters submitted. Special meetings may be called by its Chairman or at the request of the CEO or Director – Group Internal Audit to review significant control or financial issues. The Committee is accountable to the Board, to whom minutes of all meetings are sent. The Chairman gives an annual report to the Board covering the Committee's activities for the year, highlighting any significant issues.

## *Summary of Work Done*

Between 1 January 2010 and 24 February 2011 (the date of this Report), the Audit Committee discharged its responsibilities in its review of the half-yearly and annual results and system of internal control and its other duties as set out in the CLP Code on Corporate Governance. The Committee reviewed the Financial Statements for the year ended 31 December 2010, including the CLP Group's adopted accounting principles and practices, in conjunction with the internal and external auditors. The Committee also reviewed the compliance by the Company with the Stock Exchange Code throughout the year ended 31 December 2010. Individual attendance of members at the four meetings held in 2010 is set out in the Corporate Governance Report on page 105. The work performed by the Committee in 2010 included reviews of

- the 2009 Annual Report including the Corporate Governance Report, the Directors' Report and Financial Statements for the year ended 31 December 2009 and the annual results announcement, with a recommendation to the Board for approval;
- the 2010 Interim Report including the CLP Group Interim Financial Statements for the six months ended 30 June 2010 and the interim results announcement, with a recommendation to the Board for approval;
- compliance by the Company with the Stock Exchange Code throughout the year ended 31 December 2009 and throughout the six months ended 30 June 2010. CLP complies with all the Code Provisions, with one deviation from Recommended Best Practices, which is explained on page 101 of this Annual Report\*;
- the Company's compliance with the Listing Rules, Companies Ordinance and Securities and Futures Ordinance throughout the year ended 31 December 2009. No breaches were identified\*;
- the actions taken by management regarding legal cases in which CLP Holdings or any member of the CLP Group was a named defendant. None of these cases was material, save as disclosed under Note 32 Contingent Liabilities in the Financial Statements\*;
- a General Representation Letter signed jointly by the CEO and the CFO regarding compliance with internal control systems, disciplines and procedures for the year ended 31 December 2009\*;
- the report and management letter submitted by external auditors, which summarised matters arising from their audit on the CLP Group for the year ended 31 December 2009, such as in respect of auditing and accounting matters, taxation issues and internal controls, together with the manner in which they had been addressed\*;
- the audit fees payable to external auditors for the year ended 31 December 2009 for approval by the Board, with a recommendation to the Board for their reappointment for the financial year 2010, subject to final approval by shareholders\* (which was given on 27 April 2010);



- the audit strategy submitted by external auditors, PricewaterhouseCoopers (PwC) for the year ended 31 December 2010;
- the proposed engagement of external auditors in respect of audit-related and permissible non-audit services\*;
- 23 reports on the CLP Group's affairs submitted by Group Internal Audit during 2009. Of these, two carried an unsatisfactory audit opinion. The issues arising from these audits have been addressed;
- the staffing and resources of the Group's Internal Audit department, as well as peer review of its operation and effectiveness;
- the Group internal audit review of 2009 and audit plan for 2010 with areas of emphasis identified;
- internal control review approach for 2010. The Audit Committee has requested and is satisfied with management's assurance that the system of internal control is retained at the level achieved to comply with the substance of the Sarbanes-Oxley Act, even after CLP's deregistration from the U.S. Securities and Exchange Commission reporting requirements;
- Code of Conduct issues identified in 2010. None of the four breaches of the Code involved senior managers or was material to the Group's financial statements or overall operations;
- management development and succession planning for key finance, accounting and internal audit positions within the CLP Group and the training programmes for those functions;
- status of Project Odyssey (TRUenergy's retail customer service and billing platform); and
- strengthened organisation, methodology and reporting of risk management at a Group level.

At its meeting on 15 February 2011, the Audit Committee reviewed this Annual Report, including the Corporate Governance Report, the Directors' Report and Financial Statements for the year ended 31 December 2010 and the annual results announcement with a recommendation to the Board for approval. The Committee was advised that 2 out of 24 reports on the Group's affairs submitted by Group Internal Audit during 2010 carried an unsatisfactory audit opinion, and the issues arising from these audits are being addressed by management. The Committee reviewed changes in accounting policies arising from revised financial reporting standards, the internal audit review for 2010 and audit plan for 2011, the staffing and resources of the Group Internal Audit department, and the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function. Other work performed by the Committee at that meeting included that marked "\*" in the above list, save that in each case the work related to the year ended 31 December 2010.

### *Internal Control*

Based on the information received from management, external auditors and Group Internal Audit, the Committee believes that overall financial and operating controls for the Group during 2010 continue to be effective and adequate. Significant issues which have been raised by external or internal auditors during 2010 have been or are being satisfactorily addressed by management. Further information about the control standards, checks and balances and control processes are set out in the Corporate Governance Report on pages 111 to 113. The Audit Committee confirms that it is discharging its responsibilities in accordance with the requirements of the CLP Code on Corporate Governance and is satisfied that the Group has complied with all the Code Provisions of the Stock Exchange Code with respect to internal controls.

### *External Auditors*

PwC were reappointed independent auditors of the Company at the 2010 AGM. PwC audit all companies in the CLP Group which require statutory audit opinions. Having reviewed PwC's performance during 2010 and satisfied itself of their continuing independence and objectivity within the context of applicable regulatory requirements and professional standards, the Committee has recommended to the Board the reappointment of PwC as independent auditors at the forthcoming AGM. A resolution to that effect has been included in the Notice of AGM.



**Vernon Moore**

Chairman

Audit Committee

Hong Kong, 24 February 2011

# Remuneration Report

## 1. Introduction

On behalf of the Board, the Human Resources & Remuneration Committee closely scrutinises the remuneration policies applied within the CLP Group, including the remuneration of Non-executive and Executive Directors and of Senior Management. Our objective is to ensure that CLP applies properly structured and fair remuneration policies which align the interests of Directors and Senior Management with those of the Company and its shareholders. This Report explains the policies applied to determining remuneration levels and sets out the remuneration paid to Non-executive Directors, Executive Directors and Senior Management. This Remuneration Report has been reviewed and endorsed by the Committee.

The contents of sections 4, 5, 6 and 8, in the highlighted boxes below, comprise the “auditable” part of the Remuneration Report and have been audited by the Company’s Auditors.

## 2. Policies

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

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


## 3. Non-executive Directors – Principles of Remuneration

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

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

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

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

The resulting fees were then benchmarked against those paid by leading listed companies in Hong Kong and major utility companies listed on the London Stock Exchange. The methodology and resulting fees were independently reviewed by Stephenson Harwood (SH), Solicitors. Further to CLP’s commitment to the adoption of a transparent methodology for determining Non-executive Directors’ remuneration, the 2010 Review and the opinion of SH on that Review are placed on CLP’s website. 

In line with our policy that no individual should determine his or her own remuneration, the levels of fees set out in the table below were proposed by Management, reviewed by SH and approved by our shareholders at the AGM on 27 April 2010. In this respect, CLP's approach goes beyond that required by law or regulation in Hong Kong or the provisions of the Hong Kong Stock Exchange's Code on Corporate Governance Practices. These levels of fees have taken effect from 28 April 2010 and were paid to Directors on a pro rata basis for the financial year ended 31 December 2010.

|   | Fees per annum<br>(w.e.f. 28 April 2010)<br>HK\$ | Fees per annum<br>in 2009<br>and up to<br>27 April 2010<br>HK\$ |
|---|--|---|
| <b>Board</b>  |  |   |
| Chairman  | 560,000  | 430,000   |
| Vice Chairman                                       | 440,000  | 340,000   |
| Non-executive Director                              | 400,000  | 310,000   |
| <b>Nomination Committee*</b>                        |  |   |
| Chairman  | 14,000   | 14,000  |
| Member  | 10,000   | 10,000  |
| <b>Audit Committee</b>                              |  |   |
| Chairman  | 315,000  | 220,000   |
| Member  | 225,000  | 160,000   |
| <b>Finance &amp; General Committee</b>              |  |   |
| Chairman  | 390,000  | 215,000   |
| Member  | 280,000  | 155,000   |
| <b>Human Resources &amp; Remuneration Committee</b> |  |   |
| Chairman  | 45,000   | 40,000  |
| Member  | 35,000   | 30,000  |
| <b>Provident &amp; Retirement Fund Committee*</b>   |  |   |
| Chairman  | 14,000   | 14,000  |
| Member  | 10,000   | 10,000  |
| <b>Sustainability Committee</b>                     |  |   |
| Chairman  | 75,000   | 45,000  |
| Member  | 55,000   | 35,000  |

\* A nominal fee is payable to the Chairman and Member of the Nomination Committee and the Provident & Retirement Fund Committee.

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

#### 4. Total Directors' Remuneration in 2010

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

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

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

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

### 5. Non-executive Directors – Remuneration in 2010

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

Higher levels of fees were paid to Chairmen and Vice Chairmen of the Board and Board Committees as indicated by "C" and "VC" respectively. Executive Directors and Management serving on the Board and Board Committees are not entitled to any Directors' fees.

| In HK\$                                    | Board                   | Audit Committee        | Nomination Committee  | Finance & General Committee | Human Resources & Remuneration Committee | Provident & Retirement Fund Committee | Sustainability Committee | Total 2010 | Total 2009 |
|--|-------------------------|------------------------|-----------------------|-----------------------------|--|---------------------------------------|--------------------------|------------|------------|
| <b>Non-executive Directors</b>             |                         |                        |                       |                             |  |                                       |                          |            |            |
| The Hon. Sir Michael Kadoorie              | 518,329 <sup>(C)</sup>  | —                      | 14,000 <sup>(C)</sup> | —                           | —  | —                                     | —                        | 532,329    | 465,878    |
| Mr. William Mocatta <sup>(1)</sup>         | 407,945 <sup>(VC)</sup> | —                      | —                     | 333,904 <sup>(C)</sup>      | 43,397 <sup>(C)</sup>                    | 14,000 <sup>(C)</sup>                 | —                        | 799,246    | 625,409    |
| Mr. R. J. McAulay                          | 371,151                 | —                      | —                     | —                           | —  | —                                     | —                        | 371,151    | 310,000    |
| Mr. J. A. H. Leigh                         | 371,151                 | —                      | —                     | —                           | —  | —                                     | —                        | 371,151    | 310,000    |
| Mr. R. Bischof <sup>(2)</sup>              | 76,438                  | —                      | —                     | —                           | —  | 2,466                                 | —                        | 78,904     | 320,000    |
| Mr. I. D. Boyce                            | 371,151                 | —                      | —                     | 239,932                     | —  | —                                     | —                        | 611,083    | 337,799    |
| Mr. Jason Whittle <sup>(3)</sup>           | 169,507                 | —                      | —                     | —                           | —  | —                                     | —                        | 169,507    | 310,000    |
| Dr. Y. B. Lee                              | 371,151                 | —                      | —                     | —                           | —  | —                                     | —                        | 371,151    | 326,409    |
| Mr. Paul A. Theys                          | 371,151                 | —                      | —                     | —                           | —  | —                                     | —                        | 371,151    | 326,409    |
| <b>Independent Non-executive Directors</b> |                         |                        |                       |                             |  |                                       |                          |            |            |
| The Hon. Sir S. Y. Chung                   | 371,151                 | —                      | 10,000                | —                           | —  | —                                     | —                        | 381,151    | 320,000    |
| Mr. V. F. Moore                            | 371,151                 | 284,548 <sup>(C)</sup> | —                     | 239,932                     | 33,397                                   | —                                     | —                        | 929,028    | 715,000    |
| Mr. Hansen C. H. Loh                       | 371,151                 | 204,164                | 10,000                | —                           | —  | —                                     | —                        | 585,315    | 480,000    |
| Mr. Paul M. L. Kan <sup>(4)</sup>          | 76,438                  | —                      | —                     | —                           | —  | —                                     | —                        | 76,438     | 310,000    |
| Professor Judy Tsui                        | 371,151                 | 204,164                | —                     | —                           | —  | —                                     | 48,589                   | 623,904    | 521,409    |
| Sir Rod Eddington                          | 371,151                 | —                      | —                     | 239,932                     | 33,397                                   | —                                     | —                        | 644,480    | 495,000    |
| Mr. Nicholas C. Allen <sup>(5)</sup>       | 371,151                 | 204,164                | —                     | 239,932                     | 30,849                                   | —                                     | 48,589                   | 894,685    | 334,360    |
| Mr. Peter T. C. Lee <sup>(6)</sup>         | —                       | —                      | —                     | —                           | —  | —                                     | —                        | —          | 297,554    |
| Ms. Marjorie M. T. Yang <sup>(6)</sup>     | —                       | —                      | —                     | —                           | —  | —                                     | —                        | —          | 18,633     |
| Total                                      |                         |                        |                       |                             |  |                                       |                          | 7,810,674  | 6,823,860  |

**Notes:**

- (1) Mr. William Mocatta also received HK\$322,000 as fees for his service on the boards of CLP Power Hong Kong Limited, Castle Peak Power Company Limited and Hong Kong Pumped Storage Development Company, Limited. In 2009, he received HK\$281,696 as fees for his service on the boards of these companies.
- (2) Mr. R. Bischof retired as a Director and a member of the Provident & Retirement Fund Committee with effect from 1 April 2010.
- (3) Mr. Jason Whittle resigned as a Director with effect from 1 July 2010.
- (4) Mr. Paul M. L. Kan retired as a Director with effect from 1 April 2010.
- (5) Mr. Nicholas C. Allen was appointed a member of the Human Resources & Remuneration Committee with effect from 1 February 2010.
- (6) The fees paid to the late Mr. Peter T. C. Lee and to Ms. Marjorie M. T. Yang (a former Director) are included in the table, solely for the purpose of comparing the total fees paid to Non-executive Directors in 2009 with those in 2010.


## 6. Executive Directors ~ Remuneration in 2010

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

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

Note A:

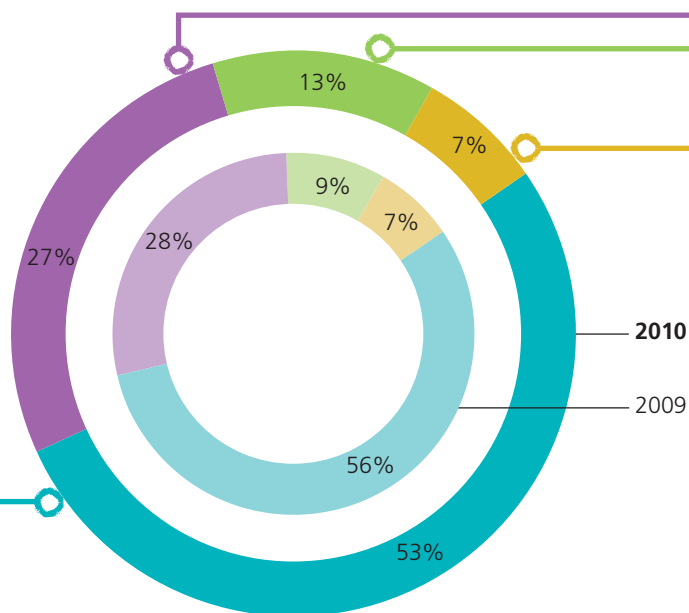
Performance bonus consists of (a): annual incentive and (b): long-term incentive.

- The annual incentive for the Executive Directors and the members of Senior Management for 2010 was reviewed and approved by the Human Resources & Remuneration Committee after 31 December 2010. Accordingly, the total amount of annual incentive includes: i) the accruals that have been made in the performance bonus for the Executive Directors and members of Senior Management at the target level of performance; and ii) the actual bonus paid in 2010 for the last year in excess of the previous accruals made.
- The long-term incentive is the incentive for 2007, paid in 2010 when the vesting conditions had been satisfied (the comparative figures are the incentive for 2006 paid in 2009). About 8% of the amount of 2007 long-term incentive payments results from the appreciation of CLP Holdings' share price between 2007 and 2009, with dividends reinvested.
- Payment of the annual incentive and granting of the long-term incentive awards relating to 2010 performance will be made in March 2011. These payments and awards are subject to the prior approval of the Human Resources & Remuneration Committee. Details of these will be published on the CLP Group website at the time that the 2010 Annual Report is published. 

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

### 7 Senior Management – Principles of Remuneration

For the purposes of this Section, Senior Management means the managers whose details are set out on page 98. In determining the remuneration of members of Senior Management, the remuneration data of comparable positions in the market, including local and regional companies of comparable size, complexity and business scope, are referenced. This is consistent with our remuneration policy to align with companies with whom CLP competes for human resources. Achievement of performance plays a significant part in individual rewards as part of our policy to attract, motivate and retain high performing individuals. The remuneration policies applied to Senior Management, including the levels of performance bonus, are subject to the approval of the Human Resources & Remuneration Committee. No members of Senior Management serve on the Committee. The four components of remuneration of members of Senior Management are explained below, including the proportion of target total remuneration which each component represented in both 2009 and 2010.



#### Base Compensation

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

#### Pension Arrangements

The members of the Senior Management are eligible to join the defined contribution section of the Group's retirement fund. The Group's contribution to the retirement fund amounts to a maximum of 12.5% of base compensation, subject to a 5% contribution by the employee. This accounts for 7% of his/her target total remuneration in 2010.

### Annual Incentive

The annual incentive payout depends upon the performance of the CLP Group and the individuals concerned. Key measures include achievement of financial goals, operational and other performance targets, and individual objectives such as the demonstration of key leadership competencies.

Each of the Senior Management members is assigned a "target" annual incentive, which accounts for 27% of his/ her total remuneration in 2010. Only individuals who attain at least a satisfactory performance rating are awarded any annual incentive. The amount of annual incentive is capped at twice the "target" annual incentive, with the actual amount being determined by organisational and individual performance.

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

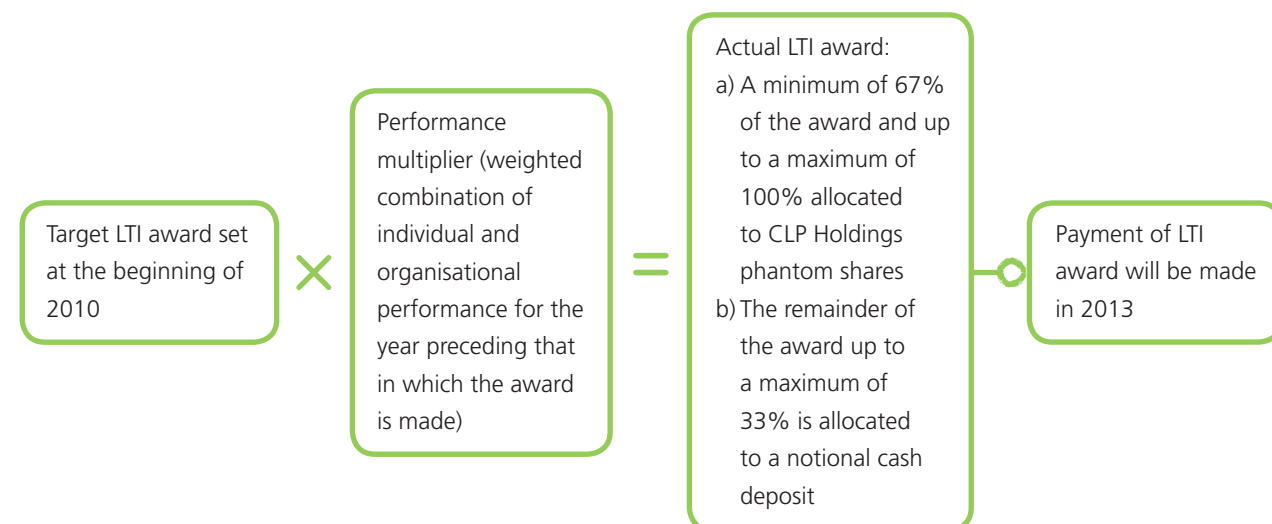
### Long-term Incentive

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

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

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

The following diagram illustrates the composition of the LTI award:



Consequently, the final value of the award, at the vesting date, is based on the initial choices made and the subsequent impact of changes in share price, dividend reinvestment, exchange rate movements, and interest earned during the three years.

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



## Remuneration Report

### 8 Senior Management – Remuneration in 2010

Senior Management comprises the Executive Directors and managers listed below. Details of their remuneration (excluding Executive Directors) are set out in the table below.

|  | Performance Bonus*   |                              |                                 |  |                             |                            | Total<br>HK\$M    |
|--|--|------------------------------|---------------------------------|--|-----------------------------|----------------------------|-------------------|
|  | Base<br>Compensation,<br>Allowances<br>& Benefits<br>HK\$M | Annual<br>Incentive<br>HK\$M | Long-term<br>Incentive<br>HK\$M | Provident<br>Fund<br>Contribution<br>HK\$M | Final<br>Payment**<br>HK\$M | Other<br>Payments<br>HK\$M |                   |
|  |  |                              |                                 |  |                             |                            |                   |
| 2010   |  |                              |                                 |  |                             |                            |                   |
| Group Director & Chief Financial Officer<br>(Mr. Mark Takahashi) <sup>(a)</sup>        | 4.0  | 4.2                          | 1.1                             | 0.5  | —                           | —                          | 9.8               |
| Vice Chairman — CLP Power Hong Kong<br>(Mrs. Betty Yuen) <sup>(b)</sup>                | 3.2  | 3.9                          | 1.6                             | 0.4  | —                           | —                          | 9.1 <sup>#</sup>  |
| Group Director — Managing Director Hong Kong<br>(Mr. Richard Lancaster) <sup>(b)</sup> | 4.1  | 3.1                          | 0.7                             | 0.5  | —                           | —                          | 8.4 <sup>##</sup> |
| Group Director — Managing Director Australia<br>(Mr. Richard McIndoe)                  | 4.8  | 4.8                          | 1.8                             | 0.6  | —                           | 8.0 <sup>(c)</sup>         | 20.0              |
| Group Director — Operations<br>(Mr. Peter Littlewood)                                  | 3.6  | 3.5                          | 1.0                             | 0.5  | —                           | —                          | 8.6               |
| Managing Director — India<br>(Mr. Rajiv Mishra)  | 3.1  | 3.0                          | 0.7                             | 0.4  | —                           | —                          | 7.2               |
| Managing Director — China<br>(Dr. Ko Yu Ming)  | 2.6  | 2.2                          | 0.6                             | 0.3  | —                           | —                          | 5.7               |
| Managing Director — Southeast Asia<br>(Mr. Mark Jobling)                               | 2.8  | 2.6                          | 0.7                             | 0.4  | —                           | —                          | 6.5               |
| Group Director — Corporate Finance and Development<br>(Mr. Stefan Robertsson)          | 2.7  | 2.1                          | 0.9                             | 0.3  | —                           | —                          | 6.0               |
| Group Director — Carbon Ventures<br>(Mr. Giuseppe Jacobelli) <sup>(d)</sup>            | 2.8  | 2.7                          | 2.3                             | 0.3  | 3.2                         | —                          | 11.3              |
|  | 33.7   | 32.1                         | 11.4                            | 4.2  | 3.2                         | 8.0                        | 92.6              |
| 2009   |  |                              |                                 |  |                             |                            |                   |
| Chief Executive Officer — OneEnergy Limited<br>(Mr. Mark Takahashi) <sup>(a)</sup>     | 1.4  | 1.9                          | 0.8                             | 0.2  | —                           | —                          | 4.3               |
| Group Director & Chief Financial Officer<br>(Mr. Mark Takahashi) <sup>(a)</sup>        | 2.3  | 1.2                          | —                               | 0.3  | —                           | —                          | 3.8               |
| Group Director — Managing Director Hong Kong<br>(Mrs. Betty Yuen) <sup>(b)</sup>       | 4.6  | 4.5                          | 1.6                             | 0.6  | —                           | —                          | 11.3 <sup>#</sup> |
| Group Director — Managing Director Australia<br>(Mr. Richard McIndoe)                  | 4.8  | 4.5                          | 1.9                             | 0.6  | —                           | 9.0 <sup>(c)</sup>         | 20.8              |
| Group Director — Operations<br>(Mr. Peter Littlewood)                                  | 3.5  | 2.8                          | 1.1                             | 0.4  | —                           | —                          | 7.8               |
| Managing Director — India<br>(Mr. Rajiv Mishra)  | 3.0  | 1.7                          | 0.4                             | 0.4  | —                           | —                          | 5.5               |
| Managing Director — China<br>(Dr. Ko Yu Ming)  | 2.6  | 1.8                          | 0.5                             | 0.3  | —                           | —                          | 5.2               |
| Managing Director — Southeast Asia<br>(Mr. Mark Jobling) <sup>(e)</sup>                | 1.6  | 0.8                          | —                               | 0.2  | —                           | —                          | 2.6               |
| Group Director — Corporate Finance and Development<br>(Mr. Stefan Robertsson)          | 2.7  | 1.9                          | 0.7                             | 0.3  | —                           | —                          | 5.6               |
| Group Director — Carbon Ventures<br>(Mr. Giuseppe Jacobelli)                           | 2.7  | 1.8                          | —                               | 0.3  | —                           | —                          | 4.8               |
|  | 29.2   | 22.9                         | 7.0                             | 3.6  | —                           | 9.0                        | 71.7              |

Notes:

- (a) Mr. Mark Takahashi was the CEO of OneEnergy Limited up to 31 May 2009. He became Group Director & Chief Financial Officer on 1 June 2009.
- (b) Mrs. Betty Yuen was appointed as the Vice Chairman of CLP Power Hong Kong Limited on 4 January 2010. Mr. Richard Lancaster was appointed as Group Director – Managing Director Hong Kong on 4 January 2010.
- (c) Payment for tax equalisation, housing allowance and children's education allowances, if any, for secondment to offices outside Hong Kong. Out of this payment, HK\$6.7 million (83%) (2009: HK\$7.7 million (86%)) was the tax payment to the tax authority of the country where the executive was based during secondment.
- (d) Mr. Giuseppe Jacobelli left the Company as Group Director – Carbon Ventures with effect from 1 January 2011. The annual incentive of HK\$2.7 million included the amount of incentive payment for year 2010 for the period he served as director. The long-term incentive of HK\$2.3 million was for the years 2008, 2009 and 2010 paid to him upon leaving the Company. Final payment of HK\$3.2 million included payment in lieu of notice, ex-gratia payment and compensation for loss of office paid to him.
- (e) Mr. Mark Jobling became Managing Director – Southeast Asia on 1 June 2009, and the remuneration covered the period from that date to 31 December 2009.
- \* Refer to Note A on performance bonus on page 127.
- \*\* The final payment is not part of the remuneration arrangement of the Group, but may be payable, where appropriate, upon approval by the Chairman of the Human Resources & Remuneration Committee.
- # HK\$1 million has been charged to the Non-SoC operation.
- ## HK\$1 million has been charged to the Non-SoC operation.

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

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

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

<sup>ψ</sup> Refer to Note (d) and \*\* above on final payments.


<sup>@</sup> Refer to Note (c) above on other payments.

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

|                                 | Number of Individuals |      |                                 | Number of Individuals |      |
|---------------------------------|-----------------------|------|---------------------------------|-----------------------|------|
|                                 | 2010                  | 2009 |                                 | 2010                  | 2009 |
| HK\$ 9,000,001 – HK\$ 9,500,000 | –                     | 1    | HK\$ 9,500,001 – HK\$10,000,000 | –                     | 1    |
| HK\$10,500,001 – HK\$11,000,000 | 2                     | –    | HK\$11,000,001 – HK\$11,500,000 | 1                     | 1    |
| HK\$15,500,001 – HK\$16,000,000 | –                     | 1    | HK\$16,500,001 – HK\$17,000,000 | 1                     | –    |
| HK\$19,500,001 – HK\$20,000,000 | 1                     | –    | HK\$20,500,001 – HK\$21,000,000 | –                     | 1    |

## 9. Continued Scrutiny and Disclosure

The Human Resources & Remuneration Committee remains committed to the careful oversight of remuneration policies and levels in the interests of the Company and its shareholders, and to honest and open disclosure on these matters.



**William Mocatta**

Chairman

Human Resources & Remuneration Committee

Hong Kong, 24 February 2011

# Directors' Report

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

## Principal Activities

The principal activity of the Company is investment holding and those of the subsidiaries are the generation and supply of electricity. The Company's principal subsidiary companies are listed under Note 13 to the Financial Statements.

## Consolidated Financial Statements

The consolidated Financial Statements incorporate the Financial Statements of the Company and its subsidiaries (collectively referred to as the Group) together with the Group's interests in jointly controlled entities and associated companies. Details of the jointly controlled entities and associated companies are provided under Notes 14 and 15 to the Financial Statements.

## Earnings and Dividends

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

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

## Performance

A discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position are provided on pages 42 to 86 of this Annual Report.

## Share Capital

There was no movement in the share capital of the Company during the year. There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed shares during the year.

## Reserves

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

## Fixed Assets

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

## Bank Loans and Other Borrowings

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

### *Financial Assistance and Guarantees to Affiliated Companies*

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


### *Finance Costs Capitalised*

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

### *Donations*

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

### *Five-year Summary*

A summary of the results for the year and of the assets and liabilities of the Group as at 31 December 2010 and for the previous four financial years are on pages 210 and 211 of this Annual Report. A ten-year summary is on the CLP website. 

### *Senior Management*

The biographical details of the Senior Management as at the date of this Report are set out on page 98 of this Annual Report. Details of their remuneration are set out in the Remuneration Report at page 124 of this Annual Report.

### *Major Customers and Suppliers*

Sales to the Group's five largest customers together represented less than 30% of the Group's total turnover during the year. Purchases from the Group's five largest suppliers together accounted for 58.61% of the Group's total purchases during the year. The five largest suppliers are set out below in descending order:

1. 32.77% from Castle Peak Power Company Limited (CAPCO) of which Mr. Neo Kim Teck, Mr. William Mocatta and Mr. Andrew Brandler are directors. CAPCO is 40% owned by CLP Power Hong Kong Limited (CLP Power Hong Kong) and supplies electricity to CLP Power Hong Kong only. CLP Power Hong Kong is a wholly-owned subsidiary of the Company.
2. 10.51% from Australian Energy Market Operator (AEMO) in which the Group has no interest. AEMO is the administrator and operator of the Australian energy market, from whom electricity is bought to supply TRUenergy group customers and to whom electricity is sold from TRUenergy group generators.
3. 7.33% from Guangdong Nuclear Investment Company, Limited (GNIC) in which the Group has no interest.
4. 4.07% from Guangdong Nuclear Power Joint Venture Company, Limited (GNPJVC) of which Mr. Peter P. W. Tse is a director. GNPJVC is 25% and 75% owned by the Group and GNIC respectively and supplies electricity to the Group.
5. 3.93% from SPI Electricity Pty Ltd. (SPI) in which the Group has no interest. TRUenergy pays the transmission and distribution charges to SPI which owns and operates the electricity distribution network that provides services to customers located in the eastern half of Victoria.

As at 31 December 2010, Bermuda Trust Company Limited, Bermuda Trust (Cayman) Limited, Guardian Limited, Harneys Trustees Limited (formerly known as HWR Trustees Limited), Lawrencium Holdings Limited, Lawrencium Mikado Holdings Limited, The Magna Foundation, Mikado Investments (PTC) Limited (formerly known as Mikado Investments Limited), The Mikado Private Trust Company Limited, Muriel, Lady Kadoorie, New Mikado Holding Inc. (formerly known as Mikado Holding Inc.), Oak CLP Limited, Oak (Unit Trust) Holdings Limited, The Hon. Sir Michael Kadoorie, Lady Kadoorie, Mr. R. J. McAulay, Mr. J. A. H. Leigh and Mr. R. Parsons who are substantial shareholders of the Company, had indirect interests in CAPCO and GNPJVC, which interests arose from the Company's interests in CAPCO and GNPJVC.

### *Directors*

The Directors of the Company, whose names appear on pages 96 and 97 of this Annual Report, were Directors for the whole year. Their biographical details as at the date of this Report are set out on the same pages. Details of Directors' remuneration are set out in the Remuneration Report at page 124 of this Annual Report.

## Directors' Report

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

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

Under the existing Articles of Association of the Company, all the Directors are subject to retirement by rotation and re-election at the AGM. In accordance with Article 103 of the Company's Articles of Association, The Hon. Sir S. Y. Chung, Professor Judy Tsui, Sir Rod Eddington and Messrs. J. A. H. Leigh, R. J. McAulay and I. D. Boyce retire by rotation. After having served on the Board of the Company for 44 years, The Hon. Sir S. Y. Chung has decided not to present himself for re-election at the AGM. All the other retiring Directors, being eligible, offer themselves for re-election. None of the Directors offering themselves for re-election at the AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation.

No contracts of significance in relation to the Group's business to which the Company or any of its fellow subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the financial year.

### *Alternate Directors*

The Alternate Directors in office during the year ended 31 December 2010 were as follows:

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

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

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

### *Interests of Directors and Chief Executive Officer*

The interests/ short positions of each of the Directors and Chief Executive Officer in the shares, underlying shares and debentures of the Company or any of the Company's associated corporations (within the meaning of the Securities and Futures Ordinance) as at 31 December 2010, as recorded in the register required to be kept under Section 352 of Part XV of the Securities and Futures Ordinance, are set out in the table and explanatory notes below:

#### **1. Aggregate long position in the shares, underlying shares and debentures of the Company and its associated corporations**

The interests of Directors and Chief Executive Officer in the shares of the Company (other than pursuant to equity derivatives such as share options, warrants to subscribe or convertible bonds) as at 31 December 2010 were as follows:

| Directors                                     | Capacity         | Total Interests<br>in Number of Ordinary<br>Shares of the Company | % of the Issued<br>Share Capital of<br>the Company |
|---|------------------|---|--|
| The Hon. Sir Michael Kadoorie                 | Note (a)         | 457,172,780   | 19.00023   |
| Mr. William Mocatta                           | Note (b)         | 400,000   | 0.01662  |
| Mr. R. J. McAulay                             | Note (c)         | 273,611,649   | 11.37138   |
| The Hon. Sir S. Y. Chung                      | Beneficial owner | 393,789   | 0.01637  |
| Mr. J. A. H. Leigh                            | Note (d)         | 209,071,077   | 8.68905  |
| Mr. Andrew Brandler (Chief Executive Officer) | Note (e)         | 10,600  | 0.00044  |
| Mr. Peter P. W. Tse                           | Note (f)         | 20,600  | 0.00086  |
| Dr. Y. B. Lee                                 | Note (g)         | 15,806  | 0.00066  |
| Mr. Peter W. Greenwood                        | Beneficial owner | 600   | 0.00002  |

Notes:

- (a) The Hon. Sir Michael Kadoorie was deemed (by virtue of the Securities and Futures Ordinance) to be interested in 457,172,780 shares in the Company. These shares were held in the following capacity:
- i) 1,243 shares were held by his spouse, Lady Kadoorie in a personal capacity.
  - ii) 70,146,655 shares were ultimately held by discretionary trusts, of which The Hon. Sir Michael Kadoorie is one of the discretionary objects.
  - iii) 237,044,212 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and the founder.
  - iv) 147,980,670 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and the founder.
  - v) 1,000,000 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and the founder.
  - vi) 1,000,000 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and the founder.
- For the purpose of the Securities and Futures Ordinance, the spouse of The Hon. Sir Michael Kadoorie was taken to have a discloseable duty in Hong Kong in relation to the shares referred to in (ii) to (vi) above. The spouse of The Hon. Sir Michael Kadoorie was therefore deemed to be interested in 457,172,780 shares in the Company representing approximately 19.00% of the issued share capital of the Company, of which 1,243 shares were held by her in a personal capacity and an aggregate of 457,171,537 shares were attributed to her pursuant to the Securities and Futures Ordinance for disclosure purposes. Nevertheless, she has no interest, legal or beneficial, in these 457,171,537 shares attributed to her for disclosure purposes.
- (b) Mr. William Mocatta was deemed (by virtue of the Securities and Futures Ordinance) to be interested in 400,000 shares in the Company. These shares were held in the following capacity:
- i) 250,000 shares were held in the capacity as the founder of a discretionary trust.
  - ii) 150,000 shares were held by a trust of which Mr. William Mocatta is one of the beneficiaries.
- (c) Mr. R. J. McAulay was deemed (by virtue of the Securities and Futures Ordinance) to be interested in 273,611,649 shares in the Company. These shares were held in the following capacity:
- i) 13,141 shares were held in a personal capacity.
  - ii) 70,146,655 shares were ultimately held by discretionary trusts, of which Mr. R. J. McAulay is one of the discretionary objects.
  - iii) 203,451,853 shares were ultimately held by a discretionary trust, of which Muriel, Lady Kadoorie, mother-in-law of Mr. R. J. McAulay, is the founder and a beneficiary and Mr. R. J. McAulay, his wife and members of his family are discretionary objects.
- (d) Mr. J. A. H. Leigh was deemed (by virtue of the Securities and Futures Ordinance) to be interested in 209,071,077 shares in the Company. These shares were held in the following capacity:
- i) 57,000 shares were held in a beneficial owner capacity.
  - ii) 5,562,224 shares were ultimately held by a discretionary trust. Mr. J. A. H. Leigh was deemed to be interested in such 5,562,224 shares in his capacity as one of the trustees of a trust which was deemed to be interested in such 5,562,224 shares.
  - iii) 203,451,853 shares were ultimately held by a discretionary trust. Mr. J. A. H. Leigh was deemed to be interested in such 203,451,853 shares in his capacity as one of the trustees of a trust which was deemed to be interested in such 203,451,853 shares.
- (e) 600 shares were held in a personal capacity and 10,000 shares were held in a beneficial owner capacity.
- (f) 600 shares were held in a personal capacity and 20,000 shares were held in a beneficial owner capacity.
- (g) 600 shares were held in a personal capacity and 15,206 shares were held jointly with spouse.

Messrs. I. D. Boyce, V. F. Moore, Hansen C. H. Loh, Paul A. Theys and Nicholas C. Allen, Professor Judy Tsui and Sir Rod Eddington who are Directors of the Company, and Mr. Neo Kim Teck who is an Alternate Director, have each confirmed that they had no interests in the shares of the Company or any of its associated corporations as at 31 December 2010. None of the Directors or the Chief Executive Officer had interests in debentures, under equity derivatives or in underlying shares of the Company and its associated corporations as at 31 December 2010.

## 2. Aggregate short position in the shares, underlying shares and debentures of the Company and its associated corporations

None of the Directors or the Chief Executive Officer had short positions in respect of shares, debentures, under equity derivatives or interests in underlying shares of the Company and its associated corporations as at 31 December 2010.

At no time during the year was the Company, its subsidiaries or its associated companies a party to any arrangement to enable the Directors and the Chief Executive Officer of the Company (including their spouse and children under 18 years of age) to acquire benefits by an acquisition of shares or underlying shares in, or debentures of, the Company or its associated corporations.

### *Interests of Substantial Shareholders*

The interests/ short positions of substantial shareholders in the shares and underlying shares of the Company as at 31 December 2010, as recorded in the register required to be kept under Section 336 of Part XV of the Securities and Futures Ordinance, are set out in the following table and explanatory notes. There were no movements in the shareholdings held by substantial shareholders in 2010.

## 1. Aggregate long position in the shares and underlying shares of the Company

The Company had been notified of the following substantial shareholders' interests in the shares (other than pursuant to equity derivatives such as share options, warrants to subscribe or convertible bonds) as at 31 December 2010:

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

Notes:

- (a) Bermuda Trust Company Limited was deemed to be interested in the shares in which New Mikado Holding Inc. (formerly known as Mikado Holding Inc.), Mikado Investments (PTC) Limited (formerly known as Mikado Investments Limited), Oak (Unit Trust) Holdings Limited and other companies were deemed to be interested, either in the capacity as trustee of various discretionary trusts and / or by virtue of having direct or indirect control over such companies. The interests of Bermuda Trust Company Limited in the shares of the Company include the shares held by discretionary trusts of which The Hon. Sir Michael Kadoorie and / or Mr. R. J. McAulay are among the discretionary objects as disclosed in "Interests of Directors and Chief Executive Officer".
- In addition, the Company was notified by Oak (Unit Trust) Holdings Limited that it was interested in 196,554,172 shares as at 26 August 2003. However, Bermuda Trust Company Limited indicated in its latest disclosure form that as at 8 October 2009, it was interested in, inter alia, 203,451,853 shares through its wholly-owned subsidiary, Oak (Unit Trust) Holdings Limited. Therefore, Oak (Unit Trust) Holdings Limited was interested in the same 203,451,853 shares as at 8 October 2009 but was not itself under a duty to notify the Company of the change under the Securities and Futures Ordinance.
- (b) The Mikado Private Trust Company Limited was deemed to be interested in the shares in which Lawrencium Holdings Limited, Lawrencium Mikado Holdings Limited and other companies were deemed to be interested, either in the capacity as trustee of various discretionary trusts and / or by virtue of having direct or indirect control over such companies. The Magna Foundation was also deemed to be interested in the shares in which Lawrencium Mikado Holdings Limited was deemed to be interested. The interests of The Mikado Private Trust Company Limited in the shares of the Company include the shares held by discretionary trusts of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and a founder as disclosed in "Interests of Directors and Chief Executive Officer".
- (c) Harneys Trustees Limited (formerly known as HWR Trustees Limited) controlled The Mikado Private Trust Company Limited and another company and was therefore deemed to be interested in the shares in which such companies were deemed to be interested.
- (d) Bermuda Trust (Cayman) Limited was deemed to be interested in the shares in which Oak CLP Limited and other companies were deemed to be interested, either in the capacity as trustee of various discretionary trusts and / or by virtue of having direct or indirect control over such companies. The interests of Bermuda Trust (Cayman) Limited in the shares of the Company include the shares held by a discretionary trust of which Muriel, Lady Kadoorie is a founder and a beneficiary and of which Mr. R. J. McAulay is one of the discretionary objects as disclosed in "Interests of Directors and Chief Executive Officer".
- In addition, the Company was notified by Oak CLP Limited that it was interested in 196,554,172 shares as at 26 August 2003. However, Bermuda Trust (Cayman) Limited indicated in its disclosure form that as at 5 February 2004, it was interested in 203,451,853 shares through its wholly-owned subsidiary, Oak CLP Limited. Therefore, Oak CLP Limited was interested in the same 203,451,853 shares as at 5 February 2004 but was not itself under a duty to notify the Company of the change under the Securities and Futures Ordinance.



- (e) See Note (a) under "Interests of Directors and Chief Executive Officer".
- (f) See Note (c) under "Interests of Directors and Chief Executive Officer".
- (g) See Note (d) under "Interests of Directors and Chief Executive Officer".
- (h) Mr. R. Parsons and Mr. J. A. H. Leigh, in their capacities as trustees of a trust, jointly controlled Guardian Limited and therefore were deemed to be interested in the shares in which Guardian Limited was deemed to be interested. Accordingly, the 209,014,077 shares in which Guardian Limited was interested was duplicated within the interests attributed to each of Mr. J. A. H. Leigh and Mr. R. Parsons.

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

As at 31 December 2010, the Company had not been notified of any short positions being held by any substantial shareholder in the shares or underlying shares of the Company.


### *Interests of Any Other Persons*

As at 31 December 2010, the Company had not been notified of any persons other than the substantial shareholders who had interests or short positions in the shares or underlying shares of the Company, which are required to be recorded in the register required to be kept under Section 336 of Part XV of the Securities and Futures Ordinance.


### *Related Party Transactions*

Details of the significant related party transactions undertaken in the normal course of business are provided under Note 31 to the Financial Statements. None constitutes a discloseable connected transaction as defined under the Listing Rules.

### *Connected Transaction*

As reported in last year's Directors' Report, on 1 February 2010, CLP Power China (Jiangbian) Limited, an indirect wholly-owned subsidiary of the Company, entered into a conditional equity interest sale and purchase agreement with Sichuan Basic Power Company Limited to acquire from Sichuan Basic Power Company Limited its 35% equity interest in the registered capital of CLP Sichuan (Jiangbian) Power Company Limited (a then 65% owned indirect subsidiary of the Company) at a cash consideration of RMB63.6 million. In the circumstances, Sichuan Basic Power Company Limited is a connected person of the Company for the purposes of Chapter 14A of the Listing Rules. This acquisition has been reflected in the Financial Statements for the year ended 31 December 2010. Details of the acquisition can be found in the announcement of this connected transaction made by the Company and published on the websites of the Company and the Stock Exchange of Hong Kong. 

### *Corporate Governance*

The Company's corporate governance principles and practices are set out in the Corporate Governance Report at page 99 of this Annual Report, whilst our Sustainability Report describes the Company's actions and initiatives in line with our commitment to the principle of sustainable development. 

### *Auditors*

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

By Order of the Board



**I. D. Boyce**

Chairman of the Meeting  
Hong Kong, 24 February 2011