

Scheme of Control Statement

CLP Power Hong Kong Limited and Castle Peak Power Company Limited

Overview

In Hong Kong, CLP Power Hong Kong Limited (CLP Power Hong Kong) operates a vertically integrated electricity generation, transmission and distribution business. The generating plants in Hong Kong are owned by Castle Peak Power Company Limited (CAPCO), which is 40% owned by CLP Power Hong Kong and 60% owned by ExxonMobil Energy Limited. CLP Power Hong Kong builds and operates CAPCO's power stations under contract and is the sole customer for CAPCO's electricity which CLP Power Hong Kong transmits and distributes to its customers in Kowloon and the New Territories. CLP Power Hong Kong owns the transmission and distribution network.

Since financial year 1964, the electricity-related operations of CLP Power Hong Kong and CAPCO (the SoC Companies) have been governed by a Scheme of Control Agreement (SoC) with the Hong Kong Government. The SoC specifies the SoC Companies' obligations to supply adequate and reliable electricity supplies to customers at the lowest reasonable cost and the mechanism for Hong Kong Government to monitor their financial affairs and operating performance. In return, CLP Power Hong Kong is allowed to charge tariffs designed to recover the operating costs (including tax) and allowed net return of the SoC Companies.

The current SoC took effect from 1 October 2008. The SoC covers a period of 10 years to 30 September 2018, with the Hong Kong Government having the right to extend by 5 years on the same terms to 30 September 2023 by giving notice before 1 January 2016. In the event that the 5 years extension option is not exercised by the Hong Kong Government, the SoC Companies will continue to earn the permitted return until 30 September 2023 on all approved investments.

The current SoC includes a provision to give the SoC Companies protection for stranded costs, which may arise as a result of future changes to the market structure which adversely impact on the SoC Companies' ability to recover and to earn returns on existing investments made in good faith in accordance with the SoC. These costs will include the costs of investments, fuel and power purchase agreements previously approved by the Hong Kong Government. If stranded costs arise after the SoC Companies have implemented mitigation measures reasonably required by the Hong Kong Government, the SoC Companies are entitled to recover them from the market, consistent with international practice. Three years before market changes are introduced, the SoC Companies and the Hong Kong Government will agree on the amount of stranded costs and the mechanism for their recovery by the SoC Companies.

Tariff Setting Mechanism

For each year, CLP Power Hong Kong designs the net tariff it charges to cover the SoC Companies' operating costs and allowed net return. The net tariff consists of the following three components:

- (i) basic tariff rate which is derived by taking into account the annual forecast of (a), (b) and (c) below, using the formula $\frac{(a-b)}{c}$:
 - (a) the allowed net return and operating costs including the standard cost of fuel; generation, transmission, distribution and administration expenses; depreciation; interest expenses; and taxes;
 - (b) 80% of the profit on electricity sale to the Chinese mainland; and
 - (c) local unit sales as determined by the load forecast.
- (ii) fuel clause charge or rebate which represents the difference between the costs of fuel (including natural gas, coal and oil) and the standard cost recovered through the basic tariff rate; and
- (iii) SoC rebate from the Rate Reduction Reserve.

Any difference between the actual profit for SoC operations and the permitted return for the year is transferred to or from a Tariff Stabilisation Fund. The Tariff Stabilisation Fund does not form part of distributable shareholders' funds and represents a liability in the accounts of CLP Power Hong Kong. A charge on the average balance of the Tariff Stabilisation Fund is credited to the Rate Reduction Reserve in the accounts of CLP Power Hong Kong and is applied as SoC rebates to customers as shown above.

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Permitted and Net Return

The permitted and net return that the SoC Companies are allowed under the SoC are calculated as follows:

- The annual permitted return under the SoC is 9.99% of the SoC Companies' average net fixed assets other than renewable energy investments; and 11% for renewable energy investments.
- The net return is the permitted return after the deduction or adjustment of the following items:
 - (a) interest up to a maximum of 8% per annum on borrowed capital arranged for financing fixed assets;
 - (b) a charge of the average one-month Hong Kong interbank offered rate on the average balance of the Tariff Stabilisation Fund under the SoC, which is credited to the Rate Reduction Reserve;
 - (c) an excess capacity adjustment of 9.99% under the SoC on the average excess capacity expenditure less an allowed interest charge up to 8% per annum on the average excess capacity expenditure;
 - (d) interest up to 8% per annum on the increase in average balance of the customers' deposits in excess of the balance as at 30 September 1998; and
 - (e) incentives/penalties adjustments linked with emission performance, customer performance, energy efficiency and renewables performance. These performance related adjustments are only applicable to each full calendar year of the SoC, and are in the range of -0.43% to +0.2% on the average net fixed assets.
- The rate of return on average net fixed assets of the SoC Companies for the year ended 31 December 2010 was 9.15% (2009: 9.27%).

The net return is divided between the SoC Companies in accordance with the provisions of the agreements between the SoC Companies and ExxonMobil International Holdings Inc. These provisions state that each company will receive that proportion of the total net return represented by the net return that company would receive if it were the only company under the SoC and the net return were calculated solely on the basis of its own financial statements. In year 2010, 64% (2009: 65%) of the net return was allocated to CLP Power Hong Kong and 36% (2009: 35%) to CAPCO. If the actual profit for the SoC, when added to the amount available for transfer from the Tariff Stabilisation Fund is less than the permitted return, the share of any such deficit to be borne by CAPCO is limited to 20%.

The calculations shown on page 209 are in accordance with the SoC and the agreements between the SoC Companies.

For the year ended 31 December

	2010 HK\$M	2009 HK\$M
SoC revenue	30,016	28,437
Expenses		
Operating costs	3,467	3,102
Fuel	7,848	7,029
Purchases of nuclear electricity	5,003	5,237
Provision for asset decommissioning	224	246
Depreciation	3,427	3,149
Operating interest	677	537
Taxation	1,597	1,554
	22,243	20,854
Profit after taxation	7,773	7,583
Interest on increase in customers' deposits	–	–
Interest on borrowed capital	763	625
Adjustment for performance incentives/penalties	(43)	(41)
Adjustments required under the SoC (being share of profit on sale of electricity to the Chinese mainland attributable to the SoC Companies)	(73)	(115)
Profit for SoC	8,420	8,052
Transfer from Tariff Stabilisation Fund	148	103
Permitted return	8,568	8,155
Deduct interest on/ Adjustment for		
Increase in customers' deposits as above	–	–
Borrowed capital as above	763	625
Performance incentives/penalties as above	(43)	(41)
Tariff Stabilisation Fund to Rate Reduction Reserve	3	3
	723	587
Net return	7,845	7,568
Divisible as follows:		
CLP Power Hong Kong	4,985	4,894
CAPCO	2,860	2,674
	7,845	7,568
CLP Power Hong Kong's share of net return		
CLP Power Hong Kong	4,985	4,894
Interest in CAPCO	1,144	1,070
	6,129	5,964

Five-year Summary: CLP Group Financial & Operating Statistics

	2010	2009	2008	2007	2006
Consolidated Operating Results, HK\$M					
Revenue					
Electricity business in Hong Kong (HK)	29,944	28,297	30,191	29,684	29,293
Energy business outside HK	28,124	22,175	23,822	20,879	16,143
Others	342	196	284	226	266
Total	58,410	50,668	54,297	50,789	45,702
Operating profit	12,397	10,847	13,307	13,304	12,167
Earnings					
Electricity business in HK	6,129	5,964	7,549	7,589	7,290
Other investments / operations	3,476	3,007	2,564	2,120	2,778
Other income, net	356	153	657	1,797	408
Provisions for jointly controlled entities / associated companies	(258)	(477)	–	–	–
Tax consolidation benefit from Australia	989	–	–	–	–
Other one-off items of TRUenergy	97	(17)	19	(503)	–
Unallocated net finance costs	(18)	(21)	(21)	(90)	(283)
Unallocated Group expenses	(439)	(413)	(345)	(305)	(293)
Total	10,332	8,196	10,423	10,608	9,900
Ordinary dividends	5,967	5,967	5,971	5,973	5,756
Special dividends	–	–	–	–	48
Total dividends	5,967	5,967	5,971	5,973	5,804
Capital expenditure, owned and leased assets	20,032	9,713	7,760	8,271	9,213
Depreciation & amortisation, owned and leased assets	5,065	4,332	4,055	4,650	4,968
Consolidated Statement of Cash Flows, HK\$M					
Net cash inflow from operating activities	16,085	14,529	15,238	14,823	11,472
Consolidated Statement of Financial Position, HK\$M					
SoC fixed assets	57,247	54,712	52,132	49,684	47,516
Other fixed assets	60,213	44,146	36,991	38,925	38,137
Goodwill and other intangible assets	9,150	8,105	6,324	8,135	7,326
Interests in jointly controlled entities	20,476	18,838	17,791	17,684	19,163
Interests in associated companies	2,378	1,813	242	299	18
Other non-current assets	11,177	9,588	8,166	8,272	6,615
Current assets	18,714	19,329	11,185	13,278	12,316
Total assets	179,355	156,531	132,831	136,277	131,091
Shareholders' funds	79,661	70,761	63,017	63,901	55,838
Non-controlling interests	97	107	105	95	78
Equity	79,758	70,868	63,122	63,996	55,916
Bank loans and other borrowings	44,623	39,431	26,696	28,360	30,278
Obligations under finance leases	27,100	21,855	21,765	22,216	22,810
SoC reserve accounts	1,509	1,654	1,826	2,300	3,346
Other current liabilities	16,420	14,023	11,205	11,538	10,781
Other non-current liabilities	9,945	8,700	8,217	7,867	7,960
Total liabilities	99,597	85,663	69,709	72,281	75,175
Equity and total liabilities	179,355	156,531	132,831	136,277	131,091
Per Share Data, HK\$					
Shareholders' funds per share	33.11	29.41	26.19	26.53	23.19
Earnings per share	4.29	3.41	4.33	4.40	4.11
Dividends per share					
Ordinary	2.48	2.48	2.48	2.48	2.39
Special	–	–	–	–	0.02
Total	2.48	2.48	2.48	2.48	2.41



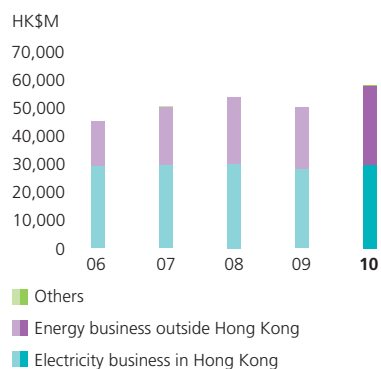
A Ten-year Summary is on our website.

	2010	2009	2008	2007	2006
Per Share Data, HK\$ (continued)					
Closing share price					
Highest	64.65	57.55	70.50	59.95	57.90
Lowest	52.15	51.15	42.85	50.25	43.15
As at year-end	63.10	52.45	52.60	53.25	57.50
Ratios					
Return on equity, %	13.7	12.3	16.4	17.7	18.6
Total debt to total capital, %	35.9	35.7	29.7	30.7	35.1
Net debt to total capital, %	33.3	30.7	29.1	28.6	33.9
Interest cover, times	7	8	9	8	7
Price/Earnings, times	15	15	12	12	14
Dividend yield, %	3.9	4.7	4.7	4.7	4.2
Dividend payout, %	57.8	72.8	57.3	56.3	58.6
Other Information					
Shareholders	20,692	20,680	19,467	20,113	20,351
Shares in issue (million)	2,406.14	2,406.14	2,406.14	2,408.25	2,408.25
Employees					
SoC	3,709	3,708	3,758	3,861	3,866
Non-SoC	2,366	2,069	1,959	1,834	2,221
	6,075	5,777	5,717	5,695	6,087
Group generating capacity (owned / operated / under construction)*, MW					
– by region					
Hong Kong	6,908	6,908	6,908	6,908	6,908
Australia	3,211	3,188	3,132	3,112	4,213
Chinese mainland**	5,899	5,578	5,206	4,477	4,124
India**	2,461	2,420	2,183	680	655
Southeast Asia & Taiwan	868	832	796	728	992
	19,347	18,926	18,225	15,905	16,892
– by status					
Operational	17,145	16,473	15,636	14,693	15,381
Construction	2,202	2,453	2,589	1,212	1,511
	19,347	18,926	18,225	15,905	16,892

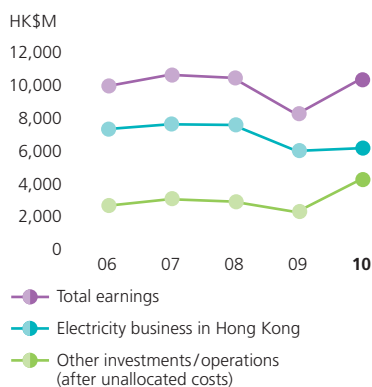
* Group generating capacity (in MW) is incorporated on the following basis: (a) CAPCO on 100% capacity as stations operated by CLP Power Hong Kong; (b) PSDC and Ecogen on 100% as having right to use; and (c) other stations on the proportion of the Group's equity interests.

** Including our interests in wind farms held through Roaring 40s for 2006 to 2008. CLP acquired these wind farms from Roaring 40s during 2009.

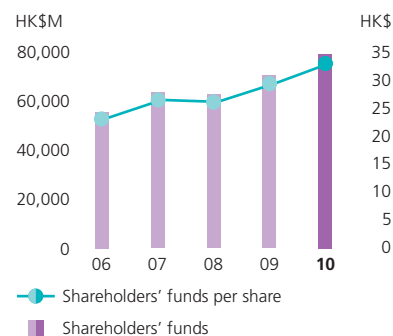
Revenue



Earnings



Shareholders' Funds



Five-year Summary: Scheme of Control Financial Et Operating Statistics

CLP Power Hong Kong Limited and Castle Peak Power Company Limited

	2010	2009	2008	2007	2006
SoC Financial Statistics, HK\$M					
Combined Profit & Loss Statement					
Profit for SoC	8,420	8,052	10,418	10,367	10,250
Transfer (to)/from					
Tariff Stabilisation Fund/Development Fund ¹	148	103	(133)	353	202
Permitted return	8,568	8,155	10,285	10,720	10,452
Less: Interest on/Adjustment for					
Increase in customers' deposits	–	–	2	33	35
Borrowed capital	763	625	608	728	754
Performance incentives/penalties	(43)	(41)	–	–	–
Tariff Stabilisation Fund/Development Fund ¹ and Special provision account	3	3	132	202	265
Net return	7,845	7,568	9,543	9,757	9,398
Combined Balance Sheet					
Net assets employed					
Fixed assets	87,713	83,811	79,445	75,239	73,156
Non-current assets	1,698	774	1,552	533	934
Current assets	4,367	3,929	3,612	3,504	3,402
	93,778	88,514	84,609	79,276	77,492
Less: current liabilities	15,194	17,658	14,394	14,429	10,257
Net assets	78,584	70,856	70,215	64,847	67,235
Exchange fluctuation account	(962)	(346)	(165)	51	5
	77,622	70,510	70,050	64,898	67,240
Represented by					
Shareholders' funds	39,960	37,197	42,366	40,404	38,842
Long-term loans and other borrowings	25,248	21,598	16,616	13,828	16,161
Deferred liabilities	10,909	10,062	9,312	8,549	9,305
Tariff Stabilisation Fund/Development Fund ¹	1,505	1,653	1,756	2,117	2,932
	77,622	70,510	70,050	64,898	67,240
Other SoC Information					
Total electricity sales	29,917	28,349	30,288	29,236	29,004
Capital expenditure	7,748	7,798	7,665	6,123	5,673
Depreciation	3,427	3,149	3,005	3,699	4,117
SoC Operating Statistics					
Customers and Sales					
Number of customers (thousand)	2,347	2,321	2,291	2,261	2,236
Sales analysis, millions of kWh					
Commercial	12,642	12,488	12,312	12,144	11,957
Manufacturing	1,952	1,938	2,202	2,418	2,653
Residential	8,457	8,331	7,890	7,724	7,469
Infrastructure and Public Services	7,878	7,813	7,661	7,676	7,482
Local	30,929	30,570	30,065	29,962	29,561
Export	2,609	3,731	3,552	4,035	4,528
Total Electricity Sales	33,538	34,301	33,617	33,997	34,089
Annual change, %	(2.2)	2.0	(1.1)	(0.3)	0.6
Local consumption, kWh per person	5,365	5,353	5,260	5,301	5,162
Local sales, HK¢ per kWh (average)					
Basic tariff	80.1	77.5	85.6	88.1	88.0
Fuel clause charge	11.5	11.8	7.3	2.0	2.0
SoC rebate	–	(0.2)	(0.8)	(1.1)	(1.1)
Special rebate	–	–	(1.6)	(1.8)	(1.8)
Total	91.6	89.1	90.5	87.2	87.1
Annual basic tariff change, %	3.4	(9.5)	(2.8)	0.1	(0.2)
Annual total tariff change, %	2.8	(1.5)	3.8	0.1	(0.2)



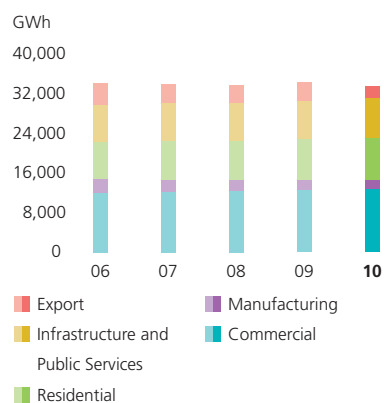
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	2010	2009	2008	2007	2006
Generation (Including Affiliated Generating Companies)					
Installed capacity, MW	8,888	8,888	8,888	8,888	8,888
System maximum demand					
Local, MW	6,766	6,389	6,749	6,284	6,435
Annual change, %	5.9	(5.3)	7.4	(2.3)	(0.6)
Local and the Chinese mainland, MW	7,349	7,616	8,199	7,730	8,318
Annual change, %	(3.5)	(7.1)	6.1	(7.1)	6.4
System load factor, %	57.2	56.4	51.1	55.0	50.9
Generation by CAPCO stations, millions of kWh	26,019	26,410	25,722	26,698	26,408
Sent out, millions of kWh –					
From own generation	24,552	24,920	24,324	25,200	25,024
Net transfer from/(to)					
Landfill gas generation	5	5	5	6	5
GNPS/GPSPS	10,350	10,773	10,653	10,164	10,256
Total	34,907	35,698	34,982	35,370	35,285
Fuel consumed, terajoules –					
Oil	844	895	1,048	868	1,116
Coal	148,229	169,753	153,565	179,599	148,830
Gas	83,007	70,393	77,487	63,552	85,462
Total	232,080	241,041	232,100	244,019	235,408
Cost of fuel, HK\$ per gigajoule – Overall	34.13	29.14	29.06	20.14	18.42
Thermal efficiency, % based on units sent out	38.1	37.2	37.7	37.2	38.3
Plant availability, %	79.2	83.0	85.8	90.0	89.9
Transmission and Distribution					
Network, circuit kilometres					
400kV	554	555	554	554	554
132kV	1,528	1,488	1,386	1,346	1,255
66kV & 33kV	27	60	62	88	171
11kV	11,658	11,444	11,240	11,076	10,978
Transformers, MVA	58,929	57,700	57,187	56,423	55,769
Substations –					
Primary	213	214	214	202	208
Secondary	13,208	13,074	12,914	12,784	12,623
Employees and Productivity					
No. of SoC employees	3,709	3,708	3,758	3,861	3,866
Productivity, thousands of kWh per employee	8,340	8,189	7,892	7,755	7,650

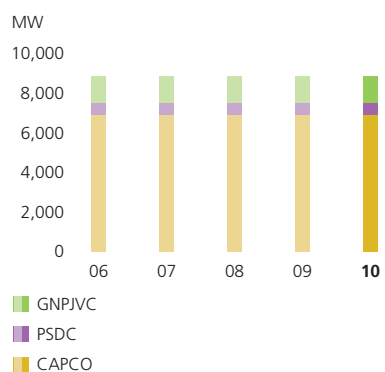
Note:

1 The Tariff Stabilisation Fund has replaced the Development Fund under the new SoC effective from 1 October 2008.

Electricity Sales by Sector



Installed Capacity



SoC Net Fixed Assets

