Economic Value

Here we describe CLP's financial performance during 2011 and how this translated into the delivery of value to our shareholders.

Financial Review

CLP Group's Financial Results and Position at a Glance

Financial statements are the scorecard of a business and the window to a company's operations. The Group's strategy drives investment decisions and business performance, the results of which then translate into a set of numbers in the financial statements. This chart summarises how we delivered economic value in 2011.

Strategy to Diversify Electricity Business

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

Outcome

- Revenue[(1)] mainly came from operations in Hong Kong and Australia. Following the New South Wales (NSW) Acquisition (please refer to pages 157 to 159), the Group's revenue increased to HK$91.6 billion. Revenue from Australia accounted for 61.5% of total revenue, whilst revenue from Hong Kong was reduced to 34.4%;
- The increase in operating earnings[(2)] was primarily due to the expanded operations and improved performance in Australia (+123.4%). Earnings from Southeast Asia and Taiwan were reduced as a result of the sale of our EGCO shares in February. Whilst earnings from the Chinese mainland were impacted by rising coal prices, the performance from Hong Kong and India was in line with expectations;
- Following the passing of the Australian Government's Clean Energy legislative package, TRUenergy recognised a post-tax impairment loss for Yallourn Power Station of HK$1,933 million. This accounted for the loss in the one-off items[(3)];
- The translation loss resulting from the depreciation of Indian rupee (-16.0%) and the slight decrease in the closing rate of Australian dollar on a much larger asset base, explains the other comprehensive loss[(4)] for the year;
- In this year's Statement of Financial Position, the scale of diversification of our investments was demonstrated by the increase in fixed assets, goodwill and other intangible assets arising from our businesses outside Hong Kong. Out of the fixed assets, leasehold land and land use rights[(5)] of HK$130,382 million, 67.1% relates to our electricity business in Hong Kong. Goodwill and other intangible assets[(6)] of HK$27,369 million wholly relate to our businesses outside Hong Kong.

Last Year's Consolidated Statement of Financial Position

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

Beyond Last Year's Statement of Financial Position

	HK$M
Charges on assets	13,933
Contingent liabilities	1,699
Operating commitments	9,726
Capital commitments	31,883

Consolidated Statement of Comprehensive Income for Two Years

		2010 HK$M	2011 HK$M
Revenue	(1)	58,410	**91,634**
Expenses		(46,413)	**(76,461)**
Other income		400	**776**
Other charge		-	**(2,761)**
Operating profit		12,397	**13,188**
Share of results of jointly controlled entities and associated companies, net of tax		2,893	**3,610**
Net finance costs		(4,111)	**(5,859)**
Income tax expense		(844)	**(1,650)**
Earnings attributable to non-controlling interests		(3)	**(1)**
Earnings attributable to shareholders		10,332	**9,288**
Analysed into:			
Electricity business in Hong Kong		6,129	**6,339**
Energy business in Australia		1,303	**2,911**
Other investments / operations		2,173	**1,581**
Unallocated net finance costs		(18)	**(48)**
Unallocated Group expenses		(439)	**(471)**
Operating earnings	(2)	9,148	**10,312**
One-off items	(3)	1,184	**(1,024)**
Earnings attributable to shareholders		10,332	**9,288**
Other comprehensive income / (loss)	(4)	4,535	**(1,723)**
Total comprehensive income		14,867	**7,565**

Consolidated Profits Retained for This Year

		HK$M
Retained profits at 31.12.2010		54,266
Earnings attributable to shareholders		9,288
Dividends paid for the year		
2010 fourth interim (HK$0.92 per share)	(12)	(2,214)
2011 first to third interim (HK$1.56 per share)	(12)	(3,753)
Other movements within equity		(22)
Retained profits at 31.12.2011		57,565
Fourth interim dividend declared for 2011, HK$ per share		0.96

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

		HK$M
Operating profit		13,188
Depreciation and amortisation		6,353
Impairment charge		3,233
SoC items		(457)
Changes in working capital		(3,080)
Others		(1,175)
Cash inflow from operating activities	(7)	18,062

Consolidated Statement of Cash Flows for This Year

	HK$M
Operating activities	
Cash inflow from operating activities	18,062
Investing activities	
Dividends received	3,230
Proceeds from sales of assets	2,682
Capital expenditure	(12,109)
Acquisitions of business, subsidiaries and ESG assets	(17,792)
Investments in and advances to jointly controlled entities and associated companies	(62)
Other net outflow	(1,208)
Financing activities	
Net increase in borrowings	20,037
Repayment of finance lease obligations	(2,251)
Interest and other finance costs paid	(5,438)
Dividends paid	(5,967)
Others	(10)
Net decrease in cash and cash equivalents	(826)
Cash and cash equivalents at 31.12.2010	4,023
Effect of exchange rate changes	(93)
Cash and cash equivalents at 31.12.2011	3,104

Breakdown of Capital Expenditure and Investments

		HK$M
Capital expenditure		12,109
Acquisitions of business, subsidiaries and ESG assets		17,792
Investments in and advances to jointly controlled entities and associated companies		62
Acquisition of leased assets		2,517
Accrual adjustments		1,049
		33,529
By business activities:		
Investment in emissions control project		1,083
Other coal and gas assets		15,027
Renewables	(16)	2,641
Transmission, distribution and retail		14,140
Others		638
		33,529
By regions:		
Hong Kong	(8)	8,097
Australia	(9)	19,487
Chinese mainland	(10)	1,243
India	(11)	4,702
		33,529

Today's Consolidated Statement of Financial Position		
		HK$M
Assets		
Fixed assets, leasehold land and land use rights under operating leases	(5)	130,382
Goodwill and other intangible assets	(6)	27,369
Interests in jointly controlled entities		18,226
Interests in associated companies		1,465
Derivative financial instruments	(14)	7,185
Trade and other receivables		19,419
Cash and cash equivalents		3,104
Restricted cash		762
Bank balances, cash and other liquid funds		3,866
Other assets		6,376
		214,288
Equity and Liabilities		
Share capital, premium and reserves		23,694
Retained profits		57,565
Shareholders' funds		81,259
Non-controlling interests		93
Derivative financial instruments	(15)	7,294
Trade and other payables		16,990
Borrowings	(13)	65,521
Obligations under finance leases		27,396
SoC reserve accounts		643
Other liabilities		15,092
		214,288

Beyond Today's Statement of Financial Position	
	HK$M
Charges on assets	18,063
Contingent liabilities	1,366
Operating commitments	10,449
Capital commitments	24,415

Strategy to Optimise Financial and Capital Structure

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

Outcome

- Operating activities: Reinforced by expanded operations in Australia and solid performance in Hong Kong, our cash flows from operating activities[(7)] remained strong. This is the primary funding source for fuelling growth in our businesses;
- Investing activities: In Hong Kong, we continued the development and enhancement of our power system network and generating plants[(8)] (including the final commissioning of emissions control facilities at the Castle Peak Power Station). In Australia, we completed the NSW Acquisition and the acquisition of a 20% working level interest in the permits of Eastern Star Gas (ESG) in the Gunnedah Basin of NSW[(9)]. There were also substantial investments in the Chinese mainland (for renewable projects like Jiangbian hydro)[(10)] and in India (for Jhajjar and wind projects)[(11)];
- Financing activities: In order to finance capital investments and dividend payments[(12)], our debt level increased to HK$65,521 million[(13)] this year. Nonetheless, our net debt to total capital ratio remained at a manageable level of 43.1% at 2011 year end. Strong credit ratings of A- by Standard & Poor's and A2 by Moody's were also maintained.

Strategy to Manage Risks

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

Outcome

The fair values of these financial instruments resulted in derivative assets[(14)] and liabilities[(15)]. At 31 December 2011, the Group had net derivative liabilities of HK$109 million, primarily due to the out of the money position of some energy contracts acquired in the NSW Acquisition. This represents the net amount we would pay if these contracts were closed out at year end.

Strategy to Reduce Carbon Intensity

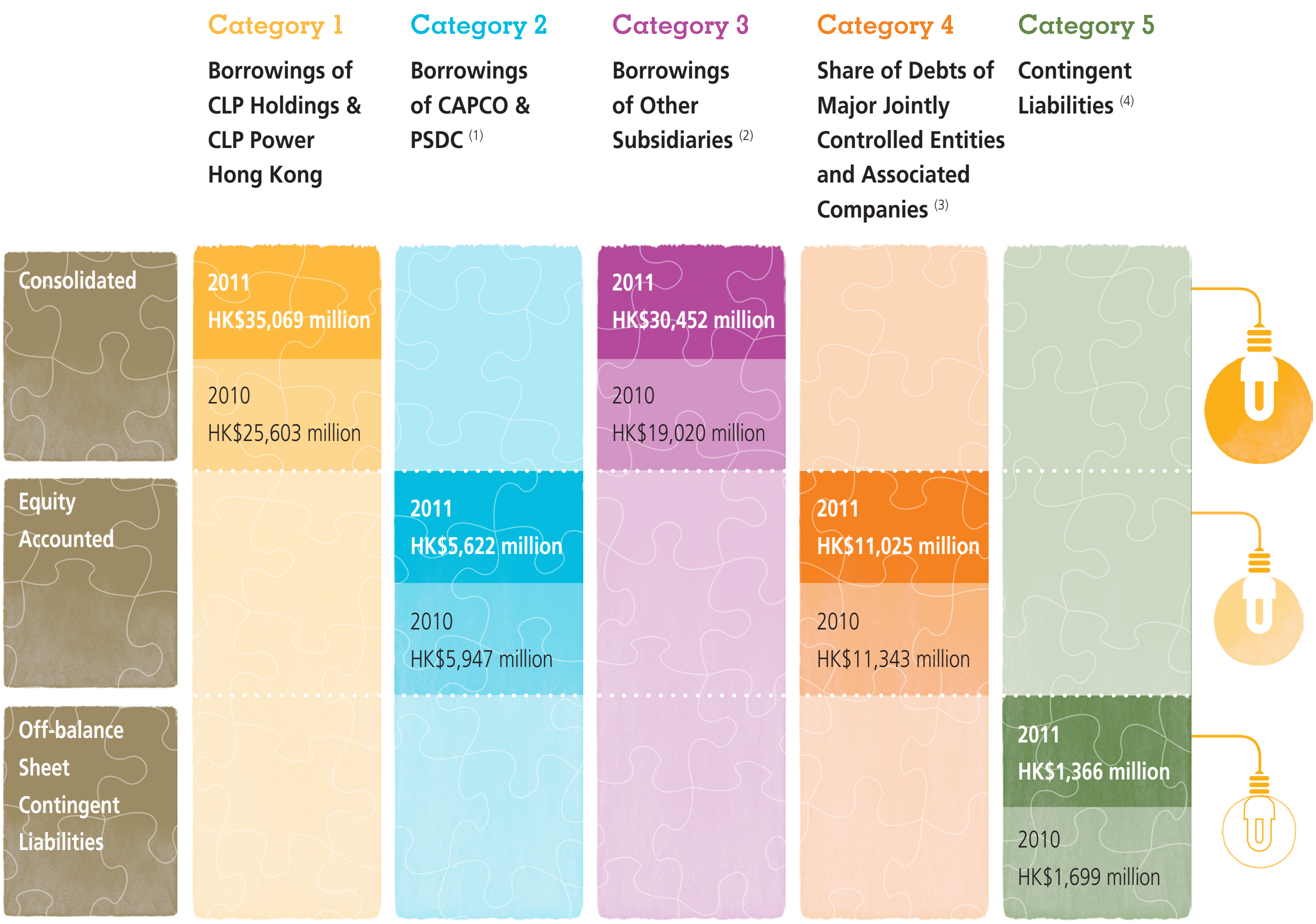
CLP continues to invest in renewable energy to reduce the carbon intensity of its generating portfolio and capture the opportunities of low carbon emissions generation.

Outcome

- Renewable energy contributed HK$242 million to operating earnings in 2011;
- Investment of HK$2,641 million[(16)] during the year in renewable projects such as wind farms, hydro and solar;
- Renewable energy sources of 2,424MW now represent over 18% of our total generating capacity.

CLP Group's Financial Obligations at a Glance

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



Consolidated financial statements are prepared to show the effect as if the parent and all the subsidiaries were one entity by combining their financial statements on a line by line basis. In contrast, under the equity method of accounting, interests in jointly controlled entities and interests in associated companies are accounted for on the basis of proportionate sharing of net assets (i.e. assets minus liabilities). As a result, the underlying borrowings of equity accounted entities are not included as part of the debts shown in our consolidated financial statements. Total debt to total capital at CLP consolidated level (i.e. Category 1 and Category 3 together) in 2011 was 44.6% (2010: 35.9%). If 100% of debts[5] of Category 2 were included, total debt to total capital would be 42.8% (2010: 35.1%). If the attributable portion of debts of Category 4 were also included, total debt to total capital would rise to 46.4% (2010: 39.9%).

Notes:

(1) 100% of the debts of CAPCO and PSDC. Although the Group holds only a 40% interest in CAPCO and a 49% interest in PSDC, CLP Power Hong Kong has commitments to these companies through power purchase and service agreements, as explained in the SoC Statement on pages 211 to 213 and Note 33 to the Financial Statements.

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

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

(4) Details of the contingent liabilities of CLP Holdings and its subsidiaries are set out in Note 34 to the Financial Statements.

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

Financial Analysis

Group's Financial Results

HK$91.6billion record high revenue following the NSW Acquisition

Financial results	*Notes to the Financial Statements*	2011 HK$M	2010 HK$M	Increase / (Decrease) HK$M	%
Revenue	*3*	91,634	58,410	33,224	56.9
Expenses		(76,461)	(46,413)	30,048	64.7
Finance costs	*8*	(6,005)	(4,212)	1,793	42.6
Income tax expense	*9*	(1,650)	(844)	806	95.5
Earnings attributable to shareholders		9,288	10,332	(1,044)	(10.1)

Revenue and Expenses

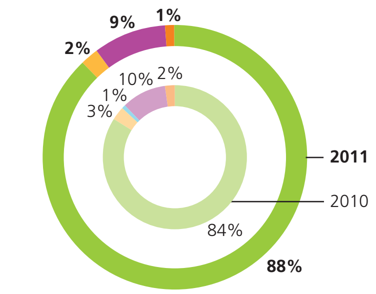
Because the market structure in Australia separates retail and generation, revenue from Australia includes revenues from both activities. In Hong Kong, because of its different market structure, we recognise retail revenue.

Over 60% of our revenue came from Australia, as a result of the NSW Acquisition and higher retail electricity and gas prices. Revenue growth in Hong Kong was modest and was attributable to more units sold and the higher fuel clause revenue to recover some of the increased fuel costs. In India and the Chinese mainland, the commissioning of new wind farms and other renewable projects (such as Jiangbian hydro) also contributed to the increase.

There was a corresponding and substantial increase in expenses in Australia such as transmission and distribution charges, fuel costs, depreciation and other operating costs.

Analysis of Revenue

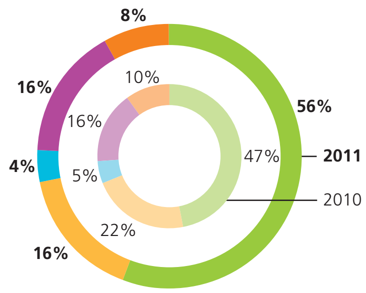
By Nature



Sales of electricity · Finance lease income · Other revenue · Lease service income · Sales of gas

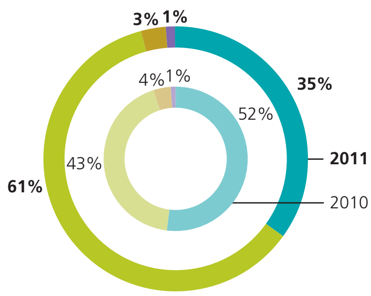
Analysis of Expenses

By Nature



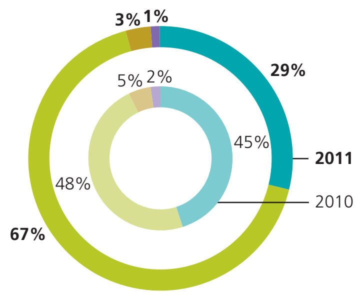
Purchases of electricity, gas and distribution services · Staff expenses · Fuel and other operating expenses · Operating lease and lease service payments · Depreciation and amortisation

By Region



Hong Kong · Australia · India · Others

By Region



Hong Kong · Australia · India · Others

Finance Costs

The 46.8% increase in borrowings of the Group led to a significant increase in interest expense. Most of the borrowings were used to finance capital expenditure and investments by the Group including the NSW Acquisition and asset acquisition in ESG. There was also an increase in finance lease charges paid by CLP Power Hong Kong to CAPCO as a result of higher finance lease balances mainly from the commissioning of the emissions control facilities at Castle Peak Power Station.

Income Tax Expense

Excluding the one-off tax consolidation benefit from Australia of HK$989 million in 2010, income tax expense decreased by HK$183 million. This was in line with the decrease in total earnings.

Earnings Attributable to Shareholders

	2011		2010		Increase / (Decrease)	
	HK$M	HK$M	HK$M	HK$M	HK$M	%
Electricity business in Hong Kong (HK)		6,339		6,129	210	3.4
Energy business in Australia		2,911		1,303	1,608	123.4
PSDC and sales to Guangdong from HK	116		119			
Nuclear business	595		760			
Other power projects in Chinese mainland	560		642			
Electricity business in India	154		141			
Power projects in Southeast Asia and Taiwan	86		390			
Other earnings	70		121			
Earnings from other investments / operations		1,581		2,173	(592)	(27.2)
Unallocated net finance costs		(48)		(18)		
Unallocated Group expenses		(471)		(439)		
Operating earnings		10,312		9,148	1,164	12.7
Impairment provision for Yallourn		(1,933)		–		
Gain on sale of EGCO / CLP Power China (Anshun)		876		356		
Valuation gain on Hok Un redevelopment		225		–		
Stamp duty for NSW Acquisition		(640)		–		
Gain on reorganisation of Roaring 40s		300		–		
Gain on sale of 3.8% interest in ESG		148		–		
Tax consolidation benefit from Australia		–		989		
Yallourn coal mine subsidence insurance recovery		–		97		
Provision for Roaring 40s		–		(258)		
Total earnings		9,288		10,332	(1,044)	(10.1)

Earnings from Australia more than doubled and this is the main contributor to the increase in the Group's operating earnings. Taking into account the one-off items, in particular the impairment provision for Yallourn of HK$1,933 million, total earnings of the Group fell by 10.1% to HK$9,288 million. The performance of individual businesses is analysed on pages 36 to 64.

123% **increase in operating earnings of Australia over 2010**

Group's Financial Position

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

Non-current assets	*Notes to the Financial Statements*	2011 HK$M	2010 HK$M	Increase / (Decrease) HK$M	%
Fixed assets	*13 (A)*	128,571	115,731	12,840	11.1
Leasehold land and land use rights under operating leases	*13 (B)*	1,811	1,729	82	4.7
Goodwill and other intangible assets	*14*	27,369	9,150	18,219	199.1
Interests in jointly controlled entities	*16*	18,226	20,476	(2,250)	(11.0)
Deferred tax assets	*26*	1,276	4,210	(2,934)	(69.7)
Total assets		214,288	179,355	34,933	19.5
Net assets (total assets less total liabilities)		81,352	79,758	1,594	2.0

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

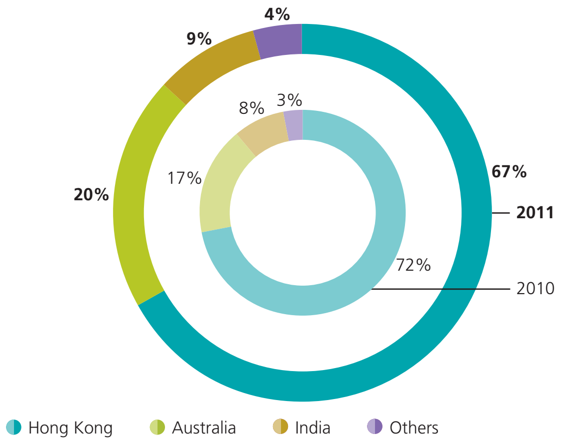
The power business is highly capital-intensive and continuous investment in capital assets is essential for CLP to maintain its high quality electricity supply.

In Hong Kong alone, we invested HK$7,288 million during 2011 on work to upgrade and enhance the transmission and distribution network, customer services facilities, generating plants and the final commissioning of emissions control facilities at Castle Peak Power Station.

In Australia, fixed assets of HK$6,039 million at Mount Piper Power Station (which have been accounted for as a finance lease), were acquired as part of the NSW Acquisition. In India, the construction at Jhajjar Power Station and wind farms also brought in HK$4,702 million of fixed assets.

Capital commitments at 31 December 2011 amounted to HK$24.4 billion, representing mainly capital works in Hong Kong and Australia, and the final stage of construction at Jhajjar, India.

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



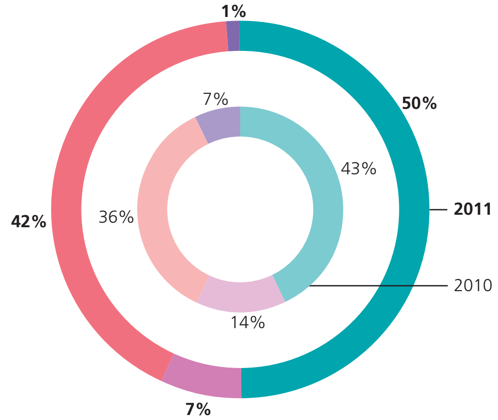
Goodwill and Other Intangible Assets

Goodwill of HK$14,011 million and other intangible assets (mainly customer contracts and brand name) of HK$1,797 million arose or were acquired from the NSW Acquisition in Australia. Exploration permits of HK$2,277 million (an effective interest in over 500 PJ of coal seam gas reserve) were also acquired as part of the asset acquisition in ESG.

Interests in Jointly Controlled Entities

The decrease was mainly due to the sale of our 13.36% effective interest in EGCO in February and the sale of our interest in Roaring 40s in June.

The Group's Major Jointly Controlled Entities



Deferred Tax Assets

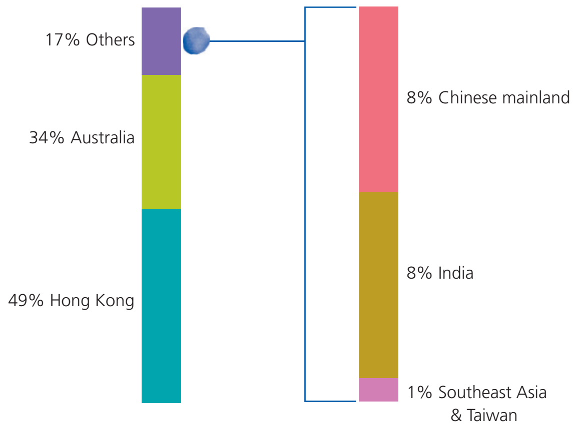
Most of the deferred tax assets relate to the unused tax losses of TRUenergy. The significant decrease was largely attributable to the recognition of net deferred tax liabilities from the NSW Acquisition of HK$2,640 million, and the utilisation of tax losses against TRUenergy's taxable profit in the current year.

Total Assets and Net Assets

Net assets and total assets are further analysed as follows:

Net Assets	2011 HK$M	2010 HK$M	Increase / (Decrease) %
Hong Kong	**30,429**	28,098	8.3
Australia	**35,075**	26,302	33.4
Chinese mainland	**14,197**	13,229	7.3
India	**7,167**	6,669	7.5
Southeast Asia and Taiwan	**1,467**	3,320	(55.8)
Unallocated	**(6,983)**	2,140	n/a
	81,352	79,758	

Total Assets by Geographical Location in 2011



The growth in the Australia business has significantly changed the Group's total assets and net assets mix. Over 50% and 70% of our total assets and net assets respectively are now located outside Hong Kong, a reflection of the increasing diversification of the business.

Group's Financial Position

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

Working capital, Debts and other non-current liabilities and Equity	*Notes to the Financial Statements*	2011 HK$M	2010 HK$M	Increase HK$M	%
Derivative financial instruments assets*	*19*	7,185	4,345	2,840	65.4
Derivative financial instruments liabilities*	*19*	(7,294)	(2,011)	5,283	262.7
Trade and other receivables	*21*	19,419	11,118	8,301	74.7
Trade and other payables	*23*	(16,990)	(11,344)	5,646	49.8
Bank loans and other borrowings*	*24*	(65,521)	(44,623)	20,898	46.8
Shareholders' funds		81,259	79,661	1,598	2.0

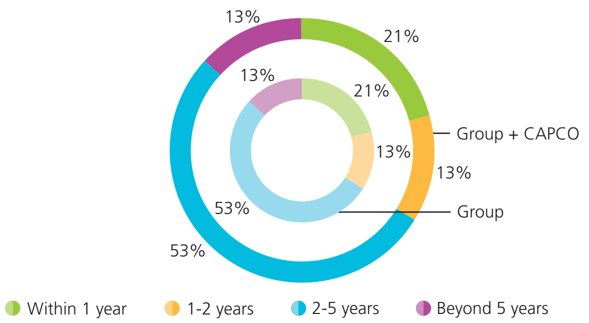
* Including current and non-current portions

Derivative Financial Instruments and Hedging

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

	Notional Amount 2011 HK$M	Notional Amount 2010 HK$M	Fair Value Gain / (Loss) 2011 HK$M	Fair Value Gain / (Loss) 2010 HK$M
CLP Group				
Forward foreign exchange contracts	104,624	86,603	1,699	1,075
Interest rate swaps / cross currency & interest rate swaps	36,598	24,498	413	375
Energy contracts	32,210	14,805	(2,221)	884
	173,432	125,906	(109)	2,334
CAPCO				
Forward foreign exchange contracts	48	163	(3)	(11)
Interest rate swaps	477	953	(5)	(29)
Total	173,957	127,022	(117)	2,294

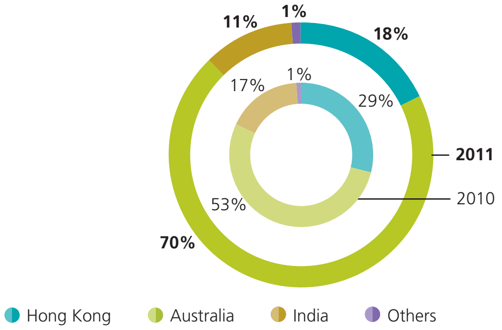
Maturity Profile in 2011



Trade and Other Receivables

The new customers brought in from the NSW Acquisition in Australia significantly increased the trade receivables balance of the Group (HK$5,277 million). The increase in other receivables was due to the deposit paid for the investment in the Yangjiang nuclear project (pending Chinese Authority's approval) (HK$1,159 million) and more renewable energy certificates purchased (HK$1,770 million) to comply with the regulatory requirements in Australia for more units sold.

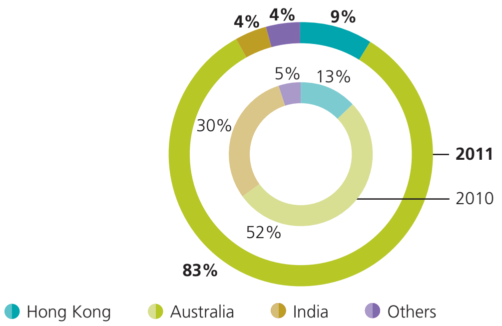
Trade Receivables by Segment



Trade and Other Payables

As a result of the expanded scale of operations in Australia, operating cost payables and accruals also increased. This balance also includes the current portion of the deferred consideration for the Wallerawang GenTrader contract of HK$535 million.

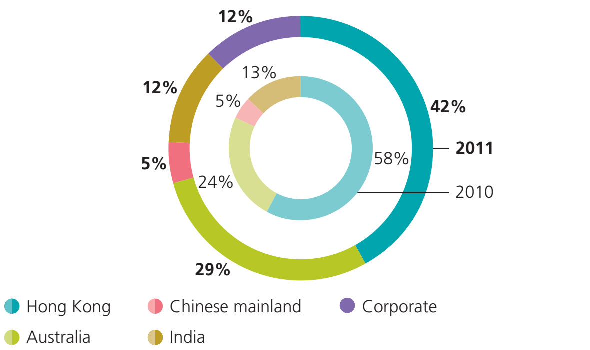
Trade Payables by Segment



Bank Loans and Other Borrowings

Additional loans were drawn down by the Group to meet its capital needs for business expansion and development. In Australia, TRUenergy borrowed HK$25.3 billion mainly to finance the NSW Acquisition. CLP Power Hong Kong also arranged HK$6.8 billion in new financing for capital expenditure. Subsidiaries in India drew down loans of HK$4.6 billion to finance the construction of Jhajjar and wind farms. In addition, net loans of HK$7.7 billion were drawn down at the corporate level to finance investments outside Hong Kong. On the other hand, HK$24.8 billion of borrowings were repaid during the year.

Bank Loans and Other Borrowings by Segment



Shareholders' Funds

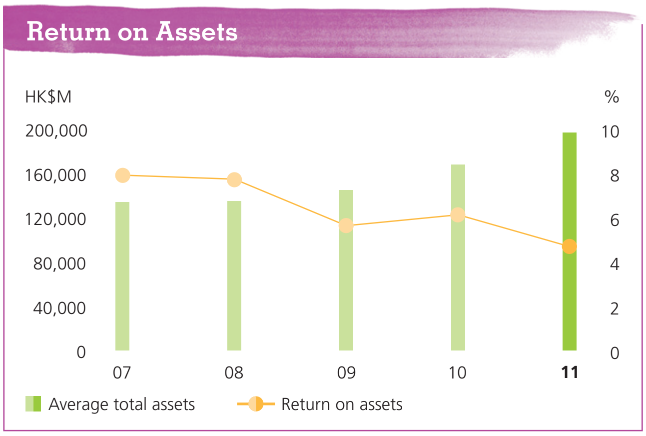
The undistributed earnings for the year, partly offset by the translation loss from our Australia and India businesses accounted for the increase in shareholders' funds.

A Broader Perspective

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

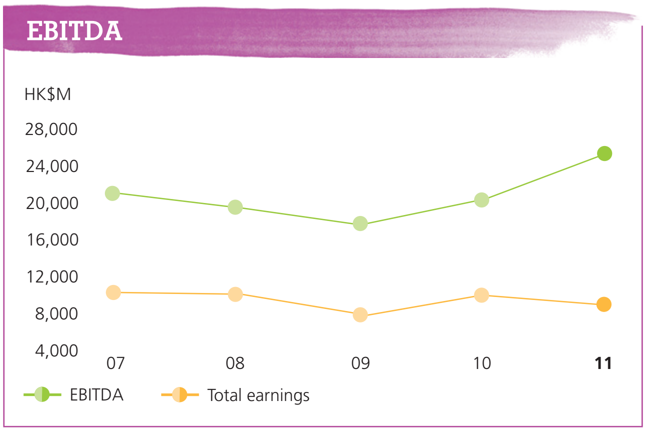
Performance Indicators

The performance indicators tell you how well a company is performing. Return on assets demonstrates how effectively a company is investing its assets. On the other hand, EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation), though not a formal accounting measure, is commonly used as an approximation of a company's cash earnings.



$$\text{Return on Assets} = \frac{\text{Total Earnings}}{\text{Average Total Assets}}$$

Return on assets represents the yield on assets deployed. The drop in 2009 represented the lower permitted return (9.99%) on the SoC assets of our Hong Kong electricity business, as compared to the 13.5% / 15% return under the previous SoC prior to October 2008. The fluctuations in 2010 and 2011 were mainly attributable to one-off items in Australia, namely a tax consolidation benefit in 2010 and the impairment provision for Yallourn in 2011.



EBITDA = Total Earnings* + Finance Costs – Finance Income + Income Tax + Depreciation and Amortisation

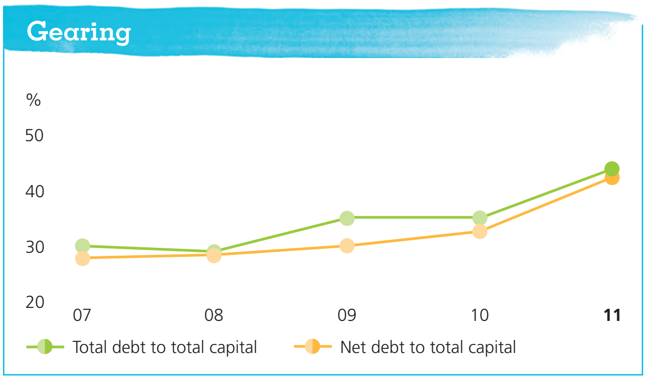
* Excluding non-cash one-off items

Investors use EBITDA to measure cash earnings. This eliminates the effects of accrual accounting, tax jurisdiction and different capital structures. One example of its application is the EBITDA multiple which is a substitute for the price/earnings ratio.

The debt markets also use EBITDA when measuring the ability of the borrower to pay interest (EBITDA over interest expense) and to repay the principal (debt over EBITDA).

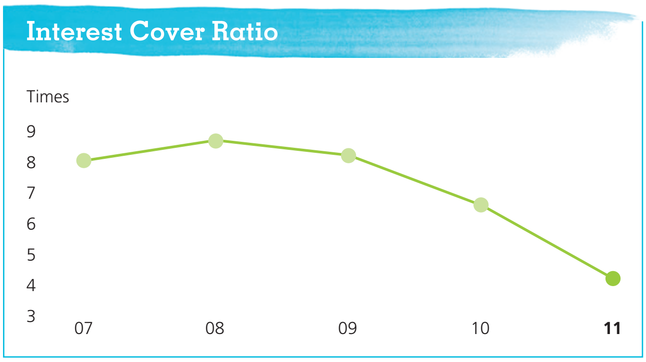
Financial Health Indicators

These indicators assess a company's financial health. The gearing ratios (total debt to total capital and net debt to total capital) demonstrate how a company's activities are funded by shareholders' funds instead of creditors' funds. A greater equity proportion provides a cushion and is less vulnerable to an economic downturn, whilst unduly low gearing may imply financial inefficiency. The interest cover ratio shows how comfortably a company's interest obligations are serviced by its profit.



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

The power industry demands large-scale investments in assets over the long term. We continue to pursue our growth strategy without placing undue strains on our financial position or eroding our firepower to pursue investment opportunities which may arise. Our total debt to total capital ratio has increased to 44.6% but remains manageable.

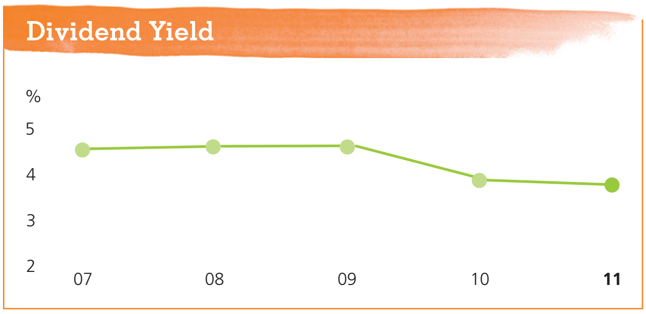


$$\text{Interest Cover Ratio} = \frac{\text{Profit before Income Tax and Interest}}{\text{Interest Charges + Capitalised Interest}}$$

Our five-year average interest cover is 7 times. The relatively low interest cover (4 times) in 2011 is largely due to higher interest expense related to the NSW Acquisition. We expect this to improve in future as increased investments contribute to Group earnings.

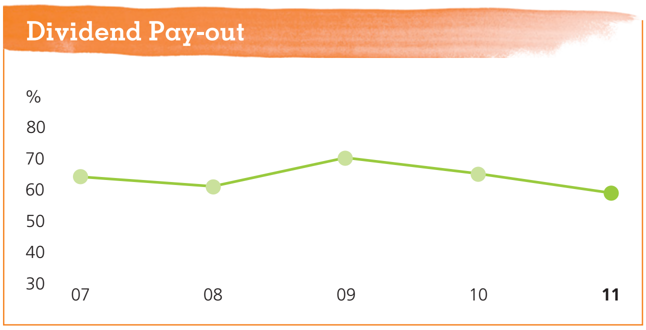
Investors' Return Indicators

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



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

A stable dividend yield between 3.8% to 4.7% in the past five years has been maintained. Our objective is to distribute dividends in line with the underlying earnings performance of the business.



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

Our policy is to target a dividend pay-out ratio of approximately 60% of operating earnings. With a reduced rate of permitted return in October 2008, this ratio increased in 2009 as we kept dividends stable.

Shareholder Value

In the Financial Review we have explained the financial performance of the CLP Group during 2011 and its financial position at the end of the year. In this section we describe how that financial performance leads to the delivery of value to our shareholders.

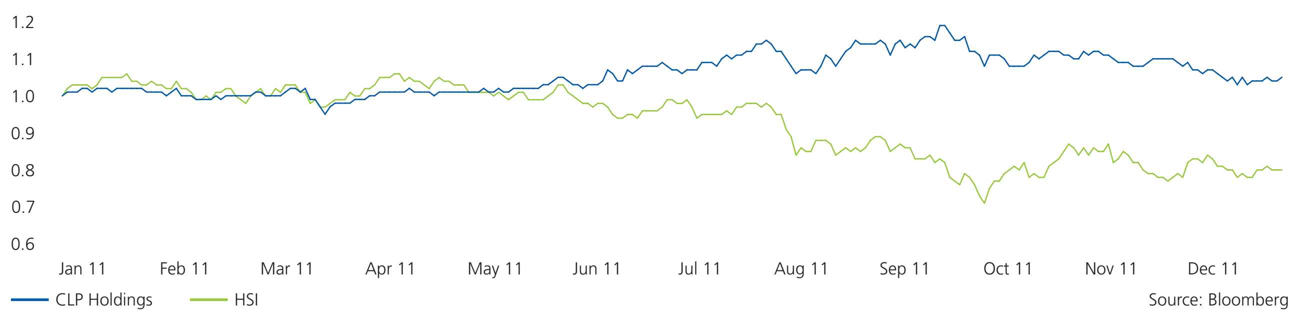
The scale of our shareholders' investment is reflected in a market capitalisation of CLP Holdings of HK$159 billion as at 31 December 2011. This ranks us as the 21st largest of the 1,326 issuers listed on the Main Board of the Hong Kong Stock Exchange. Our shares are part of the Hang Seng Index (HSI) – the index of Hong Kong's leading listed companies, representing 2.17% by weighting of that Index as of 31 December 2011. CLP is also in the Hang Seng Utilities Index (HSUI) with Power Assets Holdings, Hong Kong and China Gas and China Resources Power Holdings, representing 38.12% by weighting of that Index.

We deliver value to our shareholders in two ways: capital appreciation (in the form of the performance of our share price over time) and the payment of dividends.

Share Price Performance

CLP continued to deliver a strong share price performance in 2011. CLP shares out-performed the HSI, while the Hong Kong equities market experienced a volatile year largely due to ongoing uncertainty surrounding the Eurozone sovereign debt situation. CLP shares traded in a price range of HK$59.85 to HK$75.20, with the highest closing price of HK$74.95 recorded on 20 September 2011 and the lowest closing price being HK$59.95 recorded on 18 March 2011.

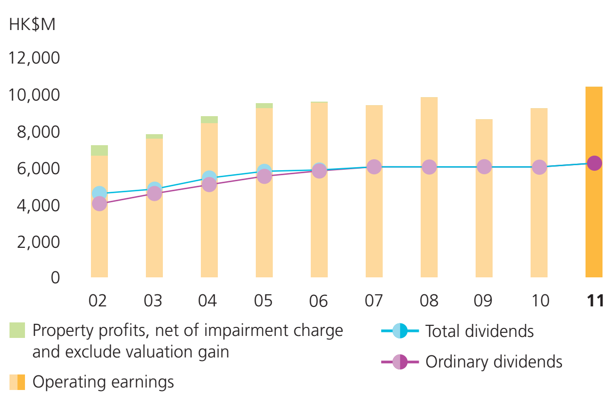
Relative Performance – CLP vs HSI (1 Jan 2011 – 31 Dec 2011) (Base: 31 December 2010 = 1.0)



Dividends

Our longstanding policy is to provide consistent increases in ordinary dividends, linked to the underlying earnings performance of the business. Our shareholders, whether institutional or retail investors, have repeatedly emphasised to us the importance they attach to a consistent and substantial dividend stream from their investment in CLP shares. The following charts demonstrate that we have maintained a stable dividend stream, despite fluctuations in earnings in recent years. In fact, our annual dividends have not decreased since 1960 – a solid record maintained for over 50 years.

Earnings and Dividends (2002 – 2011)



Note: Earnings for 2002 to 2005 have been restated for the effect of the adoption of HK(IFRIC)-Int 4.

Earnings and Dividends Per Share (2002 – 2011)

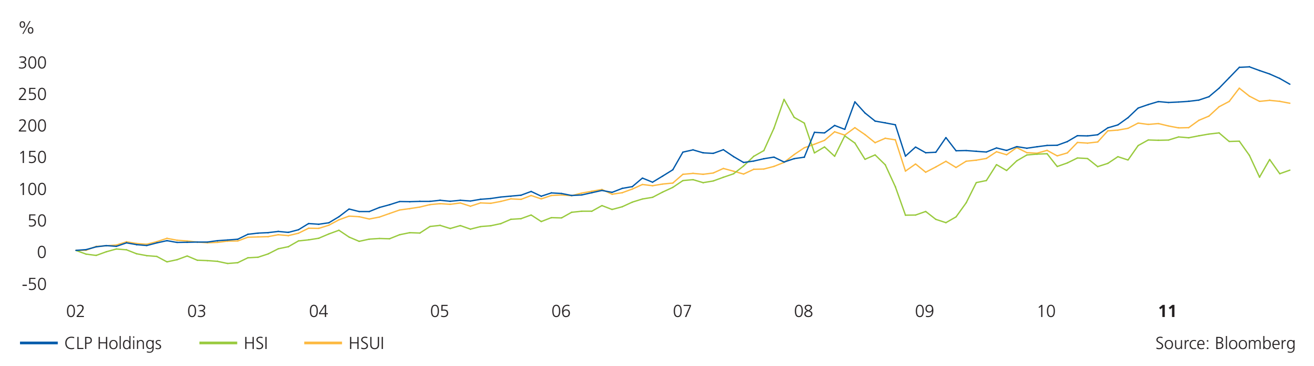
Note: Earnings for 2002 to 2005 have been restated for the effect of the adoption of HK(IFRIC)-Int 4.

From 2002 to 2010, CLP's ordinary dividend payments were between 60% and 65% of operating earnings, except for 2009 when our pay-out ratio rose to 70% of operating earnings, due to a significant decline in earnings caused by the substantial reduction in the permitted return under the SoC. Earnings from the property development at Hok Un and other property disposals were generally paid out as special dividends. This year, the Board decided to increase the dividend amount and declared a fourth interim dividend payable on 22 March 2012 of HK$0.96 per share. Together with three interim dividends per share of HK$0.52 each paid during 2011, the total ordinary dividend will be HK$2.52 per share, compared with HK$2.48 for the previous year. This represents a dividend pay-out ratio for the year of 59% of operating earnings.

Total returns

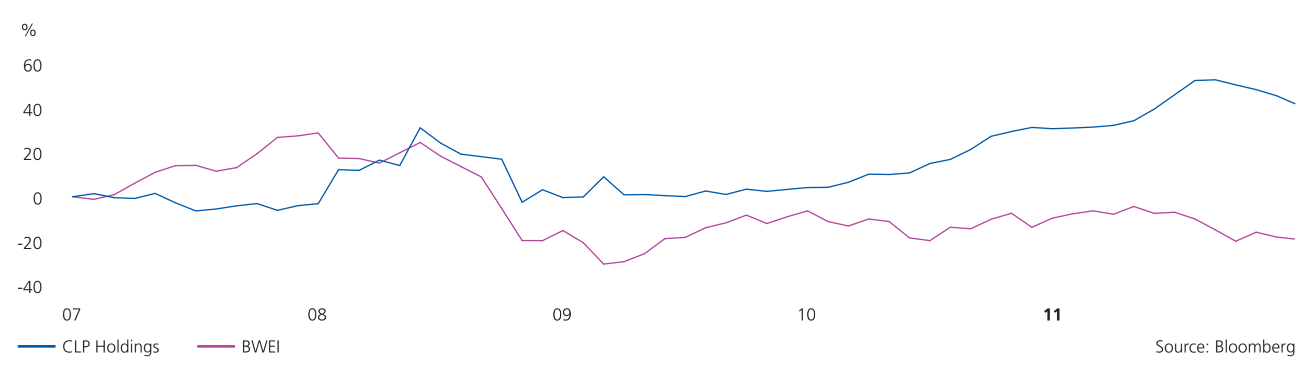
Total returns to shareholders come from the combination of share price appreciation and dividend payments over time. During the past ten years CLP has provided stable growth in total returns when compared with both the HSI and HSUI. During the 10-year period from 2002 to 2011, CLP provided an annualised rate of return of 13.74%, as compared to 8.53% and 12.76% for the HSI and the HSUI respectively.

Total Returns – CLP vs HSI and HSUI (2002 – 2011) (Base: 31 December 2001 = 0%)



CLP is included in a number of global utilities / electricity indices. CLP has consistently outperformed these indices. For instance, CLP represents 1.6% of the Bloomberg World Electric Index (BWEI), which comprises 126 worldwide electricity stocks. In recent years CLP has outperformed the BWEI from the perspective of both price and total returns.

Total Returns – CLP vs BWEI (2007 – 2011) (Base: 31 December 2006 = 0%)



Listen to a Q&A

(Our thanks go to the students and alumni of the Christian Zheng Sheng College for helping produce the videos for all the extra Q&As in this Report)

As a publicly listed company, we recognise that our shareholders have many investment choices available to them, ranging from other listed shares to bank deposits. We cannot offer a comparison of the total returns from holding CLP shares compared to every other investment available to our shareholders. However, the majority of our registered shareholders have a Hong Kong presence of some sort (97.87% have their registered address in Hong Kong) and will tend to hold CLP shares as a conservative component within their investment portfolio. In this year's Annual Report, as in previous years, we have looked at the performance of some comparable investments which our shareholders might make. To do this, we have assumed, as an illustration, that during the period of 1, 5 and 10 years prior to 31 December 2011, an investor has put HK$1,000 into each of these investments every year. We then compared the total worth of these investments (including bonus shares and with dividends or interest reinvested) at the end of each of the three periods.

Total Investment Worth at Different Types of Investment

Type of Investment	Total Investment Worth at 31 December 2011 1-Year Period HK$	 5-Year Period HK$	 10-Year Period HK$
CLP Shares	1,086	6,762	20,088
Power Assets Holdings Shares	1,216	7,603	20,866
Hong Kong and China Gas Shares	1,101	6,973	20,270
Tracker Fund of Hong Kong Shares	825	4,921	14,733
HK$ 1-Year Fixed Deposits	1,006	5,231	11,159

Adapted from Bloomberg / Reuters

Our duty to shareholders is not restricted solely to the delivery of dividends and capital appreciation. We also owe them open, honest and regular communication about the performance of their Company. The manner in which we discharge this obligation is addressed as part of our Corporate Governance Report at page 85.

Mrs. Fanny Law, an Independent Non-executive Director, hosting one of our Shareholders' Visits