# Risk Management Report

Risk is inherent in every business activity. We take a proactive approach to risk management and recognise an effective and robust group-wide risk management framework as essential in achieving our strategic and business objectives.

We believe risk management is the responsibility of everyone within CLP. It is embedded in our strategy development, business planning, investment decisions, capital allocation and day-to-day operations.

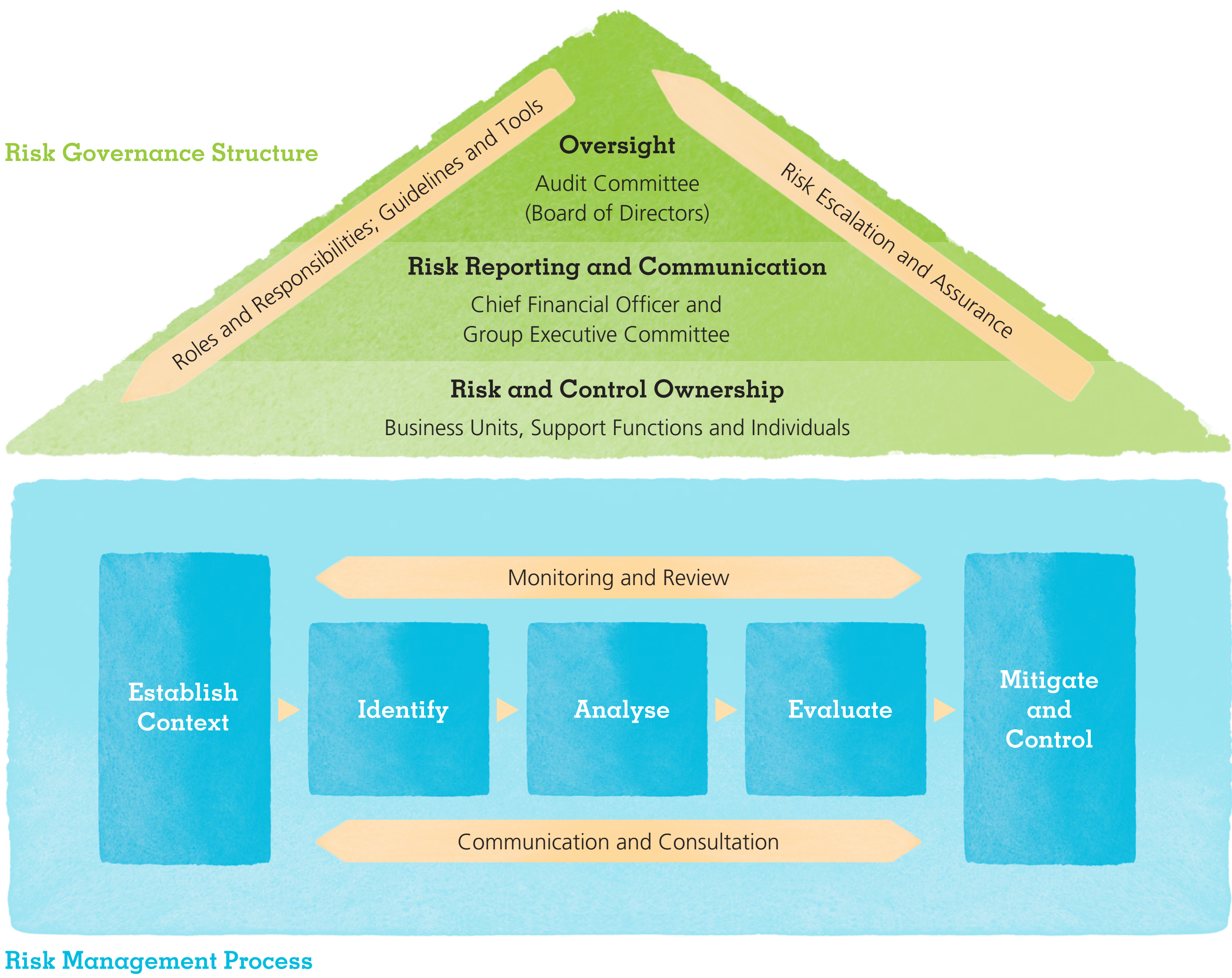
At an operational level, we aim to identify, assess, evaluate and mitigate operational hazards and risks in order to create a safe, healthy, efficient and environmentally-friendly workplace for our employees and contractors.

At a corporate level, we focus on the assessment of top tier risks at the Group, business and functional levels in order to better equip ourselves to pursue the Group's strategic and business objectives.

Our overall risk management process is overseen by our Board as an element of solid corporate governance.

## Our Risk Management Framework

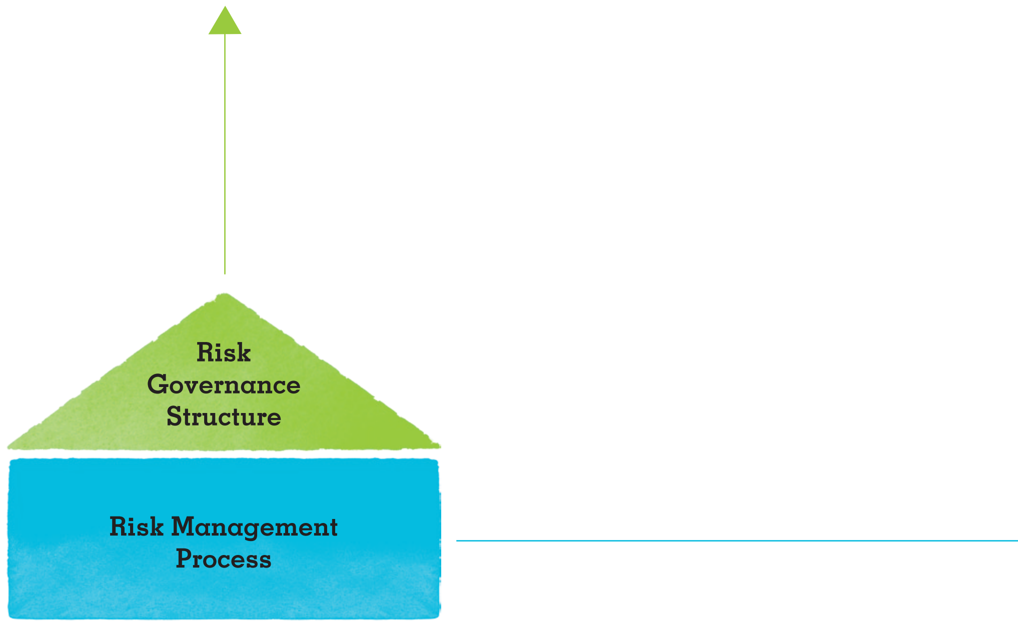
Our risk management framework comprises two key elements: **risk governance structure** and **risk management process**.



**Our Risk Governance Structure**

- Facilitates risk identification and escalation whilst providing assurance to the Board.
- Assigns clear roles and responsibilities and facilitates implementation with guidelines and tools.
- Consists of three different layers of roles and responsibilities as explained below.

| | |
|---|---|
| **Oversight** | **Audit Committee, acting on behalf of the Board**<br>• Oversees top tier risks that warrant attention and supervises risk management process as part of good corporate governance. |
| **Risk Reporting and Communication** | **Chief Financial Officer and Group Executive Committee**<br>• Supported by the Group Risk Management function, communicate and assess the Group's risk profile and top tier risks considered material at the Group level.<br>• Track progress of mitigation plans and activities of top tier risks and report on detailed examinations of specific risks as required. |
| **Risk and Control Ownership** | **Business Units, Support Functions and Individuals**<br>• Facilitated and coordinated by Group Risk Management, ensure that risk management processes and mitigation plans follow good practices and guidelines established by the Group.<br>• Carry out risk management activities and reporting according to our risk management framework in their day-to-day operations.<br>• In CLP Power, TRUenergy, and CLP India, which have comprehensive risk management frameworks in varying degrees of maturity, Risk Management Committees or parallel Executive Committees oversee their risk management policies and activities. Representatives from Group Risk Management participate in these committees.<br>• In other business and functional units, executives meet regularly to review their risk profiles and risk management activities.<br>• Risk managers or coordinators at functional units have been appointed to facilitate communication, experience sharing and risk reporting for specific functions at the Group level. |



**Our Risk Management Process**

- Is embedded in our strategy development, business planning, investment decisions, capital allocation and day-to-day operations.
- Is in line with leading industry standards and practices including ISO31000:2009 Risk Management – Principles and Guidelines.
- Involves establishing the context, identifying risks, assessing their consequences and likelihood, evaluating risk level, control gaps and priorities, and developing control and mitigation plans. This is a continuous process with periodic monitoring and review in place. It is also an interactive process with cross-functional communication and consultation.

| | |
|---|---|
| **Our Quarterly Risk Review Process at Group Level** | • Every quarter, our business and functional units are required to submit their top tier risks identified through their risk management process to Group Risk Management in a prescribed reporting format.<br>• Group Risk Management, through aggregation, filtering and prioritising processes, compile a Quarterly Group Risk Management Report for discussion at the Group Executive Committee chaired by the CEO. The Committee reviews and scrutinises the top tier risks and ensures the appropriate controls and mitigation measures are in place or in progress. Emerging risks, which may have a material impact on the Group, are monitored and discussed at the Committee.<br>• Following review by the Group Executive Committee, the Quarterly Group Risk Management Report is submitted to the Audit Committee. A summary of the top tier risks is circulated to the Board. "Deep dive" presentations on selected risks are presented to the Audit Committee for more detailed review. |
| **Our Risk Review Process for Investment Decisions** | • All new investments must be endorsed by the Investment Committee chaired by the CEO before seeking approval from the Board or Finance & General Committee.<br>• We require independent functional review and sign-off of any investment proposal before going to the Investment Committee. Risk Management sign-off is part of the investment review process.<br>• Group Risk Management requires that the project owner conduct a risk assessment with proper documentation. Detailed checklists and worksheets are adopted for identifying risks / mitigations and assessing risk level. Material risks and associated mitigations are highlighted and discussed at the Investment Committee. |
| **Our Risk Management in the Business Planning Process** | • In our annual business planning process, business units are required to identify all material risks that may impact their achievement of business objectives. Identified risks are assessed and evaluated based on the same set of criteria as the quarterly risk review process. Strategies and action plans to mitigate the identified risks are developed for implementation and budget allocation purposes. |

# Evolution of Risk Management

Established in 2009, the Group Risk Management function is tasked with enhancing risk management activities, both at the Group and business unit level by bridging any gaps, sharing good practices, and streamlining the communication of risk information to senior management.

| Major Initiatives in 2011 | |
|---|---|
| **Process** | • Enhanced our risk management framework by reinforcing risk ownerships, defining Group level risk criteria, and standardising risk languages amongst business units.<br>• Established and implemented a quarterly reporting process of top tier risks by business and functional units, with review by the Group Executive Committee, oversight by the Audit Committee, and summary submission to the Board; deep dive presentations on selected risks are produced as required.<br>• TRUenergy consolidated its existing risk management and reporting processes, and introduced a revised governance structure encompassing three Executive-Level Risk Committees and comprehensive reporting.<br>• CLP India is currently implementing its risk management framework with its risk management committee established.<br>• An overarching risk management framework for CLP Power is being implemented on a trial basis as individual functional risk management activities are mature, but independent.<br>• Facilitated project owners to conduct comprehensive risk reviews of all projects coming to the Investment Committee with proper documentation of risk assessment. |
| **People** | • Established the CLP Group Enterprise Risk Management Roundtable as a forum for regular sharing of knowledge in risk management among risk managers and coordinators of business units.<br>• Shared CLP Group experience and practices in risk management with peers in industry and Hong Kong, as well as our joint venture partners. |
| **Technology** | • In May 2011 the Group Risk System (GRS), an IT system for risk records repository, was developed and launched for management and use by business units. Training was provided for trainers of the system in the business units for system roll-out. |

**Outlook and Major Initiatives for 2012**

- Continue to enhance our risk management framework and assist business units in roll-out and implementation of their own frameworks.
- CLP Power will roll-out an improved risk management framework with cross-functional risk management committee or similar entity established.
- Majority-owned Chinese assets to develop operational risk management frameworks.
- Embed the integration of risk management into strategy development and business planning processes.
- Facilitate efficient identification of emerging risks.
- Extend investment risk review as appropriate for projects entering commercial operations phase.

## Top Tier Risks of the Group

Our quarterly risk review process has identified the following as top tier risks of the Group.

**Rising Costs for CLP Power and Challenges of Future Tariff Increases** – The tariff increase for 2012 announced in December 2011 was a matter of significant political, media and public controversy and criticism.

| Risk Identification | Risk Assessment | Key Risk Mitigation |
|---|---|---|
| Rising costs for CLP Power and challenges of future tariff increases | The Government's policy orientation towards cleaner generation and increasingly stringent emission caps on our Hong Kong generation capacity have led to a shift toward more expensive gas-fired generation and additional investment in further emissions reduction facilities. While such a choice was made by the HKSAR Government on behalf of the community, the resulting consequences for service providers and the increased costs for consumers have not been widely communicated, discussed and understood.<br><br>This has implications for the public understanding and acceptance of future tariff increases and the long-term regulation of our business. | • We endeavour to control and manage our operating costs amidst rising international fuel prices.<br>• We strictly scrutinise and prioritise our capital projects for government approval before implementation, and manage capital projects and expenditure in accordance with planned schedules.<br>• We continue to review our tariff structure through proper public consultation in order to better meet customer needs and encourage energy conservation.<br>• We strive to enhance our bargaining power in discussions of new gas supply arrangements.<br>• We will enhance our communication to the public on tariff and rising business costs issues.<br>• We engage with the HKSAR Government on plans to meet climate change goals and air quality objectives. |

**Liquidity and Financial Environment Impact on Executing Business Strategy** – One of the Group's financial objectives is to maintain a strong financial position, while ensuring adequate funding to execute our business strategy, enhance existing business operations and pursue investment opportunities for long-term growth.

| Risk Identification | Risk Assessment | Key Risk Mitigation |
|---|---|---|
| Liquidity risk of inadequate funding for business operations and growth | CLP's firepower may face more constraints after the NSW acquisition.<br><br>We are prepared to unlock shareholder value and release capital for allocation as we require, in addition to monetising existing assets on a selective basis. However, the deteriorating global financial environment may not allow much flexibility, hampering our ability to execute such transactions as well as raising the cost of debt to uneconomic levels. | • We continue to maintain high investment grade credit ratings as a key focus.<br>• We look to early solicitation of adequate and cost-effective funding in advance to cover business requirements and replenish firepower after significant transactions.<br>• We aim to further diversify our funding sources and maintain an appropriate mix of committed credit facilities.<br>• We completed substantial refinancing in 2011 to reduce short-term liquidity risks.<br>• We are considering a possible listing of TRUenergy as one of the options to return capital to CLP Holdings and to provide TRUenergy with its own capital-raising capability. No decision has yet been made in this regard. |

**Fuel Challenges Across the Group** – Given that a significant proportion of the Group's portfolio is thermal generation with gas and coal as baseload fuels, we are potentially exposed to disruptions in fuel supply as well as fuel price fluctuations. Our capability to manage fuel-related risks is critical to our profitability as well as our ability to supply reliable power and energy to our customers while meeting emission targets.

| Risk Identification | Risk Assessment | Key Risk Mitigation |
|---|---|---|
| India fuel supply uncertainty and price volatility impacting generation planning and cost | India is the world's third largest coal producer (fifth largest in terms of proved recoverable coal reserves). As such, our Jhajjar project, aiming for full commissioning in the first half of 2012, has been allocated domestic coal by the government to supply all of its generation requirements. However, India is currently experiencing a shortfall in domestic coal supply as a result of delayed development in both domestic mines and transport infrastructure.<br><br>The operation of our GPEC power station relies on a stable and flexible supply of gas or naphtha. India does not possess large amounts of domestically developed and accessible gas supply. Regular consumption of more expensive LNG is not yet well established. | • Jhajjar coal – We plan to execute a long-term fuel supply agreement for the official allocation of domestic coal by December 2012. In parallel, we are working with the Indian authorities to agree a level of imported coal that is technically acceptable within the design of the boiler and to implement the means of importation and delivery.<br>• GPEC gas / naphtha – We aim to secure long-term (5 to 10 years) gas supply contracts with multiple suppliers to the extent possible and back up with short-term or spot contracts. |
| Insufficient low-calorific value coal to meet emissions requirements in Hong Kong | As global coal supplies have tightened, coal prices have increased by about 21% over 2011. Sourcing competitive and long-term coal supplies of a quality that will enable us to meet Hong Kong emission standards is a key challenge for us.<br><br>Due to depletion of gas reserve, coal-fired generation increased to meet electricity demand in 2011. As a result coal was about 49% of CLP Power's fuel mix, of which about 92% was low-calorific value coal (which produces less ash and lower emissions). | • We continue to secure long-term contracts with major coal suppliers.<br>• We seek to broaden our supply base to include more coal suppliers and big traders.<br>• We are exploring new sources of low-calorific value coal from Indonesia and other countries.<br>• We will arrange more trial burns of new coal in 2012 so as to further broaden our supply base. |

| Risk Identification | Risk Assessment | Key Risk Mitigation |
|---|---|---|
| High coal prices in China where tariff rises can only offset part of the price increases | Chinese mainland domestic coal prices were stable in the earlier part of 2011, but increased significantly during the second half of the year. The on-grid tariff increases in April and December provided partial relief to the impact of high coal prices. The Chinese government further announced in November that it will take temporary measures in 2012 to alleviate the situation, including caps on the price increases of major coal contracts and spot coal at designated ports. | • For our majority-owned coal-fired power station at Fangchenggang, we continue to optimise our fuel sources with a combination of long-term contracts from large established coal mines and short-term purchases from small ones.<br>• For our JV plants with Guohua International, we continue to work with the JV and liaise with Shenhua Group to increase the portion of "planned" coal in the fuel mix, as "planned" coal is of lower cost than coal from the market.<br>• We closely monitor and benchmark the performance of our JV partners who take the lead in fuel procurement. |
| Unstable gas supply for Hong Kong impacting generation and emission compliance | CLP's Black Point Power Station currently receives gas through a dedicated pipeline from Yacheng gas field (Y13-1), which is near Hainan Island. As early depletion of Y13-1 gas reserve is now confirmed and more natural gas for power generation is required in order to meet the more stringent emissions regulations, CLP Power has been working closely with all key stakeholders including the authorities in Hong Kong and the Mainland to secure replacement gas supplies in a timely manner. | • We closely monitor the remaining gas supply from the existing Yacheng gas field and prudently manage gas usage prior to the arrival of replacement gas.<br>• We work with the supplier to enhance productivity of the Yacheng gas field.<br>• We expedite work progress on securing gas from the three sources as outlined in the MOU between National Energy Administration and HKSAR Government, including finalising gas supply contracts with CNOOC and PetroChina, and developing the commercial arrangements and technical aspects of the related pipeline infrastructure.<br>• We have prepared emergency back-up fuel plans to cater for potential delay of replacement gas and related pipeline infrastructure projects. |
| TRUenergy's inability to secure sustainable, long-term supplies of fuel at a price sufficient to realise return on generation and retail investments | TRUenergy is currently one of the top three national energy retailers in Australia with approximately 2.8 million electricity and gas retail customers.<br><br>TRUenergy also operates a number of wholly-owned coal and gas-fired power stations totalling 2,103MW. | • We have established long-term supply strategies for all fuel types allowing for contracting and equity purchases of fuel.<br>• TRUenergy has agreed to acquire a 20% share in Eastern Star Gas' exploration and production permits in the NSW Gunnedah Basin providing more security over medium-term gas supply as well as hedging against rising gas price risk.<br>• We have specialist expertise recruited for key roles in fuel management and procurement.<br>• We have matched electricity and gas sales with fuel purchases. |

**Challenges of Carbon Legislation, NSW Business Integration, and Delivery of a New Retail Customer Service and Billing Platform ("Project Odyssey") in Australia** – The acquisition of the EnergyAustralia gas and electricity retail business from the NSW Government, as well as the Delta Western GenTrader contracts in March 2011 was a major step towards the Group's objective of building a diversified and integrated energy business in Australia.

| Risk Identification | Risk Assessment | Key Risk Mitigation |
|---|---|---|
| Negative effects of Clean Energy legislation:<br>• Non-compliance leads to penalties and brand damage; and / or<br>• Adverse financial impact leads to additional asset impairment | Australia's Clean Energy legislative package was passed on 8 November 2011.<br>The financial results of the Group for 2011 are adversely affected by the impairment made to TRUenergy.<br>TRUenergy must now focus its efforts on its carbon readiness plan for full compliance with the Clean Energy Act which will commence from 1 July 2012. | • TRUenergy has developed a carbon readiness plan based on the legislation in advance of actual passage.<br>• A project management framework has also been established to manage business readiness and implementation of carbon-related regulatory changes.<br>• We have a compliance management framework, supported by registers articulating key legislative and regulatory obligations.<br>• An assurance programme has been established to assess the degree of compliance throughout the retail business.<br>• We have undertaken a detailed study of the impact of this legislation on TRUenergy. An impairment loss of A$245 million, after tax, has been made and reflected in the 2011 financial results. |
| Inability to fully integrate EnergyAustralia customers and Delta Western GenTrader generating trading rights into our existing TRUenergy business | TRUenergy has completed the integration of the GenTrader contracts and is currently managing it as part of TRUenergy's overall generation portfolio.<br>The key challenge will be on full integration of the sales and marketing functions as well as the wholesale business to allow TRUenergy to secure its position as a leading national retailer and generator. | • As part of the acquisition, a Transition Services Agreement has been executed. Ausgrid staff under the NSW government will continue to provide service to existing EnergyAustralia customers for a transition period up to three years.<br>• We have established an Integration Management Office comprised of both Ausgrid and TRUenergy executives to oversee the transition and integration processes.<br>• We conduct regular performance and risk reviews.<br>• We ensure all short-term services transitioned to TRUenergy have been fully documented.<br>• We execute post-implementation reviews of short-term services transition. |

| Risk Identification | Risk Assessment | Key Risk Mitigation |
|---|---|---|
| Project Odyssey does not deliver on business requirements and expected benefits resulting in the need to pursue an alternative billing solution. | Integral to the success of migrating customers from the EnergyAustralia system will be the timely roll-out of Project Odyssey the new retail customer service and billing platform designed to increase customer responsiveness, reduce cost to service and support development of innovative products.<br><br>System integration testing is well advanced with full deployment targeted for mid-2012. | • We have established an executive governance structure and engaged Deloitte to provide external quality assurance.<br>• We have designed a pilot (Parallel Run) program to test future business processes.<br>• We remedied the legacy retail systems capacity to support continued operation through to at least mid-2012.<br>• We negotiated two new transition arrangements to allow continued customer acquisition and renewal on Ausgrid systems. |

**Deteriorating financial health of India distribution companies** – The Indian electric utility sector is in poor financial health overall with distribution companies generally propped up by State government subsidies and faced with significant transmission losses. Whilst our portfolio has experienced some payment delays, the financial impact of these delays has been minimal. The Union Government publicly acknowledges the need for significant reforms.

| Risk Identification | Risk Assessment | Key Risk Mitigation |
|---|---|---|
| Deteriorating financial health of India distribution companies may impact us on State-by-State basis in terms of off-taker ability to meet PPA obligations | Many States to which CLP is exposed are undergoing restructuring both to reduce losses and to raise retail tariffs. Reforms, whilst positive, are still in their early stages and vary widely across individual States. | • We will intensively monitor the creditworthiness of State distribution companies and seek to invest only in projects exposed to States implementing credible reform programs and backed by State balance sheets.<br>• We have appointed an independent agency for a term of three years to assess and update us periodically on the financial health of State Utilities with particular emphasis on distribution companies relevant to our portfolio and those in reforming States.<br>• We maintain close relationships and constantly follow up with utilities at a commercial level, escalating to senior levels of State governments and Electricity Bureaux as necessary. |

**Construction Safety Overall and Public Concern with Nuclear Incidents in Hong Kong** – We strive to provide a safe and healthy working environment to our employees and contractors and encourage our partners to adopt the same safety standards as ours. We care about our stakeholders' views and expectations of us and ensure that our stakeholders are informed about related emerging issues (e.g. public concern on nuclear safety) with clarity and credibility.

| Risk Identification | Risk Assessment | Key Risk Mitigation |
|---|---|---|
| Major accident in construction project (e.g. Jhajjar) with EPC contractor running most safety processes possibly causing multiple fatalities | Despite extensive safety efforts across the Group, there were five fatalities involving subcontractors in India in 2011. Safety management continues to be one of the biggest challenges for the India business, especially in light of the stage of growth with significant exposure to heavy construction and EPC contractors controlling many of the safety processes. | • We have conducted numerous safety management reviews at Jhajjar site and introduced additional programmes to increase the engagement of employees and contractors in improving health and safety efforts.<br>• Safety management systems of operating assets continue to be aligned with the enhanced Group standard.<br>• Safety leading indicators, including pre-work risk assessment practices have been implemented and have been shown to reduce work safety risks.<br>• Numerous safety workshops and site inspections were conducted at the Qian'an and Penglai wind farms in the Chinese mainland. |
| Nuclear incidents at Daya Bay - public concern with nuclear safety, adverse publicity, and public liability exposure | The Fukushima nuclear accident has aroused public concern with nuclear safety and its suitability as a primary source of zero-carbon emitting energy.<br><br>Following the Fukushima accident, a comprehensive safety review was conducted by the National Nuclear Safety Administration (NNSA) at all nuclear power stations in the Chinese Mainland including Daya Bay. Preliminary results confirmed the design and operation of Daya Bay were in full compliance with the existing national regulations and standards. Prior to NNSA's review, Daya Bay had also conducted its own internal review to ensure its safe operation. | • To reinforce public confidence in nuclear safety and transparency of reporting, an enhanced notification mechanism was put into effect in January 2011 to provide information on any non-emergency licensing operational events at Daya Bay within two working days, instead of one month as in the past.<br>• We will follow up with our JV partners on any necessary actions that may arise from the NNSA comprehensive safety review of Daya Bay and Yangjiang.<br>• We monitor that Daya Bay has full liability insurance coverage as per PRC regulation.<br>• We continue to provide technical advice to our partners on enhancement of plant management at Daya Bay, including safety and health related issues.<br>• We continue to improve our programs on public engagement and communications about nuclear safety concerns. In June 2011, CLP supported a public forum that addressed the technical aspects of nuclear power generation, the HKSAR Government's emergency response system, and the safety features of next generation nuclear technologies that are being developed in the Chinese mainland.<br>• After the HKSAR Government review of the Daya Bay Contingency Plan, it will conduct an emergency exercise in 2012. The emergency exercise will provide an opportunity to clarify roles and responsibilities of various parties. |

In addition to the top tier risks, we are exposed to other material risks which are discussed within the relevant business contexts elsewhere in this Annual Report. This Risk Navigation Map provides a quick cross-reference to the sections or pages where these risks are discussed.


### Financial Risks

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### Strategic and Operational Risks

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### Fuel Supply Risks

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P.37, 52, 59

### Climate Change and Environmental Risks

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CEO P.12 P.49

### Internal Control and Governance Risks

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### Reputational Risks

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### Regulatory Risks

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### Safety and Health Risks

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### Information Technology Risks

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### Human Resources Risks

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The ongoing improvement of our risk governance structure and our risk management process remains a priority as we tackle the challenges of a rapidly changing business environment.

**Mark Takahashi**
Group Director & Chief Financial Officer
Hong Kong, 27 February 2012

# Audit Committee Report

The Audit Committee is appointed by CLP Holdings' Board of Directors and has five 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 and Mrs. Fanny Law has extensive experience in public administration. The Board has given the Committee written terms of reference prepared by reference to the HKICPA's "Guide for Effective Audit Committees", and updated by reference to the Hong Kong Stock Exchange's revised Appendix 14 to the Listing Rules "Corporate Governance Code and Corporate Governance Report". Its terms of reference are set out in the CLP Code on Corporate Governance (CLP Code) and on CLP's and the Exchange's websites.

The Committee meets regularly, at least five 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. 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;
- satisfy itself that good accounting, audit and compliance principles, internal controls and ethical practices are applied on a consistent basis throughout the CLP Group; and
- fulfill the functions conferred on the Committee pursuant to the CLP Code.

## Summary of Work Done

Between 1 January 2011 and the date of this Report (the "Relevant Period"), 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 2011, 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 2011. Individual attendance of members at the six meetings held in 2011 is set out in the Corporate Governance Report at page 85. The work performed by the Committee in 2011 included reviews of

- the 2010 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 2011 Interim Report including the CLP Group Interim Financial Statements for the six months ended 30 June 2011 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 2010 and throughout the six months ended 30 June 2011. CLP complies with all the Code Provisions, with one deviation from Recommended Best Practices, which is explained on page 87 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 2010. No breaches were identified*;
- 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 34 Contingent Liabilities to 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 2010*;
- the report and management letter submitted by external auditor, which summarised matters arising from their audit on the CLP Group for the year ended 31 December 2010, 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 auditor for the year ended 31 December 2010 for approval by the Board, with a recommendation for their reappointment for the financial year 2011, subject to final approval by shareholders* (given on 12 May 2011);
- the audit strategy submitted by external auditor, PricewaterhouseCoopers (PwC) for the year ended 31 December 2011;

- the proposed engagement of external auditor in respect of audit-related and permissible non-audit services*;
- 24 reports on the CLP Group's affairs submitted by Group Internal Audit during 2010. Of these, two carried an unsatisfactory audit opinion. The issues arising from these audits have been or are being addressed;
- the staffing and resources of the Group's Internal Audit department and the Group internal audit review of 2010 and audit plan for 2011 with areas of emphasis identified;
- internal control review approach for 2011. 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;
- status of Project Odyssey and overall controls in relation to TRUenergy's retail and integration;
- the provision of Yallourn asset impairment and the Australian business segmentation and cash generating unit analysis;
- General Representation Letter process;
- CLP Group top tier risks, including an in-depth analysis of the coal supply risk for the Jhajjar Power Project;
- the alignment of the Code of Conduct across the CLP Group, as well as the findings of ethics and controls surveys 2010;
- Code of Conduct issues identified in 2011. None of the six breaches of the Code involved senior managers or was material to the Group's financial statements or overall operations; and
- management development and succession planning for key finance, accounting and internal audit positions within the CLP Group and the training programmes for those functions.

On 17 February 2012, the Audit Committee reviewed this Annual Report, including the Corporate Governance Report, the Directors' Report and Financial Statements for the year ended 31 December 2011 and the annual results announcement with a recommendation to the Board for approval. The Committee reviewed the updated terms of reference of the Audit Committee, the Whistleblowing Policy and the Shareholders' Communication Policy for adoption by the Board. The Committee was advised that two out of 30 reports on the Group's affairs submitted by Group Internal Audit during the Relevant Period carried an unsatisfactory audit opinion, and that the issues arising from these are being addressed. The Committee reviewed changes in accounting policies arising from revised financial reporting standards, the internal audit review for 2011 and audit plan for 2012, 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. The Committee's other work at that meeting included that marked "*" in the above list, save that in each case the work related to the year ended 31 December 2011.

## Internal Control

Based on the information received from management, external auditor and Group Internal Audit, the Committee believes that overall financial and operating controls for the Group during 2011 continue to be effective and adequate. Issues which have been raised by external or internal auditors during 2011 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 98 and 99. 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 Auditor

PwC were reappointed independent auditor of the Company at the 2011 AGM. PwC audit all companies in the CLP Group which require statutory audit opinions. Having reviewed PwC's performance during 2011 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 auditor at the forthcoming AGM. A resolution to that effect has been included in the Notice of AGM.

**Vernon Moore**
Chairman, Audit Committee
Hong Kong, 27 February 2012

# Sustainability Committee Report

The Sustainability Committee is appointed by the Board to oversee CLP's position and practices in relation to social, environmental and ethical matters that affect shareholders and other key stakeholders. The Committee is chaired by Mr. Andrew Brandler and comprises Professor Judy Tsui, Mr. Nicholas C. Allen, Mrs. Fanny Law, Mr. Peter W. Greenwood and Dr. Jeanne Ng.

## Summary of Work Done

Between 1 January 2011 and 27 February 2012 (the date of this Report), the Committee reviewed:

- CLP's Sustainability Framework and its implementation plan
- the updated CLP Value Framework
- CLP's Responsible Procurement Policy Statement
- the CLP Group Climate Change Strategy in light of the 16th and 17th Conference of Parties of the United Nations Framework Convention on Climate Change held at Cancun and Durban in 2010 and 2011
- Sustainability Reporting and disclosure
- the 2010 and 2011 CLP Group online Sustainability Reports
- Integrated Reporting
- the effectiveness of its work by reference to a report from the Company Secretary

## CLP's Sustainability Framework

The Committee's major work in 2011 was review and endorsement to the Board of CLP's Sustainability Framework, including:

- a definition of sustainability for the CLP Group;
- a sustainability vision: "To be the leading responsible energy provider in the Asia-Pacific region, from one generation to the next.";
- a sustainability mission: "In a changing world, our mission is to produce and supply energy with minimal environmental impact to create value for shareholders, employees and wider community.";
- 15 "Sustainability goals"; and
- the principles for implementation of the Framework.

The Sustainability Framework comprises 15 Sustainability Goals:

| Critical Area | People | Business Performance | Energy Supply | Environment |
|---|---|---|---|---|
| **Objective** | Meet the evolving expectations of our stakeholders | Continually increase business value | Deliver world-class products and services | Minimise environmental impacts |
| **Goals** | • Zero injuries<br>• Support a healthy workforce<br>• Develop committed and motivated employees<br>• Meet customer expectations<br>• Earn & maintain community acceptance<br>• Operate our business ethically | • Create long-term shareholder return<br>• Adapt proactively to a changing business environment<br>• Enhance individual and organisational capability | • Supply energy reliably<br>• Be operationally efficient<br>• Adopt emerging technology in a timely manner | • Move towards zero emissions<br>• Move towards a more sustainable rate of resource use<br>• Move towards no net loss of biodiversity |

For implementation of the Sustainability Framework the Committee supported an approach whereby:

- each business unit will set its own targets as a contribution to the Group's sustainability goals, as part of its business planning process;
- each target should make an efficient, positive contribution to business value;
- initial targets may be less ambitious, but will become more demanding over time;
- performance against targets will be assessed during the annual business planning process at business unit and group level;
- there will not be separate "sustainability" functions – this dimension to CLP's activities should be treated as part of everyday business operations; and
- internal and external reporting would be aligned with the Sustainability Framework.

Going forward, the Sustainability Committee will critically review its own function to ensure that it offers effective support to the Board and oversight to Management in the continuing development, implementation, measurement and reporting of the Sustainability Framework.

**Andrew Brandler**
Chairman, Sustainability Committee
Hong Kong, 27 February 2012

# Human Resources & Remuneration Committee Report

## 1. Introduction

On behalf of the Board, the Human Resources & Remuneration Committee (HR&RC) 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 HR&RC Report has been reviewed and endorsed by the Committee.

The contents of sections 6, 7, 8 and 10, in the highlighted boxes below, comprise the "auditable" part of the HR&RC Report and have been audited by the Company's Auditor.

## 2. Membership

A majority of the members of the HR&RC are Independent Non-executive Directors. In line with good practice, there are no Executive Directors on the Committee. With effect from the conclusion of the Committee's meeting held on 23 February 2012, Mr. William Mocatta stepped down as Chairman of the Committee, but remains as a member of the Committee while Mr. Vincent Cheng, an Independent Non-executive Director, has been appointed as the Chairman of the Committee. Other members of the Committee include Mr. V. F. Moore, Sir Rod Eddington and Mr. Nicholas C. Allen.

## 3. Responsibilities and Work Done

The HR&RC considers major human resources and pay issues, including the approval of the HR&RC Report which is included in this Annual Report. Between 1 January 2011 and 27 February 2012 (the date of this Report), the Committee approved the 2010 Remuneration Report and the 2011 HR&RC Report, and reviewed:

- the Group performance for 2010 and 2011 and Group targets for 2011 and 2012;
- TRUenergy's performance review for 2010 and 2011;
- base pay review for 2011 and 2012 for Hong Kong payroll staff, TRUenergy, CLP India and China;
- the Senior Executive Remuneration, including annual incentive payments for 2010 and 2011 and annual pay review for 2011 and 2012;
- Executive Remuneration Policy for TRUenergy;
- CEO's remuneration; and
- the updated terms of reference to reflect the changes in the Hong Kong Stock Exchange's revised Corporate Governance Code.

## 4. Remuneration 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.

## 5. 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.

In considering the level of remuneration payable to Non-executive Directors, we have made reference to the following:

- Report of the Committee on the Financial Aspects of Corporate Governance of December 1992 (The Cadbury Report);
- "Review of the Role and Effectiveness of Non-executive Directors" (The Higgs Report) of January 2003; and
- Hong Kong Stock Exchange's Corporate Governance Code and associated Listing Rules.

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. This 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 on page 120 of this Report 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 Corporate Governance Code.

## 6. Total Directors' Remuneration in 2011

The total remuneration of Non-executive and Executive Directors in 2011 was:

| | **2011 HK$M** | 2010 HK$M |
|---|---|---|
| Fees | **8** | 8 |
| Base compensation, allowances and benefits in kind | **17** | 17 |
| Performance bonus* | | |
| – Annual incentive | **17** | 16 |
| – Long-term incentive | **7** | 3 |
| Provident fund contributions | **2** | 2 |
| | **51** | 46 |

* Refer to Note A on performance bonus on page 121.

Of the total remuneration paid to Directors, HK$6 million (2010: HK$5 million) has been charged to the SoC operation.

## 7. Non-executive Directors - Remuneration in 2011

The fees paid to each of our Non-executive Directors in 2011 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 2010, was primarily due to the full year effect in 2011 of an increase in the levels of Non-executive Directors' fees which took effect on 28 April 2010.

Higher levels of fees were paid to Chairmen of the Board and Board Committees and the Vice Chairman of the Board 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 | HR&RC | Provident & Retirement Fund Committee | Sustainability Committee | Total 2011 | Total 2010 |
|---|---|---|---|---|---|---|---|---|---|
| **Non-executive Directors** | | | | | | | | | |
| The Hon. Sir Michael Kadoorie | 560,000 (C) | – | 14,000 (C) | – | – | – | – | 574,000 | 532,329 |
| Mr. William Mocatta[1] | 440,000 (VC) | – | – | 390,000 (C) | 45,000 (C) | 14,000 (C) | – | 889,000 | 799,246 |
| Mr. R. J. McAulay | 400,000 | – | – | – | – | – | – | 400,000 | 371,151 |
| Mr. J. A. H. Leigh | 400,000 | – | – | – | – | – | – | 400,000 | 371,151 |
| Mr. I. D. Boyce | 400,000 | – | – | 280,000 | – | – | – | 680,000 | 611,083 |
| Dr. Y. B. Lee | 400,000 | – | – | – | – | – | – | 400,000 | 371,151 |
| Mr. Paul A. Theys | 400,000 | – | – | – | – | – | – | 400,000 | 371,151 |
| Mr. R. Bischof[2] | – | – | – | – | – | – | – | – | 78,904 |
| Mr. Jason Whittle[2] | – | – | – | – | – | – | – | – | 169,507 |
| **Independent Non-executive Directors** | | | | | | | | | |
| The Hon. Sir S. Y. Chung[3] | 144,658 | – | 3,616 | – | – | – | – | 148,274 | 381,151 |
| Mr. V. F. Moore | 400,000 | 315,000 (C) | – | 280,000 | 35,000 | – | – | 1,030,000 | 929,028 |
| Mr. Hansen C. H. Loh | 400,000 | 225,000 | 10,000 | – | – | – | – | 635,000 | 585,315 |
| Professor Judy Tsui | 400,000 | 225,000 | – | – | – | – | 55,000 | 680,000 | 623,904 |
| Sir Rod Eddington | 400,000 | – | – | 280,000 | 35,000 | – | – | 715,000 | 644,480 |
| Mr. Nicholas C. Allen[4] | 400,000 | 225,000 | 6,384 | 280,000 | 35,000 | – | 55,000 | 1,001,384 | 894,685 |
| Mr. Vincent Cheng[5] | 150,137 | – | – | 93,589 | 11,699 | – | – | 255,425 | – |
| Mrs. Fanny Law[6] | 150,137 | 75,205 | – | – | – | – | 18,384 | 243,726 | – |
| Mr. Paul M. L. Kan[2] | – | – | – | – | – | – | – | – | 76,438 |
| | | | | | | | Total | 8,451,809 | 7,810,674 |

Notes:

(1) Mr. William Mocatta also received HK$303,000 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 2010, he received HK$322,000 as fees for his service on the boards of these companies.

(2) The fees paid to Mr. R. Bischof, Mr. Jason Whittle and Mr. Paul M. L. Kan (former Directors) are included in the table, solely for the purpose of comparing the total fees paid to Non-executive Directors in 2010 with those in 2011.

(3) The Hon. Sir S. Y. Chung retired as a Director and a member of the Nomination Committee after the conclusion of the 2011 AGM held on 12 May 2011.

(4) Mr. Nicholas C. Allen was appointed a member of the Nomination Committee with effect from 13 May 2011.

(5) Mr. Vincent Cheng was appointed an Independent Non-executive Director on 17 August 2011. He was also appointed a member of the Finance & General Committee and the HR&RC on 1 September 2011.

(6) Mrs. Fanny Law was appointed an Independent Non-executive Director on 17 August 2011. She was also appointed a member of the Audit Committee and the Sustainability Committee on 1 September 2011.

## 8. Executive Directors - Remuneration in 2011

The remuneration paid to the Executive Directors of the Company in 2011 was as follows:

| | | Performance Bonus (Note A) | | | |
|---|---|---|---|---|---|
| | **Base Compensation, Allowances & Benefits HK$M** | **Annual Incentive HK$M** | **Long-term Incentive HK$M** | **Provident Fund Contribution HK$M** | **Total HK$M** |
| 2011 | | | | | |
| CEO (Mr. Andrew Brandler) | 7.2 | 7.0 | 5.1 * | 0.8 | 20.1 |
| Group Executive Director (Mr. Peter P. W. Tse) | 4.8 | 4.4 | 1.7 | 0.6 | 11.5 |
| Group Executive Director – Strategy (Mr. Peter W. Greenwood) | 5.3 | 5.2 | – | 0.7 | 11.2 |
| | 17.3 | 16.6 | 6.8 | 2.1 | 42.8 |
| 2010 | | | | | |
| CEO | 6.9 | 6.8 | 2.1 | 0.9 | 16.7 |
| Group Executive Director | 4.7 | 4.0 | 1.3 | 0.6 | 10.6 |
| Group Executive Director – Strategy | 5.1 | 5.1 | – | 0.6 | 10.8 |
| | 16.7 | 15.9 | 3.4 | 2.1 | 38.1 |

Note A:

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

(a) The annual incentive for the Executive Directors and the members of Senior Management for 2011 was reviewed and approved by the HR&RC after 31 December 2011. 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 2011 for the last year in excess of the previous accruals made.

(b) The long-term incentive is the incentive for 2008, paid in 2011 when the vesting conditions had been satisfied (the comparative figures are the incentive for 2007 paid in 2010). About 26% of the amount of 2008 long-term incentive payments results from the appreciation of CLP Holdings' share price between 2008 and 2010, with dividends reinvested.

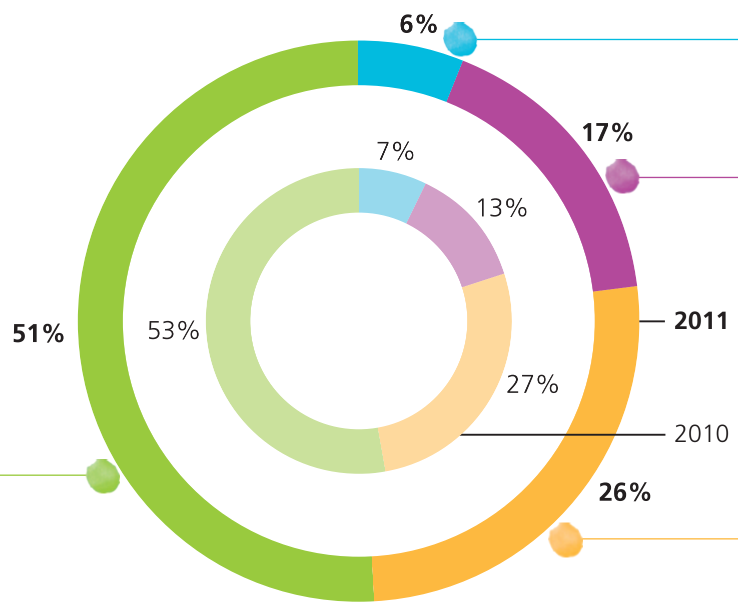
(c) Payment of the annual incentive and granting of the long-term incentive awards relating to 2011 performance will be made in March 2012. These payments and awards are subject to the prior approval of the HR&RC. Details of these will be published on the CLP Group website at the time that the 2011 Annual Report is published.

* This figure includes an additional discretionary 2008 long-term incentive of HK$2 million paid to Mr. Andrew Brandler in January 2011.

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.

## 9. Senior Management - Principles of Remuneration

For the purposes of this Section, Senior Management means the managers whose details are set out on page 84. 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 HR&RC. 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 2010 and 2011.




### 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.

### 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 26% of his/her total remuneration in 2011. 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 (although this cap may be exceeded in exceptional cases where a discretionary additional annual incentive is awarded by the Committee), with the actual amount being determined by organisational and individual performance.

A payout was made in 2011, based on an assessment of the 2010 performance of the Group and the individuals concerned. The average payout to this group in 2011 was 97% above the target level based on the above target achievement of financial goals, operational and other performance targets and individual objectives for 2010.

## 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 6% of his/her target total remuneration in 2011.

## 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 HR&RC has approved an increase in the target LTI award from 25% of base salary in 2010 to 33.3% in 2011. Consequently, LTI as a percentage of target total remuneration increased from 13% in 2010 to 17% in 2011. 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 33.3% of the award in 2010 to 25% in 2011.

The following diagram illustrates the composition of the LTI award:

Target LTI award set at the beginning of 2011

×

Performance multiplier (weighted combination of individual and organisational performance for the year preceding that in which the award is made)

=

Actual LTI award:
a) A minimum of 75% of the award and up to a maximum of 100% allocated to CLP Holdings phantom shares
b) The remainder of the award up to a maximum of 25% is allocated to a notional cash deposit

Payment of LTI award will be made in 2014

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.

Target total remuneration for Executive Directors/Senior Management is determined in relation to the relevant market and internal relativities. A significant proportion of actual total remuneration is performance related, in the form of the annual and long-term incentive schemes. In determining the amount of performance related pay, members of the HR&RC take a broad and balanced view of Group performance in the relevant year. This means that the Committee considers all aspects of our performance including financial, operational, safety, environmental, governance and compliance related. Account will also be taken of progress made in longer term corporate development initiatives that year.

Both qualitative and quantitative evidence is used to assess performance. However the end result is based on a balanced overall judgment rather than a mathematical calculation. We have determined not to create a formulaic link between any metrics and performance related pay. In our opinion such an approach not only fails to capture the complexity of the management task, but also risks encouraging dysfunctional behaviour, as was observed in the banking and financial sector during the global financial crisis.

## 10. Senior Management – Remuneration in 2011

Senior Management comprises the Executive Directors and managers listed below. Details of their remuneration (excluding Executive Directors) are set out in the table below. The increase in total Senior Management's remuneration compared to the previous year was primarily due to final payments, including compensation for loss of office, arising from a restructuring of CLP's activities in the Chinese mainland and Southeast Asia.

| | | Performance Bonus* | | | | | |
|---|---|---|---|---|---|---|---|
| | Base Compensation, Allowances & Benefits HK$M | Annual Incentive HK$M | Long-term Incentive HK$M | Provident Fund Contribution HK$M | Final Payment** HK$M | Other Payments HK$M | Total HK$M |
| **2011** | | | | | | | |
| Group Director & Chief Financial Officer (Mr. Mark Takahashi) | 4.4 | 4.2 | 1.4 | 0.5 | – | – | 10.5 |
| Vice Chairman – CLP Power Hong Kong (Mrs. Betty Yuen) | 3.1 | 3.9[(a)] | 4.2[(b)] | 0.4 | – | – | 11.6[#] |
| Group Director – Managing Director Hong Kong (Mr. Richard Lancaster) | 4.4 | 4.2 | 0.8 | 0.6 | – | – | 10.0[##] |
| Group Director – Managing Director Australia (Mr. Richard McIndoe) | 5.6 | 5.0 | 2.1 | 0.6 | – | 8.5[(c)] | 21.8 |
| Group Director – Operations (Mr. Peter Littlewood) | 3.7 | 3.6 | 1.2 | 0.5 | – | – | 9.0 |
| Managing Director – India (Mr. Rajiv Mishra) | 3.3 | 3.1 | 2.0[(b)] | 0.4 | – | – | 8.8 |
| Managing Director – China (Dr. Ko Yu Ming)[(d)] | 2.1 | 2.9 | 5.3 | 0.3 | 7.4 | – | 18.0 |
| Managing Director – Southeast Asia (Mr. Mark Jobling)[(e)] | 1.6 | 2.9 | 5.3 | 0.2 | 10.0 | – | 20.0 |
| Director – Group Corporate Finance and Development (Mr. Stefan Robertsson)[(f)] | 2.1 | 2.3 | 1.0 | 0.2 | – | – | 5.6 |
| | 30.3 | 32.1 | 23.3 | 3.7 | 17.4 | 8.5 | 115.3 |
| **2010** | | | | | | | |
| Group Director & Chief Financial Officer | 4.0 | 4.2 | 1.1 | 0.5 | – | – | 9.8 |
| Vice Chairman – CLP Power Hong Kong[(g)] | 3.2 | 3.9 | 1.6 | 0.4 | – | – | 9.1[#] |
| Group Director – Managing Director Hong Kong[(g)] | 4.1 | 3.1 | 0.7 | 0.5 | – | – | 8.4[##] |
| Group Director – Managing Director Australia | 4.8 | 4.8 | 1.8 | 0.6 | – | 8.0[(c)] | 20.0 |
| Group Director – Operations | 3.6 | 3.5 | 1.0 | 0.5 | – | – | 8.6 |
| Managing Director – India | 3.1 | 3.0 | 0.7 | 0.4 | – | – | 7.2 |
| Managing Director – China | 2.6 | 2.2 | 0.6 | 0.3 | – | – | 5.7 |
| Managing Director – Southeast Asia | 2.8 | 2.6 | 0.7 | 0.4 | – | – | 6.5 |
| Group Director – Corporate Finance and Development (Mr. Stefan Robertsson) | 2.7 | 2.1 | 0.9 | 0.3 | – | – | 6.0 |
| Group Director – Carbon Ventures (Mr. Giuseppe Jacobelli)[(h)] | 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 |

Notes:

(a) This figure includes an additional discretionary 2010 annual incentive of HK$1 million paid to Mrs. Betty Yuen in March 2011.

(b) These figures include additional discretionary 2008 long-term incentives of HK$2 million and HK$0.8 million paid to Mrs. Betty Yuen and Mr. Rajiv Mishra respectively in January 2011.

(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$7.0 million (83%) (2010: HK$6.7 million (83%)) was the tax payment to the tax authority of the country where the executive was based during secondment.

(d) Dr. Ko left the Company with effect from 1 October 2011. The annual incentive of HK$2.9 million included the incentive payment for 2011 for the period he served as Director. The long-term incentive of HK$5.3 million was for 2008, 2009, 2010 and 2011. The long-term incentive for 2009, 2010 and 2011 was paid upon leaving the Company. Final payment of HK$7.4 million included payment in lieu of notice and compensation for loss of office.

(e) Mr. Jobling left the Company with effect from 1 July 2011. The annual incentive of HK$2.9 million included the incentive payment for 2011 for the period he served as Director. The long-term incentive of HK$5.3 million was for 2008, 2009, 2010 and 2011. The long-term incentive for 2009, 2010 and 2011 was paid upon leaving the Company. Final payment of HK$10 million included payment in lieu of notice, discretionary performance bonus, ex-gratia payment and compensation for loss of office.

(f) Mr. Stefan Robertsson served as a member of the Senior Management as the Group Director – Corporate Finance and Development for the period from 1 January 2011 to 30 September 2011 and the remuneration shown is for such period. He became Director – Group Corporate Finance and Development on 1 October 2011.

(g) 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.

(h) Mr. Jacobelli left the Company with effect from 1 January 2011. The annual incentive of HK$2.7 million included the incentive payment for 2010 for the period he served as Director. The long-term incentive for 2008, 2009 and 2010 was paid upon his 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.

* Refer to Note A on performance bonus on page 121.
** The final payment is not part of the remuneration arrangement of the Group, but may be payable, on approval by the HR&RC Chairman or CEO where appropriate.
\# HK$1 million (2010: HK$1 million) has been charged to the Non-SoC operation.
\## HK$1 million (2010: HK$1 million) has been charged to the Non-SoC operation.

The five highest paid individuals in the Group included one Director (2010: three Directors), three members of Senior Management (2010: two members) and a former senior executive of the Group. The total remuneration of the five highest paid individuals in the Group is shown below:

| | 2011 HK$M | 2010 HK$M |
|---|---|---|
| Base compensation, allowances and benefits in kind | 21 | 24 |
| Performance bonus * | | |
| – Annual incentive | 23 | 23 |
| – Long-term incentive | 23 | 8 |
| Provident fund contributions | 2 | 3 |
| Final payment ψ | 30 | 3 |
| Other payments @ | 9 | 8 |
| | 108 | 69 |

* Refer to Note A on performance bonus on page 121.
ψ Refer to Notes (d), (e), (h) and ** above on final payment.
@ Refer to Note (c) above on other payments.

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

| | Number of Individuals 2011 | Number of Individuals 2010 | | Number of Individuals 2011 | Number of Individuals 2010 |
|---|---|---|---|---|---|
| HK$10,500,001 – HK$11,000,000 | – | 2 | HK$11,000,001 – HK$11,500,000 | – | 1 |
| HK$16,500,001 – HK$17,000,000 | – | 1 | HK$17,500,001 – HK$18,000,000 | 1 | – |
| HK$19,500,001 – HK$20,000,000 | 1 | 1 | HK$20,000,001 – HK$20,500,000 | 1 | – |
| HK$21,500,001 – HK$22,000,000 | 1 | – | HK$28,000,001 – HK$28,500,000 | 1 | – |

## 11. Continued Scrutiny and Disclosure

The HR&RC 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.

Finally, I would like to take this opportunity to thank Mr. William Mocatta, my predecessor, for his guidance and contribution during his service as Chairman of the Committee.

**Vincent Cheng**
Chairman, Human Resources & Remuneration Committee
Hong Kong, 27 February 2012

# Directors' Report

The Directors have pleasure in submitting their Report together with the audited Financial Statements for the year ended 31 December 2011.

## Principal Activities

The principal activity of the Company is investment holding and those of its subsidiaries are the generation and supply of electricity. The Company's principal subsidiary companies are listed under Note 15 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, jointly controlled assets and associated companies. Details of the jointly controlled entities and associated companies are provided under Notes 16 and 17 to the Financial Statements and a description of the jointly controlled assets is under Note 2(D).

## Earnings and Dividends

| | **2011**<br>**HK$M** | 2010<br>HK$M |
|---|---|---|
| Total earnings for the year | 9,288 | 10,332 |
| Less: first to third interim dividends of HK$1.56 (2010: HK$1.56) per share paid | (3,753) | (3,753) |
| Balance after first to third interim dividends | 5,535 | 6,579 |
| The Directors recommend that this balance be dealt with as follows: | | |
| Fourth interim dividend of HK$0.96 (2010: HK$0.92) per share | 2,310 | 2,214 |
| Retained profits for the year | 3,225 | 4,365 |
| | 5,535 | 6,579 |

This fourth interim dividend will be paid on 22 March 2012.

## 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 36 to 64 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$27,707 million as at 31 December 2011 (2010: HK$28,075 million). Movements in the reserves of the Group and the Company during the year are set out under Note 30 to the Financial Statements.

## Fixed Assets

Additions to the fixed assets of the Group for the year totalled HK$15,675 million, comprising HK$12,982 million in owned assets (transmission and distribution equipment, land and buildings) and HK$2,693 million in leased assets. In 2010, a total addition of HK$20,022 million was recorded, made up of HK$12,989 million for owned assets and HK$7,033 million for leased assets. Details of movements in the fixed assets of the Group are shown under Note 13 to the Financial Statements.

## Bank Loans and Other Borrowings

The total borrowings of the Group as at 31 December 2011 amounted to HK$65,521 million (2010: HK$44,623 million). Particulars of borrowings are set out in Note 24 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 4.5% of the Group's total assets as at 31 December 2011.

## Finance Costs Capitalised

Finance costs amounting to HK$699 million (2010: HK$493 million) were capitalised by the Group during the year as set out in Note 8 to the Financial Statements.

## Donations

Donations by the Group for charitable and other purposes amounted to HK$4,331,000 (2010: HK$3,563,000).

## Five-year Summary

A summary of the results for the year and of the assets and liabilities of the Group as at 31 December 2011 and for the previous four financial years are on pages 214 and 215 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 84 of this Annual Report. Details of their remuneration are set out in the Human Resources & Remuneration Committee Report at page 118 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 53.49% of the Group's total purchases during the year. The five largest suppliers are set out below in descending order:

1. 21.14% from Castle Peak Power Company Limited (CAPCO) of which Mr. James F. Muschalik, Mr. William Mocatta and Mr. Andrew Brandler are directors. CAPCO is 40% owned by CLP Power Hong Kong Limited (CLP Power) and supplies electricity to CLP Power only. CLP Power is a wholly-owned subsidiary of the Company.
2. 13.65% from Ausgrid in which the Group has no interest. TRUenergy pays the distribution charges to Ausgrid which owns and operates the electricity distribution network that provides services to customers located in Sydney and the Central Coast and Hunter regions of NSW. TRUenergy also pays charges to Ausgrid for certain core services in relation to the operation of EnergyAustralia Retail under the Transition Services Agreement between TRUenergy and Ausgrid.
3. 9.29% 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.
4. 5.17% from Delta Electricity in which the Group has no interest. The Group makes periodic payments to Delta Electricity to cover its costs of operating and maintaining the stations at Mount Piper and Wallerawang, including capital expenditure.
5. 4.24% from Guangdong Nuclear Investment Company, Limited in which the Group has no interest.

As at 31 December 2011, 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, 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, which interests arose from the Company's interests in CAPCO.

## Directors

With the exception of Mr. Vincent Cheng and Mrs. Fanny Law, the Directors of the Company, whose names appear on pages 82 and 83 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 Human Resources & Remuneration Committee Report at page 118 of this Annual Report.

The Hon. Sir S. Y. Chung retired as an Independent Non-executive Director of the Company after the conclusion of the 2011 AGM held on 12 May 2011.

Mr. Vincent Cheng and Mrs. Fanny Law were appointed as Independent Non-executive Directors of the Company with effect from 17 August 2011.

Mr. Vincent Cheng and Mrs. Fanny Law, both being new Independent Non-executive Directors appointed by the Board, retire at the AGM in accordance with Article 109 of the Company's Articles of Association and, being eligible, offer themselves for election by shareholders.

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, Mr. William Mocatta, Dr. Y. B. Lee, Mr. Peter W. Greenwood, Mr. V. F. Moore and Mr. Hansen C. H. Loh retire by rotation. After having served on the Board of the Company for over 11 years, Mr. Hansen C. H. Loh has decided not to stand 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 2011 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. }

Mr. James F. Muschalik was appointed as alternate to Mr. Paul A. Theys in place of Mr. Neo Kim Teck who resigned from the alternate directorship with effect from 20 January 2012.

## 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 2011, 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 2011 were as follows:

| Directors | Capacity | Total Interests in Number of Ordinary Shares of the Company | % of the Issued Share Capital of 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 |
| Mr. J. A. H. Leigh | Note (d) | 209,114,077 | 8.69084 |
| 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 |
| Mrs. Fanny Law | Personal | 16,800 | 0.00070 |

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 the late Muriel, Lady Kadoorie, mother-in-law of Mr. R. J. McAulay, was 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 209,114,077 shares in the Company. These shares were held in the following capacity:

i) 100,000 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, Nicholas C. Allen, Vincent Cheng, Professor Judy Tsui and Sir Rod Eddington who are Directors of the Company, and Mr. Neo Kim Teck who was 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 2011. 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 2011.

## 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 2011.

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 2011, 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.

### 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 2011:

| Substantial Shareholders | Capacity | Total Interests in Number of Ordinary Shares of the Company | | % of the Issued Share Capital of 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 (formerly known as 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 (formerly known as Mikado Investments Limited) | Interest of controlled corporation / Beneficiary of trusts | 239,044,212 | Note (a) | 9.93 |
| The Mikado Private Trust 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. (formerly known as 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) | 209,114,077 | Notes (g) & (h) | 8.69 |
| Mr. R. Parsons | Trustee | 209,014,077 | Note (h) | 8.69 |

* The late Muriel, Lady Kadoorie passed away on 5 December 2011.

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 the late Muriel, Lady Kadoorie was 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 2011, 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 2011, 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 33 to the Financial Statements. None constitutes a discloseable connected transaction as defined under the Listing Rules.

## Corporate Governance

The Company's corporate governance principles and practices are set out in the Corporate Governance Report at page 85 of this Annual Report, whilst our online Sustainability Report describes the Company's actions and initiatives with particular emphasis on the social and environmental aspects of our activities.

## Auditor

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

**The Hon. Sir Michael Kadoorie**
Chairman
Hong Kong, 27 February 2012