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**Announcement of Annual Results  
from 1 January 2010 to 31 December 2010,  
Dividend Declaration and Closure of Books**

**Financial Highlights**

- Group operating earnings up 7.2% to HK\$9,148 million with total earnings (including one-off items) increasing by 26.1% to HK\$10,332 million.
- Consolidated revenue increased by 15.3% to HK\$58,410 million; Hong Kong electricity revenue rose by 5.8% to HK\$29,944 million.
- Earnings from our electricity business in Hong Kong increased by 2.8% to HK\$6,129 million. Including those businesses supporting the Hong Kong electricity business, these earnings rose by 3.3% to HK\$7,012 million.
- Earnings from our businesses outside Hong Kong increased by 19.2% to HK\$2,476 million.
- Electricity sales in Hong Kong grew by 1.2% to 30,929GWh; total sales (which include sales to the Chinese mainland) declined 2.2% to 33,538GWh.
- Fourth interim dividend of HK\$0.92 per share; including other interim dividends paid, total dividends for 2010 amount to HK\$2.48 per share (2009: HK\$2.48 per share).

**CHAIRMAN'S STATEMENT**

In this Chairman's Statement, I wish to present the highlights of the Group's financial performance during 2010. I also wish to discuss some key issues shaping the future of our Hong Kong electricity business – the business which, as in the past year, will continue to be the mainstay of the Group's activities for the years to come.

**Strong Financial Results**

I used the term "highlights" to introduce my description of the Group's financial performance in 2010. I believe that this term is justified given the strong financial results we have achieved in the past year. The Group's operating earnings were HK\$9,148 million, an increase of 7.2% compared with 2009. The Group's total earnings, which take into account the tax consolidation benefit of

HK\$989 million from Australia, the gain of HK\$356 million on the sale of our 70% interest in the Anshun II coal-fired power station in Guizhou Province, China, and the impairment provision for our investment in Roaring 40s of HK\$258 million, rose to HK\$10,332 million, an increase of 26.1% over the previous year.

These earnings have enabled the Board to approve a fourth interim dividend for 2010 of HK\$0.92 per share. This fourth interim dividend (which this year replaces the final dividend so that it can be paid earlier), together with the three interim dividends already paid, make a total dividend of HK\$2.48 per share, the same as in 2009. The financial results we have achieved, and which have supported these dividend payments, reflect both a general improvement in operating conditions and the effective implementation of our overall business strategy. This strategy is to ensure a continued focus on the enhancement of our core Hong Kong electricity business, accompanied by targeted investment in our four major business streams outside Hong Kong, namely Australia, the Chinese mainland, India, and Southeast Asia and Taiwan.

In the following paragraphs, I will explain how each of these business streams contributed to overall Group performance.

### Hong Kong

Our Hong Kong electricity business continues to be the major contributor to Group operating earnings, representing 67% of total Group operating earnings in 2010. Although earnings from this business are still below the level of 2007, the last full year of the previous Scheme of Control (SoC) Agreement, this business delivered operating earnings of HK\$6,129 million, an increase from HK\$5,964 million in 2009. This is attributable to an increase in the net fixed assets deployed in the business, partially offset by higher interest charges on the borrowings used to finance them.

### Australia

In Australia, our TRUenergy business delivered substantially improved operating earnings of HK\$1,303 million, a 77% increase from the previous year, when earnings reached HK\$736 million. This improvement was due to stronger financial performance in both the electricity and gas markets. The results also benefited from a favourable average exchange rate in line with the rise of the Australian dollar over the year.

Notwithstanding the impairment provision for the investment in Roaring 40s, the improved earnings in 2010 continued the trajectory of enhanced performance from TRUenergy over several years – earnings from this business were only HK\$191 million in 2006 and HK\$227 million in 2007. This strengthening financial performance reflects the close attention paid by the Board and Management, in Hong Kong and Melbourne, to improving the performance of a business which, in its earlier years, had not delivered returns commensurate with the level of investment and commitment which CLP was making in the Australian market. The improvement in TRUenergy's performance and the reinforced management and organisational capabilities at TRUenergy gave the Board the confidence to support TRUenergy's successful bids in the New South Wales (NSW) energy asset privatisation process in 2010 – the outcome and implications of which are more fully discussed later.

### Chinese Mainland

CLP's earnings from our business in the Chinese mainland, excluding those generating facilities serving Hong Kong, reached a record high in 2010 with operating earnings at HK\$642 million, a 73% increase from 2009. Our Fangchenggang Power Station delivered an outstanding performance, benefiting from a strong upturn in electricity demand due to the economic rebound, a fall in competing hydro-generation and a stable coal supply secured from international markets at

competitive prices. Earnings from our investments in renewable energy also rose as a result of growth in our wind portfolio and improved output from our Huaiji Hydro Power Stations in Guangdong due to increased rainfall. This improvement was partially offset by the drought in Yunnan which affected our hydro-electric station at Dali Yang\_er. Our move towards cleaner energy sources, be they nuclear, wind energy or hydropower, is being accompanied by a rationalisation of CLP's portfolio of investments in coal-fired power stations. In line with this approach, in April 2010 CLP completed the sale of its interest in CLP Power China (Anshun) Limited which effectively held a 70% shareholding in the 600MW Anshun II power station in Guizhou Province.

For those generating facilities in the Mainland serving Hong Kong, i.e., Daya Bay Nuclear Power Station and Guangdong Pumped Storage Power Station, our earnings rose to HK\$836 million, an increase of 12% over the previous year.

### India

Earnings from India in 2010 were HK\$141 million, down 68% from 2009. Operating and financial performance at GPEC remains strong. The reduction in operating earnings was primarily the result of negative foreign exchange movements and fair value loss on hedging instruments. For example, an exchange loss was recorded on the translation of Sterling and Euro payments into Indian Rupees under the Power Purchase Agreement (PPA) at GPEC, whereas an exchange gain was recorded for the corresponding balance in 2009. Earnings from our substantial wind portfolio in India were adversely affected by project delays and lower wind resources at certain sites. Work has been undertaken to rectify the delays. We expect meaningful earnings to be generated from these wind assets from 2011 onwards.

### Southeast Asia and Taiwan

Earnings from investments in Southeast Asia and Taiwan in 2010 were HK\$390 million, a decline of 26% compared to HK\$525 million in 2009. This was mainly due to lower earnings from our investment in the Ho-Ping Power Station in Taiwan as a result of lower energy tariffs. The off-take agreement for Ho-Ping allows us to recover coal cost by reference to the average coal cost paid by the state-owned off-taker, Taipower, in the preceding year. Since those costs were lower in 2009 than in 2008, the time-lag effect of the off-take agreement pushed down CLP's earnings from Ho-Ping in 2010.

## **The Changing Shape of our Hong Kong Electricity Business**

CLP first started generating electricity in Hong Kong on 2 April 1903. During the following century, the way in which we have generated and supplied power to the people and businesses of Kowloon and the New Territories has never ceased to change. This has been driven by the social and economic progress of our society, political developments, technological advances and our customers' evolving needs and expectations. In recent years the pace of change has, if anything, quickened. These changes continue to be substantial and have major implications for CLP and ExxonMobil, our partner in our jointly-owned Hong Kong electricity generating business, as well as for all the participants in Hong Kong's energy sector. In CLP's case, these changes create both challenges and opportunities. They have the potential to alter the shape of this business in the years ahead. There are probably two factors which drive or underpin these changes – increasing integration between Hong Kong and Guangdong Province and a greater priority on environmental performance. Whilst these reflect wider trends in Hong Kong's society and economy, they have a particular significance for the electricity industry.

In 2008, the Central People's Government and the HKSAR Government entered into a Memorandum of Understanding (MOU) regarding Hong Kong's future energy supply. This provided for three new sources of gas for power generation in Hong Kong, each of which will originate within, or be routed through, the PRC. The timely delivery of each will be essential for maintaining electricity supply quality and reliability. The MOU also contemplated the continuation of the import by Hong Kong of nuclear energy generated in the Mainland. In all aspects, the MOU envisaged radical developments in the energy sources used to supply electricity in the HKSAR.

The MOU in itself reshapes the Hong Kong electricity industry. Further changes have been driven by increasingly tightened emissions regulations applying to our power stations at Castle Peak and Black Point, as part of the Government's broader efforts to improve local air quality. In the past few years, CLP and our partner ExxonMobil, have invested around HK\$9 billion in emissions control reduction equipment at Castle Peak. We have also made major changes in the way in which we operate our plant and in the characteristics of the coal we source on the international market.

Environmental policy initiatives are likely to accelerate in coming years, judging by the consultation document issued by the HKSAR Government in September 2010 on Hong Kong's Climate Change Strategy and Action Agenda. This proposes an overall 50 to 60% carbon intensity reduction for Hong Kong and, for the power sector, a fuel mix target of 50% nuclear, 40% gas, 3 to 4% renewable energy and not more than 10% coal by 2020. The consultation process was completed on 31 December 2010. Government is in the process of compiling the responses, with its policy direction expected later this year. We have responded constructively to the consultation document (see our response "Clean Energy" on our website). We believe that the proposed electricity fuel mix is feasible, provided that a reasonable lead time is allowed to develop a carefully structured transition and implementation plan – a process which will demand close collaboration between Government and the power sector.

The likelihood of the increased import of nuclear energy as a result of the MOU and Government-led initiatives on climate change brings me to an issue which attracted a great deal of media, political and public attention in 2010. This is the safety performance of Daya Bay Nuclear Power Station in Guangdong, which mostly supplies CLP, and the ways in which that performance is communicated within Hong Kong.

Presently, nuclear power appears to be the only technology capable of the large-scale, reliable, constant and predictable generation of electricity – without producing the greenhouse gases and other emissions associated with burning fossil fuels, and without a major increase in electricity costs. As we have said on previous occasions, the development of nuclear energy requires the careful balancing of complex issues. It gives rise to choices and decisions that cannot, and should not, be made by individual utilities, but by societies themselves and the governments which represent and speak for them. The HKSAR Government must be at the forefront of decision-making about the future of nuclear energy for Hong Kong and in explaining the reasons and consequences of those decisions. CLP will fulfil its role in the implementation of Government's policy and in contributing to public education and information.

Since 1994 Daya Bay has been a source of reliable, carbon-free electricity for Hong Kong. 70% of its output is exported to Hong Kong. It meets almost 25% of local electricity demand. Amongst other benefits, in 2010 alone it avoided the emission of 7.5 million tonnes of carbon dioxide which would have been produced by the equivalent electricity generation from conventional fossil fuel power stations. The safety, reliability and availability of Daya Bay has been world-class, comparing extremely favourably with the performance of similar nuclear power stations in France, for example. CLP holds a 25% minority shareholding in Guangdong Nuclear Power Joint Venture Co., Ltd., which owns Daya Bay. We hold a 12.5% stake in Daya Bay Nuclear Power Operations and Management Co., Ltd. which operates and maintains the power station. Through these

minority shareholdings, we have been able to apply a degree of influence over our investment, monitor the ongoing delivery of power to Hong Kong and help safeguard the best interests of the Hong Kong community in respect of Daya Bay's operations and safety.

During 2010, CLP was called upon to respond to press and political concerns relating to two events at Daya Bay, one in May and the second in October. The first was not rated as an incident on the zero-to-seven international scale for the reporting of incidents at nuclear power stations. The second was a level one incident. Neither event involved any release of radioactivity. Neither event had any safety, public health or environmental consequences. The manner in which both events were reported was entirely in line with the longstanding practice at Daya Bay, settled with the relevant Hong Kong and Mainland authorities. The reporting of such events at Daya Bay exceeds international practice elsewhere. To speak plainly, the level of concern expressed in the media bore no relation to the nature of these two events.

CLP has a responsibility to play its part in putting our community's mind at ease. We have, therefore, been working with the HKSAR Government, China Guangdong Nuclear Power Holding Company, Limited (CGNPC) and the Beijing authorities to seek ways in which the longstanding processes of public information and communication on Daya Bay operations can be further enhanced. I am pleased that these efforts led to the announcement in January 2011 of an enhanced notification mechanism for "non-emergency licensing operational events", that is to say events with no nuclear safety consequences and no impact on the external environment or public safety. The enhanced mechanism of reporting such events within two working days was generally well received by the public. CLP will also be contributing to an enhanced programme of public education and awareness on nuclear energy through initiatives such as plant visits, roving exhibitions and an on-line education platform. The aim is that the judgments by the media, politicians and the public on nuclear-related matters are better informed and a higher degree of confidence exists in the future role of nuclear energy in powering Hong Kong.

The current SoC will be in place until at least 2018. It provides a stable regulatory framework that has supported our major investment in additional emissions reduction equipment at Castle Peak and which has enabled us to take the initial steps in the implementation of the MOU. Looking ahead, the full implementation of the MOU and the changes to Hong Kong's generation mix foreshadowed in the recently completed consultation process will require major investments and commitments to be made by CLP and other private sector participants in Hong Kong's electricity supply infrastructure. These investments and commitments will depend on a regulatory framework being maintained which recognises the scale of investment needed, the length of the necessary commitments to gas and nuclear supply and which, therefore, enables private sector investment to meet Government's policy requirements and deliver the changed shape of electricity generation and supply in Hong Kong.

### **Powering Asia Responsibly**

We have long been aware of the importance of responsible environmental management of our business. The evolution of the Hong Kong electricity business is just one example of the growing role that environmental considerations play in CLP's activities and the close interface between the manner in which we conduct our affairs and the wishes and interests of the communities we serve. We work hard to create economic value for our shareholders, contribute to social and economic development in these communities and to safeguard the environment on which all our futures depend. Both our business and our goal are the same – Powering Asia Responsibly.

**The Hon. Sir Michael Kadoorie**

## BUSINESS PERFORMANCE AND OUTLOOK

### *Electricity Business in Hong Kong*

#### Business Environment

The environment for our Hong Kong electricity business is strongly influenced by current and developing policies of the HKSAR Government on integration with the Mainland's energy sector, fuel mix, environmental performance and the capital investment and regulatory structure necessary to bring about the required policy outcomes.

In August 2008 the Central People's Government and the HKSAR Government signed an MOU on energy cooperation. This provided for the delivery of gas for electricity generation in Hong Kong from three sources made available by Mainland suppliers, each of which would be essential to the continued adequacy and reliability of Hong Kong's electricity supply. These were:

- new gas fields planned to be developed in the South China Sea;
- the second West-to-East gas pipeline, bringing gas from Turkmenistan; and
- a Liquefied Natural Gas (LNG) terminal to be located in Shenzhen that would supply Hong Kong.

The MOU also contemplated the ongoing supply of nuclear electricity to Hong Kong through an extension of the supply contract with the Guangdong Daya Bay Nuclear Power Station. Under the MOU, CLP is expected to cooperate with Mainland counterparts on the necessary commercial arrangements to implement these policy directives on the supply of gas and nuclear energy.

As part of the measures intended to improve local air quality in Hong Kong, the HKSAR Government has been steadily tightening the emissions levels allowed from power stations in Hong Kong. From 2005 to 2010 permitted emissions of SO<sub>2</sub>, NO<sub>x</sub> and Respiratory Suspended Particulates (RSP) for our power stations in Hong Kong have been steadily reduced to comply with progressively lower emissions caps. With the enforcement of the Second Technical Memorandum for Allocation of Emission Allowances under the Air Pollution Control Ordinance, these permitted emission allowances are required to be reduced further by 64%, 34% and 33% respectively between 2010 and 2015. With Government proposals to shift towards increased nuclear power and natural gas in the fuel mix by 2020 these emissions will be reduced even further. Over the three decades to 2020 there will have been consistent and substantial reductions in emissions of SO<sub>2</sub>, NO<sub>x</sub> and RSP despite electricity demand nearly doubling over the same period. Poor local air quality remains a major issue for our community. Over the coming years CLP will continue efforts to reduce emissions from power generation. However, as the facts plainly show, we have already taken great strides to reduce those emissions from 1990 onwards – starting well before air quality had become a matter of political, media and public focus.

In addition to these specific emissions requirements, the Government has also launched a public consultation on Hong Kong's Climate Change Strategy and Action Agenda. The consultation document, issued in September 2010, deals with a wide range of climate change proposals and mitigation measures. For the power sector it proposes a fuel mix targeted at 50% nuclear, 40% gas, 3 to 4% renewable energy and not more than 10% coal by 2020. By comparison, CLP's fuel mix today is around 30% nuclear, 30% gas and 40% coal.

The continued tightening of environmental regulations, including the HKSAR Government's proposed climate change strategy, will have a significant impact on the operation of the existing generation facilities, as well as CLP's investment strategy on generation and transmission facilities. The power business is long-term and capital-intensive in nature. To achieve the proposed fuel mix for electricity supply, more clean fuel sources and new infrastructure investments will be needed. A stable and transparent regulatory framework enabling us to plan and make long-term energy infrastructure investments is essential for delivering on government's policy objectives. The present SoC provides such a framework until at least 2018. However, arrangements for nuclear energy supplies and for natural gas with a duration of 20 years or more and involving commitments of many billions of dollars need to be backed by a regulatory framework which gives investors and suppliers the confidence to enter into those contracts and the ability to meet those obligations for the decades ahead.

## Performance

### Meeting the demand for electricity

The most important aspect of our performance is our ability to meet the demand for electricity in Hong Kong, every day of every year. We achieved this in 2010. On 8 September 2010 local maximum demand reached a new historical peak of 6,766MW. This represented an increase of 17MW (0.3%) over the previous historical peak recorded in 2008. Overall, local sales in 2010 grew by 1.2%, compared to growth of 1.7% the previous year. This growth, particularly in the residential sector and commercial sector was primarily due to the economic recovery, positive consumer sentiment and high humidity. There was slight sales growth for both the infrastructure and public services sector and the manufacturing sector. There was a reduction in electricity sales to Guangdong. The result was that total unit sales for 2010, which includes sales to Guangdong, decreased by 2.2% from 2009.

Sector	2010		Sales increase / (decrease) over 2009 (%)	Average annual sales change over 2006 - 2010 (%)	Notes on 2010 performance
	Number of customers ('000)	Electricity sales (GWh)			
Residential	2,039	8,457	1.5	2.4	Economic rebound, positive consumer sentiment and high humidity
Commercial	187	12,642	1.2	2.0	Economic rebound and positive consumer sentiment
Infrastructure and public services	96	7,878	0.8	0.5	Commissioning of public facilities
Manufacturing	25	1,952	0.7	(6.5)	Stable growth in local demand, despite continued sales reduction in textile industry
Total local sales	2,347	30,929	1.2	1.0	
Export sales	-	2,609	(30.1)	(10.3)	Lower contracted volume constrained by more stringent emission caps
Total sales	2,347	33,538	(2.2)	(0.2)	

## Capital Investment

The largest single capital investment made recently in the Hong Kong electricity business has been the emissions control project at Castle Peak “B” Power Station. This HK\$9 billion project will enable over 90% of SO<sub>2</sub> emissions and over 50% of NO<sub>x</sub> emissions from Castle Peak “B” station to be removed and will further reduce emissions of particulates from the existing low levels. The project, which involved installation of flue gas desulphurisation equipment, nitrogen oxide reduction plant and other facilities on all four units at the station, was completed in December 2010.

During 2010 CLP invested approximately HK\$7.7 billion in generation facilities, the transmission and distribution network, customer services and other supporting facilities. This investment enhanced supply quality, reliability and customer service levels, as well as meeting the demand created by ongoing infrastructure projects and residential developments in Kowloon and the New Territories.

## Gas supply

Work on securing gas from the three sources contemplated under the MOU continued throughout 2010. These are major and complex infrastructure projects requiring coordinated efforts from gas suppliers and regulatory authorities in the Mainland and Hong Kong. As our existing gas supply from the Yacheng gas field in the South China Sea is entering the late stages of its life when gas production is likely to be less stable, the work on securing replacement gas becomes critically important and careful management of the remaining gas supply is necessary.

Since the announcement of the MOU we have been working diligently with the Mainland suppliers to develop the necessary infrastructure and agree commercial terms that will ensure adequate and reliable supply to our gas-fired power generation facilities. CLP is only one of the participants in this development of cross-boundary gas supply infrastructure. Successful and timely delivery of the energy supply arrangements contemplated in the MOU requires a positive contribution from Mainland business counterparties and the active support of the involved governments and authorities in many areas for each of these gas sources – from site selection and regulatory approval through to construction of the required infrastructure which extends over long distances and across provincial and national boundaries. Given the scale and complexity of these projects, these represent significant challenges to the delivery of gas within a tight timetable.

As at the end of 2010 progress has been made on all fronts towards implementation of the MOU.

- New gas fields in the South China Sea – preliminary agreement was reached with CNOOC to provide short-term gas supply from a small gas field to supplement the current gas supply source, the Yacheng field. Discussions are ongoing with CNOOC on long-term replacement gas supply from its gas portfolio including the development of new gas pipeline infrastructure that will be needed.
- Second West-to-East Pipeline – discussions with PetroChina on commercial terms for long-term gas supply progressed. Initially, supplies will be from the Second West-to-East Pipeline which is partially completed and will transport gas from Turkmenistan across China to Shenzhen. We have also worked closely with PetroChina in developing a new pipeline to transport gas from the end point of the Second West-to-East Pipeline in Shenzhen to Black Point Power Station, with construction expected to start in 2011.



- Shenzhen LNG terminal – A project team, led by PetroChina with partners CLP and Shenzhen Gas, is working with an expert panel assigned by the China National Energy Administration to conduct an in-depth review and study of potential terminal sites in Shenzhen.

We have developed cooperative relationships with all involved parties and look to accelerate the pace of work in 2011.

### Innovation

We have been operating our Hong Kong electricity business for over a century. During that time the needs and expectations of our Hong Kong customers and the technologies available to serve them have never ceased to evolve. Today, the pace of change in our business is faster than it has ever been. Three different examples illustrate the ways in which CLP is promoting innovation in our business, in ways that we could not have imagined only a few years ago.

Following the issue of an environmental permit, we have started the feasibility study for an offshore wind farm of up to 200MW near Sai Kung. It is envisaged that we will commence fabrication of an offshore wind data collection mast in 2011 for site environmental data collection. Although offshore wind farms are increasingly being developed elsewhere, the particular seabed conditions at the site, categorised by thick layers of sediment, require an innovative and environmental solution for the wind turbine foundations. We have already tested a suction caisson foundation which will permit wind turbine installation with minimum disturbance to the seabed. On future decommissioning the whole foundation can be completely removed by simply reversing the installation process.

The coming years will see a global trend of power grid modernisation by integrating the electricity transmission, distribution and metering infrastructures with advanced digital and communication technologies. The smart grid, incorporating the concept of enhanced intelligence and automation, will support renewable generation, strengthen power grid resilience and engage customers more actively in energy saving and demand management. CLP has established a Smart Grid Development Roadmap. Initially, we will focus on strategic areas such as integration with intermittent renewable energy sources, transmission and distribution network management, customer interaction, last-mile communication networks and information technologies. We already have 15 demonstration projects in progress, varying from self-healing systems for critical equipment through to advanced metering infrastructure and communication technologies. Our smart grid experience centre for experimenting and demonstrating the evolving smart grid technologies opened in February 2011.

We are playing a major role in facilitating the introduction of electric vehicles (EVs) to Hong Kong. We have worked closely with Government and the automobile industry to develop the standards and specification required for the long-term sustainable deployment of EV charging infrastructure in the SAR. EV charging stations have now been installed and made available to the public in 26 carparks. We waived the fees for the charging stations in 2010 and will extend this waiver through 2011. CLP is setting an example itself in the use of EVs. In 2010 we had 21 EVs within CLP's fleet, ranging from a 10-ton truck and an electric shuttle bus through to plug-in hybrid saloon cars. We organised the Hong Kong Parade and Exhibition for the 25th International Electric Vehicles Symposium. The EV parade, involving more than 30 different EVs from across the world, was the largest of its kind yet seen in Hong Kong. Over 60,000 members of the public visited the EV exhibition. More than 6,000 guests participated in the EV Ride and Drive, giving them their first experience with electric cars.

## Outlook

Our job is to provide adequate, reliable, cost effective and environmentally responsible electricity supply to Hong Kong. In the coming year, this mission will be discharged with a particular emphasis on supporting Government's policy objectives regarding fuel mix and emissions levels. This emphasis is reflected in a number of the specific plans and activities we envisage for 2011. These include:

- commissioning the final unit of the emissions control project at Castle Peak "B" Power Station;
- closely monitoring possible fluctuations in gas availability from the existing Yacheng gas field and prudently managing gas usage before arrival of replacement gas;
- taking forward the implementation of the inter-government MOU on energy supply. This will require continuing close cooperation and information sharing with the Hong Kong and Central Governments, as well as collaboration with multiple stakeholders in order to ensure smooth transition from the existing Yacheng gas resources and on-time delivery from the replacement gas resources. This will include progressing contracts for gas supply as well as the commercial arrangements and technical development of related pipeline infrastructure;
- active engagement with the HKSAR Government on practical investment plans to meet its climate change goals and air quality objectives. This will also involve starting to plan the major infrastructure developments in our business which will be needed if these policies are to be successfully implemented;
- evaluating the options for the additional import of nuclear energy to Hong Kong, both to meet increasing electricity demand and to ensure that this is done in line with any decision by government substantially to increase the role of nuclear energy within Hong Kong's overall electricity generation needs;
- enhancing stakeholder engagement activities and communication plans in relation to nuclear safety issues to reinforce public confidence in nuclear power and its ability to meet Hong Kong's energy needs safely. These activities will need to be coordinated with other major stakeholders, notably the HKSAR Government and CGNPC, the majority shareholder in Daya Bay; and
- taking forward innovative initiatives such as electric vehicle market development, pilot smart grid projects and the development of local renewable energy projects.

In the remainder of this decade we foresee that our Hong Kong electricity business will be categorised by:

- strengthened infrastructure integration with Guangdong, notably through the import of gas and nuclear power;
- a cleaner fuel mix. This will involve using more gas, importing more nuclear energy and reducing our reliance on coal, as well as promoting the use of local renewable energy sources to the extent that this is practical;

- the continued implementation of the inter-government MOU so that new, long-term gas supplies are brought to Hong Kong;
- the timely development of pipeline infrastructure and necessary arrangements to bring new long-term gas supplies to Hong Kong;
- the promotion of energy efficiency – we will continue to help our customers to boost energy conservation through energy efficiency related services and public education, as well as offering advice on energy efficient products, better building design and optimal equipment selection for businesses;
- management of the ongoing capital expenditure which our business will require, both to timetable and within budget; and
- excellence in operations at all times, including the effective management of critical business issues such as tariff levels, environmental and safety performance.

### ***Energy Business in Australia***

#### **Business Environment**

In December 2010, the NSW Government announced the results of the privatisation of the state-owned retail gas and electricity businesses and the awarding of long-term contracts (known as “GenTraders”) for the output from state-owned power stations. These transactions are scheduled to be completed on 1 March 2011. The effect of this is that, in Queensland, NSW, Victoria and South Australia (SA), all of the electricity retailers (with the exception of one in rural Queensland) will be owned by the private sector. In generation, most of the capacity in Victoria and SA and nearly half the capacity in Queensland is privately-owned, while nearly half the generation output in NSW will be managed by the private sector. Where privatisation has already run its full course, as in Victoria and SA, we have seen highly competitive generating and retail energy sectors, accompanied by a trend towards industry consolidation as well as vertical integration, whereby energy retailers move to secure upstream resources of power generation and fuel. Although the Federal and State Governments have steadily withdrawn from direct participation in the power industry in recent years, Government policy still has a major impact on the business environment in three major respects.

The first is with regard to potential Federal legislation to reduce greenhouse gas emissions in Australia as part of the nation’s response to the threat of climate change. Given that the electricity generation sector accounts for approximately 35% of total Australian emissions, any Federal legislation will inevitably have a significant impact on the industry. The Labor Government has established a Multi-party Climate Change Committee and two roundtables to seek input from business and non-government organisations on climate change policy. TRUenergy has not been invited to participate in these roundtables. Nonetheless, we have a regular dialogue with key departments in the Federal Government and will be an active, constructive and fair-minded participant in the ongoing debate on Australia’s future carbon management, as the Government moves to finalise its carbon policy mechanism by the end of 2011.

The second respect in which the Federal and State authorities play an active role in energy policy relates to renewable energy. In September 2009, the Australian Government announced the expansion of Australia's Mandatory Renewable Energy Target Scheme (MRET). This committed the Federal Government to achieving a 20% share of renewable energy in Australia's electricity mix by 2020. Further changes to the MRET legislation were announced in February 2010. As from January 2011, the renamed Renewable Energy Target (RET) Scheme has been separated into two parts, the Small-scale Renewable Energy Scheme (SRES) and the Large-scale Renewable Energy Target (LRET). The SRES provides support to small-scale technologies, such as solar panels and solar hot water systems, whereas the LRET now provides an annual target for renewable energy generation. This increases incrementally to 41,000GWh in 2020, to achieve the 20% renewable target. After that, the LRET is intended to remain constant until 2030. The implication for TRUenergy is that we need to commit to contracts with renewable energy projects, so that we can procure the renewable certificates which, as an electricity retailer, we are obliged to acquire under the RET Scheme. In addition to the Federal RET Scheme, the Victorian, NSW and SA Governments have all introduced energy efficiency schemes. Whilst each scheme has its own legislation and rules, in essence, each requires retailers, such as TRUenergy, to obtain and surrender energy efficiency certificates equal to their share of the State's targeted emissions reductions. These state-level targets are set based on each retailer's energy sales per year in that particular State. Each certificate represents one tonne of carbon emissions avoided through energy efficiency and/or fuel switching. Retailers can either buy these certificates on a trading market or create them by providing energy efficiency measures to consumers.

The third area where governments continue to impact energy businesses is retail pricing. Electricity prices remain politically sensitive. Apart from Victoria which has fully deregulated retail prices, all jurisdictions continue to set benchmark prices.

All of these measures sound, and often are, quite complicated and involve some overlap. The overall picture is one where governments have moved away from ownership of electricity infrastructure, have gradually eased back from control and regulation of retail energy prices, but remained highly engaged in the related fields of greenhouse gas emissions, promotion of renewable energy and energy efficiency.

### Performance

On 14 December 2010, TRUenergy agreed with the NSW Government to acquire EnergyAustralia Retail (which sells gas and electricity and is the State's largest electricity retailer), the Delta Western GenTrader contract for the Mount Piper (1,400MW) and Wallerawang (1,000MW) coal-fired power stations and three power station development sites for a total of A\$2.035 billion, subject to completion adjustments. The EnergyAustralia Retail, Delta Western GenTrader and the development sites are all high quality assets which will give TRUenergy competitive scale in NSW, Australia's largest energy market. The acquisitions solidify TRUenergy's position as one of the top three national retailers and generators, doubling its energy retail business to approximately 2.75 million customer accounts in NSW, the Australian Capital Territory, Victoria, Queensland and SA. The Delta Western GenTrader, including NSW's most efficient black coal-fired power station at Mount Piper, increases TRUenergy's balanced portfolio of self-owned generation capacity and capacity purchases, which includes gas, coal and wind, to a total of 5,469MW.

The three power station development sites involved in the agreement are at Marulan (two sites) and at Mount Piper adjacent to the existing power station. The Marulan sites have concept approvals for the development of gas-fired power stations of up to 450MW and 350MW capacity respectively. These add to TRUenergy's existing potential for additional generating capacity at Tallawarra, where the NSW Government has granted final permitting for the development of a second gas-fired power station with a capacity of approximately 450MW. There is also scope for new gas-fired generating capacity at our existing Yallourn site. This is subject to permitting and a sensible and balanced carbon emissions reduction policy which supports the transition over time from brown coal-fired generation at Yallourn towards gas-fired generation.

## Asset Management

TRUenergy's strong financial results in 2010 reflect the effective management of its assets during the year.

At Yallourn, a major outage on Unit 3 was successfully completed. This was a greater achievement than might first appear – the 54-day outage involved the installation of a new turbine as well as major boiler works, requiring 196,000 man hours of work and investment of over A\$75 million. The upgrade also led to a 3% improvement in unit efficiency – in effect generating more electricity for the same amount of fuel. Despite the major outage, Yallourn also reported record generation output during 2010. Gross generation of 11,644GWh was 3GWh more than 2009, while the net and sent out generation was significantly higher (23GWh and 39GWh respectively). Major contracts were awarded for the new Maryvale coal conveyor infrastructure. This will enable the existing Yallourn mine operations to transition across to the new Maryvale field. Preparations for these new coal operations included the disassembly of an overburden stacker which was then moved 9 km under its own power.

Tallawarra's generation performance was above budget. The station also met its heat rate target, as well as the air emissions targets for NO<sub>x</sub> and CO<sub>2</sub> intensity. However, Tallawarra's availability stood at 90.08%, against a targeted 93%, due to a number of forced and planned maintenance outages to carry out additional plant inspections and warranty work.

The expansion project at the Hallett Power Station, which provides electricity at peak demand periods, has been fully constructed and commissioning is nearing completion. The work has included the installation of an additional gas turbine with an expected capacity of 23MW. Once fully commissioned it will take Hallett's total peaking capacity to 203MW.

The Iona Gas plant expansion project was completed in June 2010. This increased the daily gas processing capacity of Iona from 320 terajoules to 500 terajoules. The operational performance of Iona during the commissioning of the expansion project has been excellent. During 2010, the plant availability was 92.9% with commercial availability at 98.8%, against a target of 98.0%. The Iona project, as with the Unit 3 upgrade at Yallourn, achieved excellent health, safety and environmental performance.

## Retail

Despite an increase in competitive activity in many of TRUenergy's key mass retail markets, the retail business performed well. Victoria continued to have amongst the highest levels of churn (customer turnover rates) in the world. This underlines the highly competitive nature of the fully deregulated market and the continued challenge to maintain customer numbers and profitability. While TRUenergy attracted 290,000 new gas and electricity accounts during the year, an increase of almost 11% (or 28,000) in customers won compared to 2009, there was a net decrease of 32,000 in gas and electricity customers during 2010. In response to these churn rates, TRUenergy increased its sales and marketing activities in the second half of 2010, including:

- The introduction of a telemarketing trial and the use of additional external sales providers, which led to a 27% increase in new sales in the final quarter of 2010.
- A campaign to attract new customers amongst people moving home. This was supported by a media campaign which involved radio, television and press coverage and has achieved good early results.
- A campaign to increase organic growth in the Queensland market. This achieved good results in the small business segment. However, the residential segment proved to be much tougher, with aggressive defence of their markets by the two incumbent retailers.

Overall, the annualised churn rate for TRUenergy's retail electricity business was 21.3%, compared to a market rate of 26.7%.

More than 13% of Victorian customer sites have now been fitted with new smart meters under the State Government and network industries Advanced Metering Infrastructure (AMI) programme. On completion, the AMI programme is expected to provide energy users with better information on their energy use, make it easier for renewable energy such as solar power, to feedback into the grid and receive feed-in tariffs, improve billing services and provide a platform for new products and services, including energy management programmes and remote service provision. TRUenergy is well advanced in its preparations to manage the massive additional data which the AMI programme will generate.

The implementation of TRUenergy's new retail customer service and billing platform (called "Project Odyssey") has been and still is a challenging exercise. It remains one of our priority issues. To ensure the required implementation quality from a customer and operational perspective, TRUenergy and its key suppliers, IBM and Oracle, have assigned significant additional resources to the project. This reflects the continuing strong commitment by senior executives from IBM and Oracle to deliver a sound, competitive solution for TRUenergy. A major review with IBM and Oracle in mid-2009 reset the delivery timing for the system by the end of 2011. This extended timeline allows for the quality implementation required, as well as meeting the changes needed to support the AMI programme deployment in Victoria. Project Odyssey has now completed its build phase and the system has been going through extensive end-to-end testing in the second half of 2010. Rigorous testing will continue until at least mid-2011 prior to planned system implementation in the latter part of the year.

## Renewable Energy

Federal and State policies promoting renewable energy are aligned with the CLP Group's Climate Vision 2050, our own target of making massive reductions in the carbon emissions intensity of our generating portfolio.

CLP's wind energy portfolio in Australia is held through a 50:50 joint venture with Hydro Tasmania, known as Roaring 40s. The 111MW Waterloo wind farm in SA was completed during 2010 and commenced operations in August. This is Roaring 40s' fourth project in Australia to enter service. The wind farm was completed on time and within budget. Roaring 40s' three other wind farms achieved high levels of availability in 2010, although electricity generation has been lower than originally forecast as the wind resources at sites have fallen short of initial projections.

In addition to its operating projects, Roaring 40s owns three development sites in SA. These sites are subject to various uncertainties, such as land ownership complications, grid constraints, community challenges and the grant of development approvals. Moreover, projects at these sites would require off-take prices which are above current market prices in order to provide economic returns – even though the underlying wind resources may be good. It was against this background that goodwill of A\$32.6 million (HK\$258 million) has been written off against CLP's investment in Roaring 40s.

The Paralana geothermal project completed test drilling to a depth of 3,725 metres in 2009. During the past year, the joint venture has carried out testing and simulation of temperatures and potential water flows in the zones below 3,400 metres. This testing will continue into 2011, including the injection of a larger volume of water at higher rates. Any decision about the future of this project will be driven by the results of this testing and an assessment of the overall commercial and technical viability of the project.

TRUenergy aims to increase its renewable energy portfolio with the development of solar energy. In September 2010, the Victorian State Government announced the commitment of A\$100 million to support our proposal to build a solar plant of up to 180MW in Victoria using commercially-proven thin-film photovoltaic modules developed by First Solar in the U.S.A. This Victorian support is subject to the project, which is known as the Mallee Solar Park, receiving funding under the Australian Government's Solar Flagships programme. The project was shortlisted under that Federal programme in May and final submissions were made to the Federal Government in December. The announcement of final selected projects by the Government is expected in the first half of 2011.

### Outlook

The outlook for TRUenergy in 2011 will be dominated by the challenge of successfully integrating TRUenergy's acquisitions in NSW into our existing business platform. TRUenergy is designing its strategic objectives for 2011 around three key themes:

Running our business well:

- profitably managing our customer base;
- effectively and efficiently managing our operations;
- successfully implementing projects to enhance our operations, assets and organisational capabilities. The delivery of Project Odyssey is a major example of this; and
- attracting, engaging, developing and retaining our people within a growing and evolving business.

Integrating the EnergyAustralia electricity and gas retail businesses and the Delta Western GenTrader into TRUenergy:

- achieving a smooth ownership transition (with a focus on the first 100 days after completion of the acquisitions);
- confirming and realising the value and opportunities of a larger combined TRUenergy business;
- integrating physical assets, customers, people, processes and systems into TRUenergy's existing business;

- vigorous and effective management of the competitive retail landscape in NSW and the effective implementation of the transitional services agreement whereby EnergyAustralia's retail systems are available to serve TRUenergy for up to three years after completion of the acquisition; and
- establishing and deploying a programme to align values and operating disciplines within the new NSW retail business with those required of TRUenergy's existing retail activities.

Preparing for the future through and beyond 2011. This includes:

- ongoing safe, effective and cost efficient operations and maintenance of all TRUenergy's power plants;
- maintaining current credit ratings, while refinancing existing debt facilities when due and obtaining loans for new projects. This will include investigation of options to source new capital to fund the long-term growth of our Australian business; and
- implementing our climate change strategy and addressing the impact of climate change policy on our operations.

### ***Electricity Business in the Chinese Mainland***

#### Business Environment

The power industry in the Chinese mainland continued to grow in 2010, with total installed capacity reaching 962GW at the end of the year, an increase of 88GW over 2009. Electricity demand grew at 14.6% during the year (6% in 2009) despite the Government's instruction to cut power supplies to large industrial customers in the last five months of 2010 in order to achieve the energy-savings targets which it had set. The average utilisation rate of power plant in the Mainland also increased in 2010, reflecting the overall economic recovery.

Compared to 2009, the average market price of coal remained at a high level from the start of 2010. This was mainly due to low hydro electric generation and a reduced coal supply caused by strengthened regulatory control over small coal mines. However, with the end of the rainy season and the increase in coal-fired power generation from the start of winter, the coal price started to rise again and reached its peak for the year in December. Although there have been improvements in the supply of coal within the Mainland and measures have been taken by the Mainland authorities to maintain coal prices at 2010 levels for 2011, we expect the market price of coal to become more unstable and uncertain from 2011 onwards. Coal prices heavily affect the profitability of CLP's investments in coal-fired generation in the Mainland for two reasons. The first is the high proportion which coal costs represent of overall operating costs. The second is that, in the interest of holding down electricity prices to end-users, the Chinese authorities tend to restrict the extent to which increases in coal prices can be included in higher electricity tariffs. In September, the National Development and Reform Commission (NDRC) proposed an average 6.2% tariff increase for coal-fired plant in seven provinces. This proposal is still being reviewed by the State Council. Final approval is awaited. If implemented, this proposal would have a positive impact on CLP's investments in power stations in Shandong, Hebei and Shaanxi (which represent a combined 1,222 equity MW out of our overall coal-fired generating portfolio in the Mainland of 3,223 equity MW).



The current 11th Five Year Plan (covering the period to 2010) included a commitment by the PRC Government to reduce the amount of energy produced for each unit of GDP. This target established energy efficiency as a top priority and directed the economy towards a more sustainable energy path. Compared to earlier years when the central thrust of China's energy policy was on meeting the rapidly rising demand for power as quickly and cheaply as possible in order to support economic development, we are now seeing the active promotion of energy efficiency, renewable energy and the accelerated development and deployment of new energy technology. As part of this there is a move away from smaller, less efficient diesel and coal-fired generation, including the smaller subcritical coal-fired units which had been at the forefront of the expansion of generating capacity from the 1980s onwards.

### Performance

In April 2010 CLP sold to China Guodian Corporation our entire interest in CLP Power China (Anshun) Limited, which effectively owned a 70% interest in the 600MW Anshun II Power Station in Guizhou Province. Anshun II was CLP's first power project in the Chinese mainland with a majority shareholding. However, the station had a complicated, suboptimal ownership and operating structure which we were unable to remedy. This involved shared common facilities and dispatch arrangements with the adjoining Anshun I Power Station (which was majority-owned by China Guodian Corporation). The divestment streamlines the operational efficiency of the two power stations and rationalises CLP's asset ownership in coal-fired projects portfolio in the Mainland. It is also aligned with the Group's strategy, expressed in our Climate Vision 2050, of reducing the carbon emissions intensity of our generating portfolio.

### Coal-fired generation

CLP's investment in coal-fired generation in the Mainland comprises our interests in Shandong Zhonghua Power Company, Limited (SZPC) and CSEC Guohua, where we hold minority shareholdings and do not exercise operating control, and our 1,260MW power station at Fangchenggang where, in addition to our majority shareholding, the operating and maintenance of the plant is carried out by CLP.

SZPC's generating portfolio performed well during the year, with output marginally above that achieved in 2009. Coal costs continued to be the major value driver of coal-fired power projects in China. The issue will become more pressing for inland provinces where the use of imported coal from overseas countries is not feasible. In Shandong Province, coal prices increased by about 20% in 2010. This caused the majority of coal-fired power stations in Shandong, including those owned by the five largest state-owned generating companies, to make losses over the year. CLP has worked closely with our joint venture partners to streamline coal supply and reduce coal costs so as to maintain the profit margins of our coal-fired assets in Shandong. In addition, if the coal price-linked tariff adjustment proposed by the NDRC in September 2010 is implemented, this will offset partially the increase in coal costs.

Cooperation with the Shenhua Group, through CSEC Guohua, progressed satisfactorily. Construction of the two 1,000MW units of Suizhong II in Liaoning Province was completed, with both units being successfully commissioned by May 2010. In addition, the retrofitting of the Zhungeer Power Station in Inner Mongolia was completed in October 2010, enhancing its capability to supply heat in addition to electricity. Coal supply from Shenhua Group remained stable throughout the year with prices lower than the domestic spot market.

Fangchenggang remained one of the major profit contributors to CLP's Mainland business, mainly due to the strong economic rebound and the extended dry season in Guangxi in the first half of 2010 which depressed the supply of hydro electric power. Unlike competing plants in the region, Fangchenggang's coastal site facilitated the use of imported coal, an advantage which was enhanced in 2010 by the signing of a long-term coal supply agreement. The excellent operating performance in Fangchenggang, coupled with its ability to source competitively priced international coal, has encouraged CLP to move forward with the development of Fangchenggang II, an additional 1,320MW of generating capacity. The Guangxi Government has submitted the project proposal for Fangchenggang II to the NDRC and further approvals are awaited.

## Nuclear Energy

CLP, through its wholly-owned subsidiary Hong Kong Nuclear Investment Co. Ltd. (HKNIC) holds a 25% shareholding in the 1,968MW nuclear power station at Daya Bay. 70% of the output of Daya Bay is supplied to meet the needs of our Hong Kong electricity business under a nuclear electricity contract which runs until 2034. Daya Bay and three other neighbouring nuclear generating facilities are operated by the Daya Bay Nuclear Power Operations and Management Co., Ltd. (DNMC) in which CLP owns a 12.5% shareholding.

Daya Bay continued to perform well with utilisation exceeding 90% in 2010. On 23 May there was a small increase in the radioactivity of the reactor cooling water at Unit 2 of Daya Bay, well within the prescribed technical limits for the plant. The extent of the increase implies the imperfect sealing of one fuel rod (out of over 40,000) in the reactor core. This was a minor operational incident with no safety, health and environmental consequences which did not require reporting under the zero-to-seven level scale promulgated by the International Atomic Energy Agency of the United Nations for evaluating and reporting on nuclear incidents. Unfortunately, the matter was inaccurately reported by a number of media sources and, as discussed in the Chairman's Statement, caused concern in Hong Kong. A Level 1 Event on the scale, which also has no safety, health and environmental consequences, was identified on 23 October 2010 during a planned plant outage inspection of Unit 1. This revealed a flaw in a section of pipework in the auxiliary cooling system which is used to take away residual heat from the reactor during its shutdown – in other words, pipework which is only used when the reactor is not working. Such Level 1 Events are by no means unusual – and the identification of such incidents is in line with the strict international disciplines applied to the treatment of incidents at nuclear power stations. There have, for example, been 12 Level 1 Events at Daya Bay since 2001. As with the occurrence of 23 May, some of the media portrayed this in inaccurate terms. On both occasions, CLP, its partner CGNPC at Daya Bay, the operator of the power station and the Ministry of Environmental Protection of China all confirmed that these cases had no impact on public safety, public health or the environment.

The manner in which these matters were reported created public concern about nuclear safety and the operation of Daya Bay. To address this concern, even though it was not well-founded and the existing working mechanism was well-designed and in line with international practice, CLP, through HKNIC, worked closely with the HKSAR Government and CGNPC to develop an enhanced notification mechanism. This cooperation led to an announcement in January 2011 whereby information on “non-emergency licensing operational events” will be published on HKNIC's website (<https://www.hkcnuclear.com>) within two working days after DNMC has identified such an event at the power station. These events carry no nuclear safety consequences and have no impact on the external environment or public safety. The reporting of such events goes beyond international practice in this regard. For those events classified as Level 2 or above and requiring emergency response, actions will be taken by the Guangdong and HKSAR Governments and their related departments according to the established response mechanism based on a cooperative agreement on emergency response for Daya Bay.

In July, CLP entered into an agreement of cooperation intent with CGNPC to take up to a 17% shareholding in a 6,000MW nuclear power project in Yangjiang in Guangdong Province. Located on the Guangdong coast, approximately 220 kilometres west of Hong Kong, this station will supply electricity to meet local demand in Guangdong. Construction commenced in 2008 and the project is expected to be commissioned in phases between 2013 and 2017. The project is progressing on schedule. Project evaluation and due diligence work for the prospective investment is underway and expected to be completed in the first half of 2011.

## Renewable Energy

CLP's renewable energy portfolio in the Chinese mainland comprises 1,584 equity MW of hydro, wind and biomass generation.

Our largest investment in hydro electricity in the Chinese mainland is our 330MW project at Jiangbian in Sichuan Province. During 2010 we completed evacuation of the main tunnel from the upstream down to the power house. The tunnel alone is a major undertaking. It is 8 km long and took 33 months to complete, significantly longer than planned, due to the rock quality being much more difficult than expected. We have, however, been able to reprogramme other construction work to avoid delay to the completion date for the project. The upstream dam is completed and we are now in the final stage of installing equipment in the power house. Safety has been a challenge throughout this project, with difficult working conditions and a prevailing local safety culture which falls below CLP's requirements. Due to the extreme drought in Yunnan in the first half of 2010, the generation at our Dali Yang'er hydro project was lower than expected this year. Annual overhaul and retrofit works were performed in late 2010. We expect the performance of this hydropower station will be improved in 2011.

Our wind energy business is pursued through three channels: minority interests in individual wind farm projects, a 32% shareholding in CGN Wind Power Co. Ltd. (CGN Wind) and wholly-owned wind farms. Progress was made through all three channels in 2010.

Our minority-owned projects grew mainly through expansion from existing wind farms in Shandong, namely, Zhanhua II, Lijin II, Rongcheng II and Rongcheng III (each 50MW). The Mazongshan 50MW project in Liaoning, in which CLP holds a 24.5% stake, was commissioned in January 2010 and the 15MW Nanao III project in Guangdong was commissioned later in the year, with CLP holding a 25% stake. Our participation in CGN Wind continued. The total installed capacity of the joint venture exceeded 1,342MW at the end of 2010. CLP will maintain its existing equity investment of HK\$1.19 billion. Our shareholding will be diluted down from the existing 32% level as and when CGN Group injects more equity into the joint venture during 2011 in order to finish the construction of the existing pipeline of projects. Thereafter, the joint venture will focus on managing the existing operating portfolio and the total installed capacity of the joint venture will likely be maintained at the existing level.

The successful development and commissioning of CLP's first wholly-owned wind project in the Chinese mainland, the 50MW Qian'an I project, has demonstrated our capability to develop our own wind projects. Our second wholly-owned project, the 48MW Penglai I project in Shandong Province is now under construction. We will continue to secure majority-owned wind projects in targeted provinces. We expect that this will become our primary channel for future investment in wind energy in the Mainland.

In March 2010 we completed modifications to the Shandong Boxing Biomass plant, including the installation of an additional 15MW condensing turbine. This allows us to generate electricity independently of steam sales and thereby improve the operating flexibility and efficiency of the plant. On top of that, we have refined our fuel procurement strategy so that an improved supply of different biomass fuels can be maintained at reasonable prices. Nonetheless, the procurement of fuel in adequate quantities, of the required quality and at reasonable prices remains a daily challenge.

In 2010, we continued growing our energy services business in Southern China including more energy audits and implementation projects for industrial and commercial customers in Southern China. We have entered a joint venture agreement with CGNPC in November 2010 with the aim of jointly developing an energy services business in Southern China. The venture, which has been in operation since January 2011, will provide a one-stop shop for energy services (consultancy, system implementation, performance contracting and investment) targeting both commercial and industrial customers.

### Outlook

The PRC Government will continue to support the development of clean electricity generation during future planning cycles, whether this is in the form of renewable energy, nuclear power or more efficient coal-fired plant. CLP has already adjusted its China strategy to position itself in line with this move towards cleaner electricity generation, as part of the Group-wide policy of reducing the carbon intensity of our generation portfolio. Over the coming three to five years CLP aims to re-balance its portfolio from one centred on coal-fired generation to one which prioritises low carbon emissions. To do this, CLP intends to consolidate and rationalise its asset ownership and structures for coal-fired projects, and to pursue clean and renewable energy sources in the Mainland, including wind energy, hydro power and nuclear. The divestment of Anshun II and the growth of our wind portfolio in 2010 are examples of our actions in this regard and illustrate the strategic direction we are taking.

In reviewing the growth opportunities of our wind energy business we are alert to the implications of the projected increase in wind energy in the Mainland. There are two aspects of this massive build up in wind resources to which we must pay particular regard. First, the uneven spread of wind resources means that in certain areas with substantial wind energy capacity, such as Inner Mongolia, the grid does not have the capability to manage and transmit wind generated power to the load centres. Secondly, the sites with better wind resources will have been taken first, meaning that those sites still available for development may have wind quality which is inferior and less economically viable.

In line with the Hong Kong Government's proposed policy of enlarging the proportion of Hong Kong's electricity generated from nuclear sources we have commenced a dialogue with our existing Mainland partners and the relevant authorities on how CLP may participate in the delivery of additional nuclear energy to Hong Kong. In doing so we intend to build on the experience, relationships and reputation we have established through our existing participation in the Daya Bay Nuclear Power Station.

Against this background, our plans for the year ahead and beyond include:

- pursuing efficiency improvements at those power stations in which we hold an interest through joint ventures;
- reducing coal prices by pursuing long-term coal supply contracts and sourcing alternative coal supplies;

- maintaining high despatch at Fangchenggang and continuing to control cost (which itself promotes higher despatch levels), as well as taking forward the proposed development of Fangchenggang II;
- implementing the enhanced notification mechanism for non-emergency events at Daya Bay and contributing to increased public understanding on nuclear energy;
- completing due diligence evaluation of the Yangjiang Nuclear Power Station in Guangdong and finalising the investment arrangement with our partner CGNPC;
- developing our plans for further investment in nuclear power stations in Guangdong to support the increasing supply of nuclear energy into Hong Kong;
- completing the construction of the Jiangbian hydro project with high safety standards;
- further improving the operating and financial performance of Boxing Biomass;
- identifying and continuing the development of hydro projects, so that the expertise that we have gained at Huaiji, Yang\_er and Jiangbian can be more widely applied;
- continuing the three-channel strategy for wind projects, under which CLP will
  - build out existing minority-owned projects which have expansion potential;
  - maintain our investment in CGN Wind, with the likelihood of dilution from a 32% to an approximately 15.7% shareholding during the course of 2011; and
  - complete construction of the 48MW Penglai I wind project, commence construction of 50MW Phase II of Qian'an wind project, and pursue other wholly-owned wind projects which are currently under identification and evaluation; and
- growing our energy services business in South China through the joint venture with CGNPC.

### ***Electricity Business in India***

#### **Business Environment**

India has an installed generation capacity of approximately 160GW compared to China's installed capacity of 962GW. Electricity consumption per capita in India is about a quarter of that of the Chinese mainland. In addition, the gap between supply and demand at peak levels remains above 10% nationwide.

In order to meet the demand for power and to sustain the economic growth and social improvement which India has achieved in recent years, the Union Government aims to add an additional 230GW of generating capacity over the next 12 years, with per capita consumption intended to double. Almost 165GW of this additional capacity is planned to be added from fossil fuel sources. A further 65GW is projected to come from nuclear energy and hydro electric sources, which may prove ambitious.

Although domestic coal is available in large quantities, there are severe constraints on bringing this to the power stations, in the form of mining difficulties, environmental and land use regulations and transportation problems. It seems that domestic coal can only support a maximum of 80 to 100GW of additional generating capacity. This means that imported coal is likely to play a vital role in the foreseeable future and will prove an attractive option for power stations located at the coast. However, the economics of generation on imported coal, whilst competitive at current coal prices, may be threatened if international coal prices continue to rise.

Greenfield coal-fired power station projects with long-term PPAs and which benefit from the formal allocation of domestic coal resources can offer opportunities for stable returns over time. However, coal-fired generation in many cases is being developed through “merchant plants” which do not benefit from domestic coal allocation and where the developers sometimes take fuel price risk. In recent years, these merchant plants have generated attractive returns. However, their vulnerability to increases in coal prices mean that developers are seeking to manage this risk through locking in coal resources outside India, such as in Indonesia, Australia and, recently, in African countries.

The Union Government is continuing with its ultra mega power project (UMPP) programme whereby large-scale projects, of up to 4,000MW over several phases, are awarded on a tender basis. Two of the four such UMPPs which have already been bid for have received domestic fuel allocations in the form of captive mines for the project life, together with long-term PPAs with power off-take and payment security; the other two UMPPs that have been bid for are imported coal-based. Two more domestic coal-based UMPPs are currently being developed. The pre-bidding qualification process for these is likely to happen during the first half of 2011, while the bidding itself is likely to happen six to nine months later.

Hydro electricity remains the largest source of renewable energy in India. However, wind energy has been growing rapidly. In 2001, India’s total installed wind energy capacity was only 1,347MW. It now stands at approximately 13,000MW with further growth being promoted by continuing Union and State Government support. Wind resources are not evenly spread throughout the country, meaning that wind farms are mostly concentrated in Tamil Nadu, Maharashtra, Gujarat, Karnataka and Rajasthan.

In January 2010, the Union Government launched the Jawaharlal Nehru National Solar Mission which aims to install 20GW of solar power by 2022. The Solar Mission targets both large and small-scale generation, including for rural electrification (about 400 million people in India still lack access to electricity). A three-phase roadmap has been laid out with interim targets for the development of solar power.

Renewable energy, whether in the form of wind or solar, is supported by renewable energy quotas and preferential tariffs which are now implemented in around 18 of 29 Indian States.

### Performance

Our activities in India remain focused on three areas, the successful management of our existing power station at GPEC, progress on our greenfield coal-fired power station project at Jhajjar and growth of our renewable energy investments. We are also continuing to pursue opportunities in transmission projects in order to participate in the large-scale expansion of India’s electricity grid infrastructure which will be necessary to support the growth in generating capacity and to bring electricity to end-users.

## GPEC

GPEC has performed well and still represents the primary source of earnings for CLP India's activities. All key performance targets were met, although availability was slightly down compared to 2009, due to a scheduled major overhaul on one unit. This was the first of the three units to undergo a major overhaul after 100,000 hours of operation. The overhaul involved an upgrade of the gas turbine technology to enhance its operational performance to near-new levels. The other two units will be similarly overhauled in 2011 and 2012. Although the plant is in excellent condition, it is important that the maintenance costs of ageing plant are carefully controlled. To this end, we intend to enter into a long-term maintenance and support contract with the equipment suppliers, Siemens.

## Jhajjar

The Jhajjar project has been underway since January 2008 and is now around 70% complete. Almost the entirety of the project costs are now committed through various contracts. The engineering and equipment procurement has progressed well with our PRC suppliers. CLP has maintained close contact with the factories in China to ensure that components arrive on site when they are needed. The major challenge has been to obtain adequate labour resources. There was particular difficulty in this regard during mid-2010 when available labour resources were drawn towards Delhi to work on the completion of the facilities for the Commonwealth Games and related transport and civil infrastructure. The combination of a largely unskilled and inexperienced labour force and a generally poor local safety culture has demanded great efforts from CLP to ensure that proper safety standards are put in place and respected. We do not adjust our safety standards downwards to reflect the inherent difficulties of particular projects at particular sites – safety is not something on which we are prepared to compromise. Whilst we believe that the safety performance during the construction works at Jhajjar has been measurably higher than on other similar projects in India, there remains room for improvement. We make strenuous efforts on this everyday.

Although Jhajjar benefits from allocated coal supplies from Coal India, sourced from nominated resources in Jharkhand, it is not yet certain that Coal India will be in a position to deliver the full amounts of contracted coal by the time that Jhajjar commissions. We have been working hard with Coal India to secure supplies of the requisite amounts of coal, as well as looking at alternate supplies of coal, including imported coal, to ensure that the plant capacity can be fully utilised from commissioning.

## Renewable Energy

We started work on our first wind energy project in India, 50.4MW at Samana I in Gujarat, in 2006. Since then, our portfolio of wind projects in development, under construction or in operation has grown to 486MW. This has made CLP the largest wind farm developer in India, whether domestic or foreign. The past year has seen further growth in our wind energy portfolio with partial completion of Samana II and Saundatti and full completion of Theni totalling 209MW capacity. Our projects at Andhra Lake, Harapanahalli and the balance of Samana II and Saundatti amounting to a further 172MW of capacity are all scheduled for commissioning in 2011. Although we have been largely successful in developing our projects within budget, the delays in commissioning have ranged between 4 and 12 months. Problems in land acquisition at the wind farm sites have been the largest contributor to these project delays. Alongside increasing efforts to shorten the land acquisition timetable, we have taken into account our past experience and now allow for a longer period for land acquisition to be built into our pre-investment financial analysis. We also ensure that our commitments to pay the wind turbine suppliers are delayed as far as possible, so that they are made in line with actual progress on land acquisition.

We are exploring the opportunity to participate in the deployment of solar energy in India. Our view is that over the next two to three years, the solar energy industry in India will have stabilised for us to contemplate project structures other than those which involve long-term off-take by state-owned utilities at high fixed tariff. This is especially so given the current high cost of electricity generated by solar, as compared to other conventional and non-conventional forms of generation. Gujarat and Rajasthan have the best solar resource in India, as well as supportive state-level policies. We will be able to draw on the experience and expertise gained by the CLP Group on the 55MW Lopburi solar project in Thailand in any further solar projects.

### Transmission

In 2009, CLP India bid for two transmission line projects in joint venture with Gammon, a leading Indian civil engineering contractor. We were unsuccessful in those bids, being placed the sixth lowest out of ten bidders. We believe that our bids were sensibly priced. We had no regrets about not securing those projects at the price for which they were awarded. In the course of those bids, we developed a better understanding of the characteristics, economics, risks and rewards represented by transmission projects, as well as establishing a constructive working relationship with Gammon.

In December 2010 and January 2011, we bid for two transmission projects. This was again done through a joint venture involving a 76% majority shareholding by CLP, with Gammon undertaking the engineering, procurement and construction works. We maintained discipline in our bids – aiming to win, but only on a basis which will create value. We were unsuccessful in both these bids. Given that our bids have been unsuccessful and that our prices were substantially higher than the winning bids, we will critically review our valuations and assumptions for such projects. If, having done so, we cannot see a route to be competitive in such bids without accepting an unsatisfactory risk/reward profile, we may then slow down the pursuit of transmission projects until a more rational and sustainable competitive landscape emerges.

### Outlook

For our existing activities, our main priorities will be to:

- complete the Jhajjar Project on time and within budget for full commissioning in the first half of 2012;
- secure long-term (5 to 10 years) gas supply contracts for GPEC; and
- complete our wind projects currently under development in the states of Gujarat, Maharashtra and Karnataka and manage effectively our operating projects.

The growth of electricity demand in India and the accompanying need for large-scale investment in generation and transmission infrastructure, combined with CLP's experience in all aspects of the power industry and our growing reputation in India, means that a wide range of investment opportunities are available to expand our business, notably:

- possible participation in the greenfield development or bidding for another large coal-fired power project, including an UMPP;
- expansion of generating capacity at GPEC, once additional gas supplies can be secured;



- continued investment in wind projects, so as to retain CLP's position as the largest wind energy company in India;
- bids for transmission and hydro-power projects to diversify our asset portfolio; and
- exploring early opportunities for participation in the development of solar energy in India.

### ***Electricity Business in Southeast Asia and Taiwan***

#### Business Environment

Southeast Asia and Taiwan are the markets where CLP first started its regional business outside Hong Kong and the Chinese mainland in the 1990s. Since then, our business has grown through a combination of greenfield power generation projects, as well as mergers and acquisitions.

On 23 February 2011 we sold our interest in EGCO. Currently, most of our investments and development projects in Southeast Asia and Taiwan are held in conjunction with Mitsubishi. Restructuring of our joint venture with Mitsubishi since 2009 has enabled our partnership to continue on a basis which allows each of us to contribute complementary expertise, resources and relationships, but without the costs and constraints of complicated and burdensome joint venture overheads and corporate infrastructure.

The building and operating of power assets is one of the key value drivers of the CLP Group. Our experience in Southeast Asia and Taiwan bears this out. Compared to mergers and acquisitions, we have been most able to enhance the value of our investments when we have applied our engineering and operating expertise to the development of greenfield projects where CLP has been a founding member with significant control. A past example of this has been the coal-fired power station project at Ho-Ping in Taiwan. Our interest in Ho-Ping is now held in partnership with Mitsubishi Corporation.

The Ho-Ping project, which was a greenfield project we developed with our Taiwan partner, has been in service for some years. It provides a steady flow of cash from its continuing operations and a basis for any new opportunities that may emerge in Taiwan. The two Vietnam projects that we are currently progressing would be similar in concept if we are able to bring them to financial close and into construction. Vietnam is an emerging market and we feel that now may be the right time to move forward there, given the clear need for new generating capacity to support its economic growth.

Presently, we are applying our development expertise to the 55MW Lopburi solar project in Thailand, where CLP holds a 33.33% equity stake and is responsible for project management.

#### Performance

All of the operating plants in which CLP held an interest in 2010 had long-term PPAs with creditworthy off-takers. Each of these plants achieved good operational performance in 2010, allowing them to respect the terms of those agreements and, earn the prescribed revenues.

Ho-Ping performed well in 2010 with a record total generation of 10,008GWh. The possibility of a future expansion of generating capacity at the site remains. However this would depend on the future electricity supply/demand balance in Taiwan, as well as the formulation and application of official policies. In the meantime, we are looking at the possible development of solar and wind energy in Taiwan using the relationships, resources and local expertise that we have built up since we first started work on the Ho-Ping project in the mid 1990s.

The 55MW Lopburi solar project in Central Thailand, developed and managed by CLP, achieved financial close and commenced construction. This project is owned by Natural Energy Development Co., Ltd. ("NED") which in turn is equally owned by CLP, Mitsubishi and EGCO. It is currently the largest solar project of its kind in the world. Commissioning is scheduled to occur in phases between late 2011 and early 2012. A PPA is in place and financing arrangements are in hand for an 8MW expansion, for which construction is expected to start in 2011.

CLP and Mitsubishi have continued development efforts on the two coal-fired greenfield projects in Vietnam. The 1,320MW Vung Ang 2 project, in which CLP and Mitsubishi jointly own a 48.45% stake, is under negotiation with the Vietnamese government on the PPAs and other key project agreements. Tenders for equipment supply and construction are being evaluated and discussions are ongoing with potential financing providers. On the 1,980MW Vinh Tan 3 coal-fired project, 49% owned by CLP and Mitsubishi, we are finalising the documents for the invitation of tenders for equipment supply and construction, and are also in discussion with financial institutions on financing for the project. We aim at finalising negotiations with various Vietnamese Government entities on both projects in 2011 and to achieve financial close for one project in 2011 and the other one in 2012. These are ambitious goals in that they will depend on the time, potentially considerable, which the Vietnamese Government may require to consider and take decisions on key areas such as Government guarantees and fuel cost pass through mechanisms.

### Outlook

Going forward, our priority will be on managing our existing asset and construction project in Southeast Asia and Taiwan, namely CLP's interests in Ho-Ping and the Lopburi solar project. We will also be working on the development of the two coal-fired projects in Vietnam as well as the small expansion of the existing Lopburi project.

There may be opportunities in developing Southeast Asian countries for further greenfield projects where CLP is able to apply its abilities to engineer, construct and operate. This is a market where we need to be selective in all aspects of risk and return and only move forward on projects that provide security of cash flow from the PPAs, pass through fuel costs and where the cost of electricity is affordable. These are the necessary preconditions for us to develop the two projects in Vietnam, just as much as they would be for any other projects which would come forward in future. We would also be open to opportunities to develop more renewable energy projects, wherever the value of low carbon generation is recognised and stable, supportive government policies are in place.

Our specific plans for 2011 include:

- maintaining the good operational performance of Ho-Ping and procuring coal on the international market at reasonable prices;
- assessing and negotiating terms with the bidders for the engineering, plant procurement and construction contracts for the Vung Ang 2 project in Vietnam, and the associated financing;

- determining the cost and economics of the Vinh Tan 3 project, using Chinese equipment suppliers and financing;
- continuing discussions with the Vietnamese Government, relevant authorities and state-owned entities to confirm whether the Vinh Tan 3 and Vung Ang 2 projects can proceed on a sound, sustainable and economically viable footing; and
- progressing the construction of the Lopburi solar project to schedule and within budget as well as pursuing the addition of a further 8MW to the project.

### *Safety*

We are committed to achieving a culture where safety comes first and our target is zero injuries. This applies to employees, contractors and all others working on our sites regardless of project complexity and cultural considerations.

Following the launch of our Group level safety plan in 2007, we have focused on elevating the safety consciousness within the organisation by providing an updated safety structure and guidance, and introducing initiatives to be undertaken across the Group. These initiatives include more visible safety leadership, enhanced safety skills and a culture that encourages open sharing of incidents and near misses to detect unsafe conditions before injuries occur. We emphasise the use of the knowledge that exists within the Group, but we also take specialist external advice. We believe that we are making progress in safety awareness and in providing the necessary standards and controls for a safe working environment. We are equally aware that many challenges remain.

We have seen our overall disabling injury incidence rate improve to a best ever level of 0.18 (0.19 in 2009). This is a measure that covers all our workers and controlled sites, and this improvement has been achieved despite a growth in the size of our portfolio and the challenges from higher risk construction activities. However the improved overall safety performance in 2010 was overshadowed by one employee fatality, involving a meter reader in Hong Kong, and two subcontractor worker fatalities at the Jhajjar construction site in India. Jhajjar reported a third fatality to a subcontractor worker in February 2011. Construction works at Jhajjar and the Jiangbian Hydro project in China remain the most challenging components of our portfolio in terms of safety management. The prevailing safety culture in these locations does not reach the level we want to achieve and so we make particular efforts to create a safer working environment on our sites. We face additional challenges at Jhajjar from language barriers and a shortage of skilled labour, and at Jiangbian from mudslide and flooding hazards. We will continue to implement additional controls to reduce risk and to reinforce the message that safety is our highest priority.

We aim to achieve a continuing and sustainable improvement in our safety performance in 2011 and beyond which will take us further towards the goal of zero injuries. Our emphasis is to implement safety initiatives at both the regional and site levels, and to turn learning into action plans that will strengthen accountability. We will apply resources at the Group level to reinforce safety skills, continue the learning process and maintain an environment where everybody thinks about their own safety and that of their colleagues above anything else.

## *Human Resources*

On 31 December 2010, the Group employed 6,075 staff (2009: 5,777), of whom 3,961 were employed in the Hong Kong electricity and related business, 1,801 by our businesses in Australia, Chinese mainland, India, and Southeast Asia and Taiwan, as well as 313 by CLP Holdings. Total remuneration for the year ended 31 December 2010 was HK\$3,475 million (2009: HK\$3,153 million), including retirement benefits costs of HK\$267 million (2009: HK\$265 million).

## *Environment*

In 2010, we continued our efforts to reduce our emissions in Hong Kong mainly through the commissioning of our emissions control project at Castle Peak Power Station, continuing our ongoing efforts to secure more natural gas for our Black Point Power Station and increasing the percentage of natural gas used in power generation relative to coal.

The emissions control project at Castle Peak Power Station was commissioned and became fully operational in 2010. In addition, we were able to increase our gas consumption relative to coal in 2010, which also helped to address local air quality concerns. Through these initiatives we have achieved reductions of SO<sub>2</sub>, NO<sub>x</sub> and particulates emissions to levels below the 2010 caps required by the HKSAR Government. Our Hong Kong carbon emission intensity also decreased in 2010 compared to 2009, mainly due to the increase in the gas portion of our fuel mix.

On natural gas supply to Hong Kong, we continue to pursue options as stated in the MOU on cross border energy supply signed in August 2008 between the Government of HKSAR and the Central People's Government. We have completed an Environmental Impact Assessment for the pipeline in Hong Kong waters which was approved on 27 April 2010 and an Environmental Permit issued on 25 May 2010. Key regulatory permits were obtained by the end of 2010 with construction planned to commence on the gas receiving facilities at Black Point Power Station in the first quarter of 2011. Construction on the submarine gas pipeline is expected to follow in the second quarter of 2011. The necessary environmental/regulatory approvals from Mainland government for the project are handled by our Mainland partners.

Over the past few years we have seen heightened awareness and increased interest in climate change amongst policy-makers at the international, national, regional and local levels. The Hong Kong Government completed its public consultation on Hong Kong's Climate Change Strategy and Action Agenda at the end of 2010. CLP participated in this consultation and supported Government's policy initiative through a publication entitled "Clean Energy – Response to Hong Kong's Climate Change Strategy and Action Agenda, Public Consultation".

At the Group level, we met our Group carbon emission intensity target of reducing our carbon intensity to 0.8kg CO<sub>2</sub>/kWh by 2010. Our total non-carbon emitting generation capacity also increased to over 20% as of the end of 2010, 10 years ahead of our target date of 2020. In light of this, we have revised our 2020 targets to even more demanding ones, including a new 20% renewable energy capacity target by 2020. A follow-up publication to our Climate Vision 2050 which we released in November 2010 titled "Our Journey to a Low-Carbon Energy Future – Turning CLP's Climate Vision 2050 into Reality" explains in more detail our progress and plans.

CLP's goal is to reduce our CO<sub>2</sub> emissions in the long term. Our CO<sub>2</sub> emissions might experience some fluctuations in the years to come due to our continued business expansion in the Asia-Pacific region, where coal is still the most affordable and available fuel of choice and clean coal technology is not yet commercially viable. However, having met the 0.8kg CO<sub>2</sub>/kWh target means we are on an overall downward trend. We are confident that we are on the right track to meet our next reduction targets in 2020.

## FINANCIAL PERFORMANCE

Strong financial results with 7.2% increase in operating earnings accompanied by 26.1% uplift in total earnings.

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

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

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

Earnings from the generating facilities in Chinese mainland serving Hong Kong increased by 11.8%, mainly due to a higher profit factor reflecting better performance of GNPJVC this year.

Other power projects in Chinese mainland performed well throughout 2010. With the benefits of an upturn in electricity demand and a fall in competing generation from hydro, earnings from Fangchenggang rebounded significantly. Higher generation and lower depreciation charge after the extension of useful lives of certain fixed assets of CSEC Guohua and higher contribution from wind projects due to expansion of wind portfolio also contributed to the increase. The increase is partly offset, however, by the effect of rising coal prices on our coal-fired projects, in particular Shandong Zhonghua.

Benefiting from higher electricity retail and gas gross margins and the 15.6% increase in average exchange rate of Australian dollar, operating earnings from Australia increased by 77%. This was partially offset by higher hedge contract settlement payments resulting from ongoing low pool prices and the one-off expense of New South Wales acquisition costs.

The operational performance of GPEC remained stable and reliable, although certain non-operating items adversely affected the earnings from CLP India. Jhajjar Project recorded a net fair value loss of HK\$68 million (2009: gain of HK\$171 million) on its financial derivatives. GPEC also suffered a loss of HK\$30 million (versus a gain of HK\$11 million in 2009) from the translation of Pound Sterling and Euro receivables under the foreign exchange protection clause of the power purchase agreement. The contribution from wind projects was adversely affected by project delays and lower wind resources at certain sites.

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

Other income represented the gain on sale of 70% interest in CLP Power China (Anshun) and 60% interest in Power Generation Services Company Limited in 2010 and 2009 respectively.

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

The financial information set out in this announcement below does not constitute the Group's statutory accounts for the year ended 31 December 2010, but represents an extract from those accounts. The financial information has been reviewed by the Audit Committee and agreed by the Group's external auditors, PricewaterhouseCoopers.

***Consolidated Income Statement***  
*for the year ended 31 December 2010*

	<i>Note</i>	<b>2010</b> <b>HK\$M</b>	2009 HK\$M
<b>Revenue</b>	4	<u>58,410</u>	<u>50,668</u>
Expenses			
Purchases of electricity, gas and distribution services		(21,740)	(18,306)
Operating lease and lease service payments		(10,098)	(9,201)
Staff expenses		(2,189)	(1,819)
Fuel and other operating expenses		(7,321)	(6,316)
Depreciation and amortisation		<u>(5,065)</u>	<u>(4,332)</u>
		<u>(46,413)</u>	<u>(39,974)</u>
Other income	6	<u>400</u>	<u>153</u>
Operating profit	7	12,397	10,847
Finance costs	8	(4,212)	(3,477)
Finance income	8	101	69
Share of results, net of income tax			
Jointly controlled entities		2,080	2,675
Associated companies		813	(260)
Profit before income tax		<u>11,179</u>	<u>9,854</u>
Income tax expense	9	(844)	(1,665)
Profit for the year		<u>10,335</u>	<u>8,189</u>
<b>Earnings attributable to:</b>			
<b>Shareholders</b>		10,332	8,196
Non-controlling interests		3	(7)
		<u>10,335</u>	<u>8,189</u>
<b>Dividends</b>	10		
Interim dividends paid		3,753	3,753
Interim dividend declared/final dividend proposed		<u>2,214</u>	<u>2,214</u>
		<u>5,967</u>	<u>5,967</u>
<b>Earnings per share, basic and diluted</b>	11	<u>HK\$4.29</u>	<u>HK\$3.41</u>

**Consolidated Statement of Comprehensive Income**  
for the year ended 31 December 2010

	<b>2010</b>	2009
	<b>HK\$M</b>	HK\$M
<b>Profit for the year</b>	<b>10,335</b>	8,189
Other comprehensive income		
Exchange differences on translation	<b>3,929</b>	5,070
Cash flow hedges	<b>588</b>	220
Net fair value gains on available-for-sale investments	<b>128</b>	91
Revaluation surplus on step-acquisition of subsidiaries	-	15
Share of other comprehensive income of jointly controlled entities	<b>2</b>	120
Reclassification adjustments		
Sale of a subsidiary	<b>(91)</b>	-
Acquisition of additional interest in a jointly controlled entity to become a subsidiary	<b>(17)</b>	-
<b>Other comprehensive income for the year, net of tax</b>	<b>4,539</b>	5,516
<b>Total comprehensive income for the year</b>	<b>14,874</b>	13,705
Total comprehensive income attributable to:		
Shareholders	<b>14,867</b>	13,711
Non-controlling interests	<b>7</b>	(6)
	<b>14,874</b>	13,705



**Consolidated Statement of Financial Position**

		(Restated)	(Restated)
	<b>At 31 December</b>	At 31 December	At 1 January
	<b>2010</b>	2009	2009
Note	<b>HK\$M</b>	HK\$M	HK\$M
<b>Non-current assets</b>			
Fixed assets	12	115,731	97,098
Leasehold land and land use rights under operating leases	12	1,729	1,760
Goodwill and other intangible assets		9,150	8,105
Interests in jointly controlled entities		20,476	18,838
Interests in associated companies		2,378	1,813
Finance lease receivables		2,286	2,379
Deferred tax assets		4,210	3,355
Fuel clause account		294	14
Derivative financial instruments		2,736	1,821
Available-for-sale investments		1,512	1,692
Other non-current assets		139	327
		<u>160,641</u>	<u>137,202</u>
<b>Current assets</b>			
Inventories – stores and fuel		751	715
Trade and other receivables	13	11,118	9,018
Finance lease receivables		144	130
Available-for-sale investments		336	-
Derivative financial instruments		1,609	1,472
Bank balances, cash and other liquid funds		4,756	7,994
		<u>18,714</u>	<u>19,329</u>
<b>Current liabilities</b>			
Customers' deposits		(3,979)	(3,854)
Trade and other payables	14	(11,344)	(8,926)
Income tax payable		(165)	(208)
Bank loans and other borrowings	15	(7,816)	(6,892)
Obligations under finance leases		(1,995)	(1,523)
Derivative financial instruments		(932)	(1,035)
		<u>(26,231)</u>	<u>(22,438)</u>
Net current liabilities		<u>(7,517)</u>	<u>(3,109)</u>
<b>Total assets less current liabilities</b>		<u>153,124</u>	<u>134,093</u>
<b>Financed by:</b>			
<b>Equity</b>			
Share capital		12,031	12,031
Share premium		1,164	1,164
Reserves	17		
Declared/proposed dividends		2,214	2,214
Others		64,252	55,352
Shareholders' funds		<u>79,661</u>	<u>70,761</u>
Non-controlling interests		97	107
		<u>79,758</u>	<u>70,868</u>
<b>Non-current liabilities</b>			
Bank loans and other borrowings	15	36,807	32,539
Obligations under finance leases		25,105	20,332
Deferred tax liabilities		7,590	7,009
Derivative financial instruments		1,079	617
Scheme of Control (SoC) reserve accounts	16	1,509	1,654
Other non-current liabilities		1,276	1,074
		<u>73,366</u>	<u>63,225</u>
<b>Equity and non-current liabilities</b>		<u>153,124</u>	<u>134,093</u>

Notes:

## 1. General Information

The Company is a limited liability company incorporated in Hong Kong and listed on the Stock Exchange of Hong Kong. The principal activity of the Company is investment holding, whilst the principal activities of the subsidiaries are the generation and supply of electricity in Hong Kong, Australia and India, and investment holding of power projects in the Chinese mainland, Southeast Asia and Taiwan.

The financial operations of the Company's major subsidiary, CLP Power Hong Kong Limited (CLP Power Hong Kong), and its jointly controlled entity, Castle Peak Power Company Limited (CAPCO), are governed by a SoC entered with the Hong Kong Government. Our electricity business in Hong Kong is therefore also referred to as the SoC business.

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2010 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

## 2. Changes in Accounting Policies

The Group has adopted the following new/revised Hong Kong Financial Reporting Standards (HKFRS) for the first time for the financial year beginning 1 January 2010:

- HKAS 27 (Revised) "Consolidated and Separate Financial Statements"
- HKFRS 3 (Revised) "Business Combinations"
- HK(IFRIC)-Int 17 "Distribution of Non-cash Assets to Owners"
- HK-Int 5 "Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause"
- Amendment to HKAS 39 "Eligible Hedged Items"
- Improvements to HKFRS published by HKICPA in May 2009 (including HKAS 17 (amendment))

Apart from the effects of adopting HKAS 17 (amendment) as stated below, the adoption of these new/revised standards and interpretations has no significant impact on the Group's financial statements.

HKAS 17 (amendment), "Leases", deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards of ownership of an asset to the lessee. Prior to the amendment, land has been classified as under an operating lease when the title to that land is not expected to pass to the Group at the end of the lease term.

The Group has reassessed the classification of leases of land as at 1 January 2010. As a result of the reassessment, the Group has reclassified certain leasehold land in Hong Kong from under operating lease to finance lease. As the leasehold land is held for own use, it is classified as fixed assets on the statement of financial position and is depreciated over the unexpired term of the lease.

## 2. Changes in Accounting Policies (continued)

HKAS 17 (amendment) has been applied retrospectively with comparatives restated. The effect of the resulting changes on the consolidated statement of financial position is summarised below. There are no effects on the consolidated income statement and the consolidated statement of comprehensive income.

	<b>At 31 December 2010 HK\$M</b>	At 31 December 2009 HK\$M	At 1 January 2009 HK\$M
Increase in fixed assets	412	494	543
Decrease in leasehold land and land use rights under operating leases	<u>(412)</u>	<u>(494)</u>	<u>(543)</u>
Change in net assets	<u>-</u>	<u>-</u>	<u>-</u>

## 3. Critical Accounting Estimates and Judgments

The Australian Climate Change Policy as stated in the 2009 Annual Report is updated with the latest development.

### Australian Climate Change Policy

#### Introduction

Recent developments in climate change policy in Australia pose potentially significant financial risks to the Group's business in Australia. The position up to 31 December 2009 was disclosed on pages 153 and 154 of the 2009 Annual Report.

#### Background

The Carbon Pollution Reduction Scheme (CPRS) version that was amended in November 2009, following discussions with the Opposition, was reintroduced a third time to the Parliament in February 2010. The bill was passed by the House of Representatives however the legislation did not progress to a vote in the Senate.

On 27 April 2010, the Australian Government announced that they did not intend to reintroduce the CPRS bill again before 2012. Slow progress towards a comprehensive global agreement as well as continued opposition domestically was cited as reasons for the delay. On 27 September 2010 the Australian Government announced the membership and terms of reference for the new Multi-Party Climate Change Committee (the "Committee") to explore options for the introduction of a carbon price (as the starting position of the Committee). The Committee is scheduled to report to the Cabinet at the end of 2011 with a range of possible policy positions.

### 3. Critical Accounting Estimates and Judgments (continued)

#### Australian Climate Change Policy (continued)

##### Potential Implications for TRUenergy

The possible introduction of climate change legislation may have a significant impact on TRUenergy's business, in particular on the Yallourn brown coal-fired generation business. It may result in a significant impairment of the business due to either a reduction in the earnings from a combination of reduced output and increased costs not fully offset by higher electricity prices and/or a reduction in the useful life of the asset.

Uncertainty remains regarding the timing and structure of any climate change legislation. As such, the introduction of climate change legislation presents an unquantifiable, but potentially material risk to the Group. At 31 December 2010, no impact of climate change legislation has been reflected in the Group's financial statements (including impairment model cash flows, assumptions on discount rate, asset useful lives, outage rates and capital expenditure) on the basis that there is currently uncertainty in relation to the likely structure, timing and impact of any climate change legislation. The carrying amount of the Yallourn power station assets, which comprised a single cash generating unit, was A\$1,656 million or HK\$13,103 million at 31 December 2010 (2009: A\$1,662 million or HK\$11,592 million). Other parts of the Group in Australia may also be impacted adversely or favourably.

### 4. Revenue

An analysis of the Group's revenue is as follows:

	<b>2010</b>	2009
	<b>HK\$M</b>	HK\$M
Sales of electricity	<b>49,462</b>	42,754
Lease service income	<b>1,889</b>	2,327
Finance lease income	<b>363</b>	368
Sales of gas	<b>5,792</b>	4,775
Other revenue	<b>980</b>	587
	<b>58,486</b>	50,811
Transfer for SoC (note)	<b>(76)</b>	(143)
	<b>58,410</b>	50,668

Note: Under the SoC, if the gross tariff revenue in Hong Kong in a period is less than or exceeds the total of the SoC operating costs, permitted return and taxation charges, such deficiency shall be deducted from, or such excess shall be added to, the Tariff Stabilisation Fund under the SoC. In any period, the amount of deduction from or addition to Tariff Stabilisation Fund is recognised as revenue adjustment to the extent that the return and charges under the SoC are recognised in profit or loss.

## 5. Segment Information

The Group operates, through its subsidiaries, jointly controlled entities and associated companies, in five major geographical regions – Hong Kong, Australia, the Chinese mainland, India, and Southeast Asia and Taiwan. In accordance with the Group's internal organisation and reporting structure, the operating segments are based on geographical regions. Substantially all the principal activities of the Group in each region are for the generation and supply of electricity which are managed and operated on an integrated basis.

Information about the Group's operations by geographical region is as follows:

	Hong Kong HK\$M	Australia HK\$M	Chinese Mainland HK\$M	India HK\$M	Southeast Asia & Taiwan HK\$M	Unallocated Items HK\$M	Total HK\$M
<b><i>For year ended 31 December 2010</i></b>							
Revenue	30,281	25,182	305	2,578	59	5	<b>58,410</b>
Operating profit/(loss)	9,252	2,793	412	374	5	(439)	<b>12,397</b>
Finance costs	(3,115)	(831)	(49)	(198)	-	(19)	<b>(4,212)</b>
Finance income	1	52	1	46	-	1	<b>101</b>
Share of results, net of income tax							
Jointly controlled entities	1,159	(287)	816 <sup>(a)</sup>	-	392	-	<b>2,080</b>
Associated companies	-	9	804 <sup>(a)</sup>	-	-	-	<b>813</b>
Profit/(loss) before income tax	7,297	1,736	1,984	222	397	(457)	<b>11,179</b>
Income tax (expense)/credit	(1,004)	395	(147)	(81)	(7)	-	<b>(844)</b>
Profit/(loss) for the year	6,293	2,131	1,837	141	390	(457)	<b>10,335</b>
Earnings attributable to non-controlling interests	-	-	(3)	-	-	-	<b>(3)</b>
Earnings/(loss) attributable to shareholders	6,293	2,131	1,834	141	390	(457)	<b>10,332</b>
Capital additions	11,577	1,880	965	5,763	-	37	<b>20,222</b>
Depreciation and amortisation	3,365	1,493	81	112	1	13	<b>5,065</b>
Impairment charge	-	170	17	17	-	-	<b>204</b>
<b><i>At 31 December 2010</i></b>							
Fixed assets	82,829	20,093	3,907	8,814	3	85	<b>115,731</b>
Interests in							
Jointly controlled entities	9,144	1,018	7,371	-	2,943	-	<b>20,476</b>
Associated companies	-	36	2,342	-	-	-	<b>2,378</b>
Deferred tax assets	-	4,146	64	-	-	-	<b>4,210</b>
Other assets	6,288	18,257	2,308	7,044	378	2,285	<b>36,560</b>
Total assets	98,261	43,550	15,992	15,858	3,324	2,370	<b>179,355</b>
Bank loans and other borrowings	25,603	10,815	2,288	5,917	-	-	<b>44,623</b>
Current and deferred tax liabilities	6,881	21	231	622	-	-	<b>7,755</b>
Obligations under finance leases	27,064	36	-	-	-	-	<b>27,100</b>
Other liabilities	10,615	6,376	244	2,650	4	230	<b>20,119</b>
Total liabilities	70,163	17,248	2,763	9,189	4	230	<b>99,597</b>

**5. Segment Information (continued)**

	Hong Kong HK\$M	Australia HK\$M	Chinese Mainland HK\$M	India HK\$M	Southeast Asia & Taiwan HK\$M	Unallocated Items HK\$M	Total HK\$M
<i>For year ended 31 December 2009</i>							
Revenue	28,484	19,166	180	2,786	43	9	50,668
Operating profit/(loss)	8,689	1,752	(100)	756	163	(413)	10,847
Finance costs	(2,673)	(666)	(35)	(82)	-	(21)	(3,477)
Finance income	11	30	5	23	-	-	69
Share of results, net of income tax							
Jointly controlled entities	1,107	(40)	1,218 <sup>(a)</sup>	-	390	-	2,675
Associated companies	-	(354)	94 <sup>(a)</sup>	-	-	-	(260)
Profit/(loss) before income tax	7,134	722	1,182	697	553	(434)	9,854
Income tax expense	(989)	(349)	(70)	(251)	(6)	-	(1,665)
Profit/(loss) for the year	6,145	373	1,112	446	547	(434)	8,189
Loss attributable to non-controlling interests	-	-	7	-	-	-	7
Earnings/(loss) attributable to shareholders	6,145	373	1,119	446	547	(434)	8,196
Capital additions	6,105	1,349	239	2,111	3	30	9,837
Depreciation and amortisation	3,088	1,132	68	35	-	9	4,332
Impairment charge	-	264	19	16	-	-	299
<i>At 31 December 2009</i>							
Fixed assets	75,061	17,283	1,730	2,960	3	61	97,098
Interests in							
Jointly controlled entities	7,545	1,144	7,447	-	2,702	-	18,838
Associated companies	-	37	1,776	-	-	-	1,813
Deferred tax assets	-	3,291	64	-	-	-	3,355
Other assets	5,401	15,277	1,919	7,331	244	5,255	35,427
Total assets	88,007	37,032	12,936	10,291	2,949	5,316	156,531
Bank loans and other borrowings	22,429	11,155	784	3,063	-	2,000	39,431
Current and deferred tax liabilities	6,425	24	139	629	-	-	7,217
Obligations under finance leases	21,838	17	-	-	-	-	21,855
Other liabilities	9,939	4,804	1,263	965	3	186	17,160
Total liabilities	60,631	16,000	2,186	4,657	3	2,186	85,663

Note (a): In September 2009, the investment in Guangdong Nuclear Power Joint Venture Company, Limited (GNPJVC) has been reclassified from a jointly controlled entity to an associated company. Out of the total amount of HK\$1,620 million (2009: HK\$1,312 million), HK\$877 million (2009: HK\$784 million) was attributed to investments in GNPJVC and Hong Kong Pumped Storage Development Company, Limited, whose generating facilities serve Hong Kong.

**6. Other Income**

	<b>2010</b> <b>HK\$M</b>	2009 HK\$M
Gain on sale of a subsidiary (note)	<b>400</b>	-
Gain on sale of a jointly controlled entity	<u>-</u>	<u>153</u>
	<b><u>400</u></b>	<b><u>153</u></b>

Note: In April 2010, the Group sold its entire interest in CLP Power China (Anshun) Limited which held a 70% interest in Guizhou CLP Power Company Limited, a jointly controlled entity in the Chinese mainland, for a consideration of RMB750 million (HK\$852 million) resulting in a gain of HK\$400 million (including the release of translation reserve of HK\$91 million on the investment).

**7. Operating Profit**

Operating profit is stated after charging the following:

	<b>2010</b> <b>HK\$M</b>	2009 HK\$M
Auditors' remuneration		
Audit	<b>32</b>	27
Permissible non-audit services	<b>10</b>	10
Net loss on disposal of fixed assets	<b><u>183</u></b>	<b><u>172</u></b>

**8. Finance Costs and Income**

	<b>2010</b> <b>HK\$M</b>	2009 HK\$M
Finance costs		
Interest expenses on		
Bank loans and overdrafts	<b>1,103</b>	713
Other borrowings		
Wholly repayable within five years	<b>214</b>	165
Not wholly repayable within five years	<b>583</b>	450
Tariff Stabilisation Fund (note)	<b>3</b>	3
Customers' deposits, fuel clause over-recovery and others	<b>2</b>	-
Finance charges under finance leases	<b>2,471</b>	2,190
Other finance charges	<b>203</b>	207
Fair value (gain)/loss on derivative financial instruments		
Cash flow hedges, reclassified from equity	<b>(53)</b>	6
Fair value hedges	<b>54</b>	67
Gain on hedged items in fair value hedges	<b>(43)</b>	(56)
Other net exchange loss on financing activities	<b>168</b>	50
	<b><u>4,705</u></b>	<b><u>3,795</u></b>
Less: amount capitalised	<b>(493)</b>	(318)
	<b><u>4,212</u></b>	<b><u>3,477</u></b>
Finance income		
Interest income on short-term investments, bank deposits and fuel clause under-recovery	<b><u>101</u></b>	<b><u>69</u></b>

Note: CLP Power Hong Kong is required to credit, to a Rate Reduction Reserve in its financial statements, a charge of the average of one-month Hong Kong interbank offered rate on the average balance of the Tariff Stabilisation Fund under the SoC.

## 9. Income Tax Expense

Income tax in the consolidated income statement represents the income tax of the Company and subsidiaries and is analysed below:

	<b>2010</b>	2009
	<b>HK\$M</b>	HK\$M
Current income tax		
Hong Kong	<b>621</b>	613
Outside Hong Kong	<b>136</b>	151
	<u><b>757</b></u>	<u>764</u>
Deferred tax		
Hong Kong	<b>382</b>	376
Outside Hong Kong (note)	<b>(295)</b>	525
	<u><b>87</b></u>	<u>901</u>
	<u><b>844</b></u>	<u>1,665</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits for the year. Income tax on profits assessable outside Hong Kong has been provided at the rates prevailing in the respective jurisdictions.

Note: The amount included TRUenergy Holdings Pty Ltd (TRUenergy)'s tax consolidation benefit of HK\$989 million (A\$144 million) (2009: nil). Under the Australian tax consolidation regime, TRUenergy formed a tax consolidated group in 2005 whereby TRUenergy and its Australian-resident wholly-owned subsidiaries are treated as a single entity for income tax purpose. A tax consolidation benefit of HK\$2,004 million was recognised in 2005 pursuant to the then relevant rules. During 2010, certain amendments to the tax consolidation rules were enacted and can be applied retrospectively from 1 July 2002. These amendments allow deductions of tax cost bases for some assets (which were not allowed under the original legislation), and benefit the acquisition of Yallourn and Merchant Energy Business by TRUenergy tax consolidation group in 2005. As a result, additional deferred tax asset of HK\$989 million (A\$144 million) was recognised.

## 10. Dividends

	<b>2010</b>		2009	
	<b>HK\$</b>	<b>HK\$M</b>	HK\$	HK\$M
	<b>per share</b>		per share	
Interim dividends paid	<b>1.56</b>	<b>3,753</b>	1.56	3,753
Interim dividend declared/final dividend proposed	<b>0.92</b>	<b>2,214</b>	0.92	2,214
	<u><b>2.48</b></u>	<u><b>5,967</b></u>	<u>2.48</u>	<u>5,967</u>

At the Board meeting held on 24 February 2011, the Directors declared the fourth interim dividend of HK\$0.92 per share instead of final dividend as in previous years (2009: final dividend of HK\$0.92 per share). The fourth interim dividend is not reflected as dividends payable in the financial statements, but as a separate component of the shareholders' funds at 31 December 2010.



**11. Earnings per Share**

The earnings per share are computed as follows:

	<b>2010</b>	2009
Earnings attributable to shareholders (HK\$M)	<u><b>10,332</b></u>	<u>8,196</u>
Weighted average number of shares in issue (thousand shares)	<u><b>2,406,143</b></u>	<u>2,406,143</u>
Earnings per share (HK\$)	<u><b>4.29</b></u>	<u>3.41</u>

Basic and fully diluted earnings per share are the same as the Company did not have any dilutive equity instruments throughout the year ended 31 December 2010 (2009: nil).

**12. Fixed Assets and Leasehold Land and Land Use Rights under Operating Leases**

Fixed assets and leasehold land and land use rights under operating leases totalled HK\$117,460 million (2009: HK\$98,858 million). Included in fixed assets is plant under construction with book value of HK\$12,689 million (2009: HK\$7,825 million). Movements in the accounts are as follows:

**(A) Fixed Assets**

	<b>Land</b>		<b>Buildings</b>		<b>Plant, Machinery and Equipment</b>		<b>Total</b>
	<b>Freehold</b>	<b>Leased</b>	<b>Owned</b>	<b>Leased</b> <sup>(a)</sup>	<b>Owned</b>	<b>Leased</b> <sup>(a)</sup>	
	<b>HK\$M</b>	<b>HK\$M</b>	<b>HK\$M</b>	<b>HK\$M</b>	<b>HK\$M</b>	<b>HK\$M</b>	<b>HK\$M</b>
Net book value at							
1 January 2010	789	494	8,882	4,452	65,049	17,432	97,098
Acquisition of subsidiaries	-	-	903	-	289	-	1,192
Additions	6	-	1,135	1,774	11,848	5,259	20,022
Transfers and disposals	-	(71)	(25)	(28)	(220)	(141)	(485)
Depreciation	-	(11)	(203)	(291)	(2,935)	(1,329)	(4,769)
Impairment charge	-	-	-	-	(17)	-	(17)
Exchange differences	54	-	125	-	2,503	8	2,690
<b>Net book value at</b>							
<b>31 December 2010</b>	<u><b>849</b></u>	<u><b>412</b></u>	<u><b>10,817</b></u>	<u><b>5,907</b></u>	<u><b>76,517</b></u>	<u><b>21,229</b></u>	<u><b>115,731</b></u>
Cost	849	475	13,845	11,539	114,677	42,738	184,123
Accumulated depreciation and impairment	-	(63)	(3,028)	(5,632)	(38,160)	(21,509)	(68,392)
<b>Net book value at</b>							
<b>31 December 2010</b>	<u><b>849</b></u>	<u><b>412</b></u>	<u><b>10,817</b></u>	<u><b>5,907</b></u>	<u><b>76,517</b></u>	<u><b>21,229</b></u>	<u><b>115,731</b></u>

Note (a): These leased assets include mainly CAPCO's operational generating plant and associated fixed assets of net book value of HK\$27,065 million (2009: HK\$21,838 million), which are deployed for the generation of electricity supplied to CLP Power Hong Kong under the Electricity Supply Contract between the two parties. This arrangement has been accounted for as a finance lease in accordance with HK(IFRIC)-Int 4 and HKAS 17.

**(B) Leasehold Land and Land Use Rights under Operating Leases**

	<b>2010</b>
	<b>HK\$M</b>
Net book value at 1 January	<b>1,760</b>
Additions	<b>10</b>
Transfers and disposals	<b>(2)</b>
Amortisation	<b>(43)</b>
Exchange differences	<b>4</b>
<b>Net book value at 31 December</b>	<u><b>1,729</b></u>
Cost	<b>2,022</b>
Accumulated amortisation	<b>(293)</b>
<b>Net book value at 31 December</b>	<u><b>1,729</b></u>

**13. Trade and Other Receivables**

	<b>2010</b>	2009
	<b>HK\$M</b>	HK\$M
Trade receivables	<b>7,425</b>	6,150
Deposits and prepayments	<b>3,425</b>	2,593
Dividend receivables		
Jointly controlled entities	<b>160</b>	53
Associated companies	<b>48</b>	141
Current accounts with jointly controlled entities	<b>60</b>	81
	<b><u>11,118</u></b>	<u>9,018</u>

The Group has established credit policies for customers in each of its retail businesses. CLP Power Hong Kong's credit policy in respect of receivables arising from its principal electricity business is to allow customers to settle their electricity bills within two weeks after issue. Customers' receivable balances are generally secured by cash deposits or bank guarantees from customers for an amount not exceeding the highest expected charge for 60 days of consumption. For subsidiaries outside Hong Kong, the credit term for trade receivables ranges from about 30 to 60 days.

TRUenergy in Australia determines its doubtful debt provisioning by grouping together trade receivables with similar credit risk characteristics and collectively assessing them for likelihood of recovery, taking into account prevailing economic conditions. Future cash flows for each group of trade receivables are estimated on the basis of historical loss experience, adjusted to reflect the effects of current conditions. As a result of this credit risk assessment, virtually all of the credit risk groupings have been subject to some level of impairment. Receivable balances relating to known insolvencies are individually impaired.

The ageing analysis of trade receivables at 31 December based on invoice date is as follows:

	<b>2010</b>	2009
	<b>HK\$M</b>	HK\$M
30 days or below	<b>5,534</b>	5,511
31 – 90 days	<b>771</b>	459
Over 90 days	<b>1,120</b>	180
	<b><u>7,425</u></b>	<u>6,150</u>

Out of the amount aged over 90 days, HK\$647 million is related to an amount deducted by Gujarat Urja Vikas Nigam Ltd. (GUVNL) from Gujarat Paguthan Energy Corporation Private Limited (GPEC)'s January to March 2010 invoices and classified as trade receivables. Further details of this dispute can be found in Note 19(A).

**14. Trade and Other Payables**

	<b>2010</b>	2009
	<b>HK\$M</b>	HK\$M
Trade payables	<b>5,026</b>	3,243
Other payables and accruals	<b>4,807</b>	4,163
Current accounts with		
Jointly controlled entities	<b>1,425</b>	1,299
Associated companies	<b>86</b>	221
	<b><u>11,344</u></b>	<u>8,926</u>

The ageing analysis of trade payables at 31 December based on invoice date is as follows:

	<b>2010</b>	2009
	<b>HK\$M</b>	HK\$M
30 days or below	<b>4,828</b>	3,139
31 – 90 days	<b>87</b>	66
Over 90 days	<b>111</b>	38
	<b><u>5,026</u></b>	<u>3,243</u>

**15. Bank Loans and Other Borrowings**

	<b>2010</b>	2009
	<b>HK\$M</b>	HK\$M
Current		
Short-term bank loans	<b>1,161</b>	1,838
Long-term bank loans	<b>6,655</b>	5,054
	<b><u>7,816</u></b>	<u>6,892</u>
Non-current		
Long-term bank loans	<b>13,207</b>	15,370
Other long-term borrowings		
MTN programme (USD) due 2012 and 2020	<b>6,411</b>	2,523
MTN programme (HKD) due 2012 to 2030	<b>9,280</b>	8,520
MTN programme (JPY) due 2024	<b>1,433</b>	1,260
Electronic Promissory Notes (EPN) and		
MTN programme (AUD) due 2012 and 2015	<b>5,524</b>	4,866
U.S. private placement notes (USD) due 2020	<b>952</b>	-
	<b><u>36,807</u></b>	<u>32,539</u>
Total borrowings	<b><u>44,623</u></b>	<u>39,431</u>

**16. SoC Reserve Accounts**

The Tariff Stabilisation Fund and Rate Reduction Reserve of the Group's major subsidiary, CLP Power Hong Kong, are collectively referred to as SoC reserve accounts. The respective balances at the end of the year are:

	<b>2010</b>	2009
	<b>HK\$M</b>	HK\$M
Tariff Stabilisation Fund	<b>1,505</b>	1,653
Rate Reduction Reserve	<b>4</b>	1
	<b><u>1,509</u></b>	<u>1,654</u>

## 17. Reserves

	Capital Redemption Reserve HK\$M	(a) Translation Reserves HK\$M	Hedging Reserves HK\$M	Other Reserves HK\$M	Retained Profits HK\$M	Total HK\$M
Balance at 1 January 2010	2,492	3,866	562	725	49,921	57,566
Earnings attributable to shareholders	-	-	-	-	10,332	10,332
Other comprehensive income						
Exchange differences on translation of						
Subsidiaries	-	3,247	-	-	-	3,247
Jointly controlled entities	-	669	-	-	-	669
Associated companies	-	9	-	-	-	9
Cash flow hedges						
Net fair value gains	-	-	813	-	-	813
Reclassification adjustment for amount included in profit or loss	-	-	(176)	-	-	(176)
Transfer to assets	-	-	81	-	-	81
Tax on the above items	-	-	(130)	-	-	(130)
Available-for-sale investments						
Fair value gains	-	-	-	127	-	127
Tax on the above item	-	-	-	1	-	1
Share of other comprehensive income of jointly controlled entities	-	-	32	(30)	-	2
Reclassification adjustments						
Sale of a subsidiary	-	(91)	-	-	-	(91)
Acquisition of additional interest in a jointly controlled entity to become a subsidiary	-	(17)	-	-	-	(17)
Total comprehensive income attributable to shareholders	-	3,817	620	98	10,332	14,867
Revaluation reserve realised due to depreciation of fixed assets	-	-	-	(3)	3	-
Appropriation of reserves of jointly controlled entities	-	-	-	23	(23)	-
Dividends paid						
2009 final	-	-	-	-	(2,214)	(2,214)
2010 interim	-	-	-	-	(3,753)	(3,753)
<b>Balance at 31 December 2010</b>	<b>2,492</b>	<b>7,683</b>	<b>1,182</b>	<b>843</b>	<b>54,266</b> <sup>(b)</sup>	<b>66,466</b>

Notes:

- (a) Capital redemption reserve represents the nominal value of the shares repurchased which was paid out of the distributable reserves of the Company.
- (b) The fourth interim dividend declared for the year ended 31 December 2010 was HK\$2,214 million (2009: final dividend of HK\$2,214 million). The balance of retained profits after the fourth interim dividend of the Group was HK\$52,052 million (2009: HK\$47,707 million after the final dividend).

## 18. Commitments

On 14 December 2010 the Group entered into agreements with the New South Wales (NSW) Government to acquire the EnergyAustralia Retail, the Delta Western GenTrader Bundle and Project Sites for a total consideration of A\$2,035 million (HK\$16,099 million). The acquisition has a target completion date of 1 March 2011.

EnergyAustralia Retail is an energy retailing business with a customer base of approximately 1.5 million billable connections across the east coast of Australia. The acquisition of EnergyAustralia Retail does not include EnergyAustralia's electricity distribution network, which will continue to be owned and operated by the vendor. The EnergyAustralia Retail business consists of the customer accounts and associated assets, but does not include the transfer of employees or physical assets. The Group has entered into a Transitional Service Agreement with the vendor to ensure the smooth integration of EnergyAustralia customers into the TRUenergy business.

The Delta Western GenTrader Bundle comprises long-term exclusive off-take contracts to control the dispatch and buy the output of the black coal-fired power stations of Delta Electricity at Mount Piper and Wallerawang. The Mount Piper power station has a power generating capacity of 1,400MW and the Wallerawang power station has a capacity of 1,000MW. In accordance with the terms of the GenTrader contract, Delta Electricity will continue to own, operate and maintain the power stations and employ a workforce for these purposes while the Group has exclusive rights to trade the electricity for the anticipated life of each power station. The terms of the GenTrader contracts contain efficiency, availability and reliability targets, and liquidated damages would apply in the event that Delta Electricity does not meet contracted performance standards. The Group will make periodic payments to Delta Electricity ("Fixed and Variable Charges") which are intended to cover Delta Electricity's costs of operating and maintaining the stations, including capital expenditure.

The Project Sites are three development sites for potential new power station projects located at Marulan and Mount Piper. Development of power stations at these sites will be subject to obtaining all necessary licences and approvals, and future market conditions.

The acquisition offers an opportunity for the Group to strengthen its position in NSW, the largest energy market in Australia, and is in line with the Group's objective of building a diversified and integrated energy business.

The total consideration for the acquisitions is A\$2,035 million (HK\$16,099 million), which is subject to completion adjustments and, a contingent tax payment by TRUenergy of up to an additional A\$60 million (HK\$475 million) in the event of a favourable ruling by the Australian Tax Office on the treatment of the GenTrader payments.

In addition to the commitment stated above, the other commitments associated with NSW acquisition but not brought into the financial statements, will be payable as follows:

	<b>HK\$M</b>
Within 1 year	<b>1,618</b>
Between 1 and 5 years	<b>6,074</b>
Later than 5 years	<b>12,687</b>
	<b><u>20,379</u></b>

It is currently envisaged that the acquisitions will be funded at completion by a combination of approximately A\$1,200 million (HK\$9,493 million) of acquisition financing under new debt facilities taken out by TRUenergy and the remainder by a shareholder advance from the Company.

Subsequent to the execution of the agreement, a parliamentary inquiry into the sale of the NSW Government owned electricity assets was commenced. This inquiry is currently ongoing and is considered unlikely to delay the target completion date of 1 March 2011.

**19. Contingent Liabilities****(A) GPEC – Deemed Generation Incentive Payment and Interests on Deemed Loans**

Under the original power purchase agreement between GPEC and its off-taker GUVNL, GUVNL was required to make a “deemed generation incentive” payment to GPEC when the plant availability was above 68.5% (70% as revised subsequently). GUVNL has been making such payments since December 1997.

In September 2005, GUVNL filed a petition before the Gujarat Electricity Regulatory Commission (GERC) claiming that the “deemed generation incentive” payment should not be paid for the periods when the plant is declared with availability to generate on “naphtha” as fuel rather than on “gas”. GUVNL’s contention is based on a 1995 Government of India notification which disallowed “deemed generation incentive” for naphtha-based power plants. The total amount of the claim plus interest calculated up to June 2005 amounts to about Rs.7,260 million or HK\$1,259 million. GPEC’s position, amongst other arguments, is that the GPEC power station is not naphtha-based and therefore the Government of India notification does not apply to disallow the payments of the “deemed generation incentive”.

GUVNL also claimed that GPEC has wrongly received interest on “deemed loans” under the existing power purchase agreement. GUVNL’s claim rests on two main grounds: (i) GPEC had agreed that interest paid by GUVNL for the period from December 1997 to 1 July 2003 was to be refunded; and (ii) interest was to be calculated on a reducing balance rather than on the basis of a bullet repayment on expiry of the loan term. The total amount of the claim plus interest for the “deemed loans” amounts to a further Rs.830 million or HK\$144 million.

On 18 February 2009, the GERC made an adjudication on GUVNL’s claims. On the issue related to the payment to GPEC of “deemed generation incentive”, the GERC decided that the “deemed generation incentive” was not payable when GPEC’s plant was declared with availability to generate on naphtha. However, the GERC also decided that GUVNL’s claim against GPEC in respect of deemed generation incentive payments up to 14 September 2002 was time-barred under the Limitations Act of India. Hence, the total amount of the claim allowed by the GERC was reduced to Rs.2,896 million or HK\$502 million (2009: Rs.2,896 million or HK\$482 million). The GERC also dismissed GUVNL’s claim to recover interest on the “deemed loans”.

GPEC filed an appeal with the Appellate Tribunal for Electricity (ATE) against the decision of the GERC. GUVNL also filed an appeal in the ATE against an order of the GERC rejecting GUVNL’s claims on interest on deemed loans and the time barring of the deemed generation claim to 14 September 2002.

On 19 January 2010, the ATE dismissed both GPEC and GUVNL’s appeals and upheld the decision of the GERC. GPEC has filed an appeal against the ATE order in the Supreme Court of India. The appeal petition was admitted on 16 April 2010 but the next date of hearing has not yet been fixed by the court.

GUVNL has also filed a cross appeal challenging these parts of the ATE judgment which held that GUVNL’s claims before September 2002 were time barred and which disallowed its claims for interest on “deemed loans”

**19. Contingent Liabilities (continued)****(A) GPEC – Deemed Generation Incentive Payment and Interests on Deemed Loans (continued)**

Following the issue of the ATE's judgment, GUVNL deducted Rs.3,731 million or HK\$647 million from January to March 2010 invoices after adjustment for a previous deposit of Rs.500 million or HK\$87 million, which included tax on incentive relating to deemed generation on naphtha, and delayed payment charges on associated incentive calculated up to March 2010. The total amount of the claim plus interest and tax with respect to the "deemed generation incentive" is therefore revised to Rs.8,968 million or HK\$1,555 million.

On the basis of legal advice obtained, the Directors are of the opinion that GPEC has a strong case on appeal to the Supreme Court. In consequence, no provision has been made in the financial statements at this stage in respect of these matters.

**(B) Indian Wind Power Projects – Enercon's Contracts**

CLP Wind Farms (India) Private Limited, GPEC and CLP India group companies ("CLP India") have invested (or are committed to invest) in around 350MW of wind power projects to be developed with Enercon India Limited ("EIL"). EIL's major shareholder, Enercon GmbH, has commenced litigation against EIL claiming infringement of intellectual property rights. CLP India, as a customer of EIL, has been named as a pro-forma defendant. Enercon GmbH is also seeking an injunction restraining CLP India's use of certain rotor blades acquired from EIL. As at 31 December 2010, the Group considered that CLP India has good prospects of defending these claims and the legal proceedings are unlikely to result in any material outflow of economic benefits to the Group.

**20. Event after the End of the Reporting Period**

On 23 February 2011, the Company, CLP SEA Energy Limited (an indirect wholly-owned subsidiary of the Company), Mitsubishi Corporation (MC), Diamond Generating Asia, Limited (a wholly-owned subsidiary of MC) and OneEnergy Limited (OneEnergy) entered into the Reorganisation Agreement in relation to, inter alia, the reorganisation of the ownership structure of OneEnergy and the divestment of the Group's indirect shareholding in Electricity Generating Public Company Limited (EGCO).

Prior to the reorganisation, the Group had an effective interest of approximately 13.36% in EGCO. Following full implementation of the reorganisation, the Group will no longer hold any direct or indirect interest in EGCO. The consideration for the divestment of the Group's interest in EGCO is approximately US\$273 million (HK\$2,129 million), which is expected to exceed its book value. The Group is expected to recognise an estimated gain of approximately HK\$881 million.

Completion of the reorganisation is subject to, inter alia, (a) finalisation of the sale and purchase agreement and any other documentation as may be required for the implementation of the relevant step of the reorganisation; (b) all necessary approvals and consents, whether regulatory or governmental or otherwise, as may be required for the implementation of the relevant step of the reorganisation having been obtained; and (c) corresponding changes in board composition to reflect the changes in shareholding of the relevant company.

It is currently envisaged that the reorganisation will be fully implemented by 30 June 2011. If the reorganisation cannot be completed as contemplated by the parties for any reason, the parties have undertaken to remedy the situation in good faith, failing which the Company and MC will establish a 50:50 joint venture in respect of the total interests of approximately 24.57% in EGCO.

Following full implementation of the reorganisation, the Group will continue to hold the same level of effective interest in Ho-Ping Power Company and HPC Power Services Corporation, the latter being a company which principally provides operation and maintenance services to Ho-Ping Power Station.

## SUPPLEMENTARY INFORMATION ON TREASURY ACTIVITIES

The Group engaged in new financing activities in 2010 to support the expansion of our electricity business in Hong Kong and overseas. During the year, CLP Power Hong Kong arranged a total of HK\$5.6 billion new financing. This comprises US\$500 million (HK\$3.9 billion) 10-year fixed rate bond issuance at coupon rate of 4.75%, HK\$760 million Hong Kong dollar bonds issuances with tenors of 15 and 20 years at coupon rates of 3.41% and 3.60% respectively, and HK\$1.0 billion bank loan facilities.

TRUenergy in Australia negotiated reduced margins and improved terms on a A\$350 million 3-year credit facility in August 2010. In addition, TRUenergy arranged a total of US\$270 million 10 and 15-year bonds in the United States private placement market in December 2010, and has arranged for an issue in March 2011 of 8, 12 and 15-year bonds totalling a further US\$225 million. In India, Jhajjar Power Limited completed a US\$288 million refinancing for part of the existing Indian rupee project loan of the Jhajjar project with a group of five international and Chinese banks to better match construction payment currency and optimise funding cost.

As at 31 December 2010, financing facilities totalling HK\$78.1 billion were available to the Group, including HK\$37.1 billion for TRUenergy and subsidiaries in India. Of the facilities available, HK\$44.6 billion had been drawn down, of which HK\$16.7 billion relates to TRUenergy and subsidiaries in India. Facilities totalling HK\$85.3 billion were available to the Group and CAPCO, of which HK\$50.3 billion had been drawn down.

The Group's total debt to total capital ratio was 35.9% as at 31 December 2010 (2009: 35.7%), and was 33.3% (2009: 30.7%) after netting off bank balances, cash and other liquid funds as at 31 December 2010. The interest cover was 7 times (2009: 8 times).

CLP Holdings and CLP Power Hong Kong have maintained good investment grade credit ratings at A- (S&P) / A2 (Moody's) and A (S&P) / A1 (Moody's) with stable outlooks respectively up to December 2010. In December 2010 TRUenergy announced the successful bids for the acquisition of certain energy assets in New South Wales (NSW), Australia. Following the announcement, S&P and Moody's placed the credit ratings of CLP Holdings and CLP Power Hong Kong on watch with possible downgrade while they perform a credit rating review. This is to be expected after a major acquisition. We are working closely with S&P and Moody's to explain the implications of this acquisition and TRUenergy's financial position as these assets are integrated with TRUenergy's existing business.

In June and July 2010, when Moody's re-affirmed the A1 and A2 credit ratings of CLP Power Hong Kong and CLP Holdings respectively with stable outlooks, Moody's said the rating of CLP Holdings reflects the strong and predictable cash flows generated from CLP Power Hong Kong, a sound liquidity profile supported by CLP Holdings' ability to access the domestic and international bank and capital markets, and an appropriately managed debt maturity profile. The rating also takes into account CLP's prudent and gradual approach in pursuing overseas expansion. In December, Moody's opined that the majority debt-funded nature of the NSW acquisition, which follows CLP's intention to co-invest in Yangjiang Nuclear Power Station, could weaken CLP Holdings' consolidated financial profile; and referred to the challenges in the potential integration of the NSW assets. That said, Moody's considered that the NSW acquisition would strategically enhance TRUenergy's overall scale and market position, as well as providing immediate diversity benefit through economies of scale. Moody's considered that the credit ratings of CLP Power Hong Kong and CLP Holdings are closely linked, and that the ratings of CLP Power Hong Kong will be dependent on the outcome of the rating review of CLP Holdings on the NSW acquisition.

In June 2010, when S&P re-affirmed the A and A- credit ratings of CLP Power Hong Kong and CLP Holdings respectively with stable outlooks, S&P commented that the rating of CLP Holdings reflects the strength of its dominant asset, CLP Power Hong Kong operating in a stable and favourable regulatory environment, having a strong market position in its service area and strong financial flexibility in a tight credit market. In December, S&P expressed concerns that the NSW acquisition might increase CLP Holdings' leverage and could weaken its balance sheet and liquidity, depending on how CLP Holdings finances its A\$835 million equity contribution to the NSW acquisition. However, S&P opined that CLP Holdings' liquidity still remains adequate although its near-term liquidity would be stretched by this acquisition. S&P noted uncertainty over the acceleration of payouts from CLP Power Hong Kong to the



CLP Holdings following the NSW acquisition, and whether CLP Power Hong Kong would alter the current dividend policy to help ease the cash flow pressure on CLP Holdings in the next few years.

In July 2010, S&P raised the credit rating of TRUenergy Holdings from BBB- to BBB with stable outlook. According to S&P, the rating action follows an abatement of TRUenergy's debt-refinancing risks; its strong operations and improved financial profile; the Australian Government's deferral of the proposed Carbon Pollution Reduction Scheme; lenders' willingness to support TRUenergy's business strategy; and CLP Holdings' continued support to TRUenergy. S&P has not taken any rating action on TRUenergy following its acquisition of NSW energy assets in December 2010.

The Group's investments and operations have resulted in exposures to foreign currency risks, interest rate risks, credit risks and price risks associated with the sales and purchases of electricity in Australia. We actively manage such risks by using different derivative instruments with an objective of minimising the impact of exchange rate, interest rate and electricity price fluctuations on earnings, reserves and tariff charges to customers. Other than limited energy trading activities engaged by TRUenergy, all derivative instruments are employed solely for hedging purposes.

The fair value of the Group's outstanding derivative instruments as at 31 December 2010 was at a surplus of HK\$2,334 million, which represents the net amount we would receive if these contracts were closed out at 31 December 2010.

As at 31 December 2010, the Group had gross outstanding derivative instruments amounting to HK\$125.9 billion.

## **CORPORATE GOVERNANCE**

Since February 2005, the Company has adopted its own Code on Corporate Governance (the CLP Code). This incorporates all of the Code Provisions and Recommended Best Practices in the Stock Exchange's Code on Corporate Governance Practices (the Stock Exchange Code), save for the single exception regarding quarterly financial results which is specified and explained in our Corporate Governance Report, as part of our Annual Report. CLP has also applied all of the principles in the Stock Exchange Code. The manner in which this has been done is set out in the CLP Code and the Corporate Governance Report.

CLP's only deviation from the Recommended Best Practices relates to the recommendation that an issuer should announce and publish quarterly financial results. The reason is a judgment that, as a matter of principle and practice, quarterly reporting does not bring significant benefits to shareholders. Quarterly reporting encourages a short-term view of a company's business performance. CLP's activities do not run and should not fall to be disclosed and judged on a three month cycle. Preparation of quarterly reports also costs money, including the opportunity cost of board and management time spent on quarterly reporting. CLP's position is set out on our website. We do, however, issue quarterly statements which set out key financial and business information such as revenue, electricity sales, dividends and progress in major business activities.

Throughout the year, the Company met the Code Provisions as set out in the Stock Exchange Code contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong. Details of the continuing evolution of our corporate governance practices in 2010 are set out in the Corporate Governance Report.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the financial statements for the year ended 31 December 2010. It has also reviewed the findings and opinion of Group Internal Audit and management on the effectiveness of the Company's system of internal control. All of the Audit Committee members are appointed from the Independent Non-executive Directors, with the Chairman, Professor Judy Tsui and Mr. Nicholas C. Allen having appropriate professional qualifications and experience in financial matters.

Since 1989, the Company has adopted its own Code for Securities Transactions by Directors, largely based on the Model Code set out in Appendix 10 of the Listing Rules. Our Code is periodically updated to reflect new regulatory requirements, as well as our strengthened regime of disclosure of interests in our securities. This Code is on terms no less exacting than the required standard set out in the Model Code. All Directors have confirmed, following specific enquiry by the Company, that throughout the year ended 31 December 2010 they complied with the required standard set out in the Model Code and our own Code for Securities Transactions.

We have voluntarily extended the ambit of the CLP Code for Securities Transactions to cover Senior Management (comprising the 12 managers, whose biographies are set out in the Annual Report and on CLP's website) and other "Specified Individuals" such as senior managers in the CLP Group. Members of the Senior Management have all confirmed, following specific enquiry by the Company, that throughout the year ended 31 December 2010 they complied with the required standard set out in the Model Code and CLP Securities Code.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES**

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the year ended 31 December 2010.

### **FOURTH INTERIM DIVIDEND**

Shareholders were advised by a letter and an announcement on the websites of the Stock Exchange of Hong Kong and the Company on 7 January 2011 of an improvement in dividend payment arrangements. With effect from the fourth quarter of 2010, the Company will pay four interim dividends instead of three interim dividends and a final dividend. A fourth interim dividend will be paid in lieu of a final dividend. The total amount of dividends paid to shareholders over the year will be the same with four interim dividends as it would be with three interim dividends and a final dividend.

Today, the Board of the Company declared the fourth interim dividend for 2010 at HK\$0.92 per share (2009 final dividend: HK\$0.92 per share). This fourth interim dividend will be payable on all shares of HK\$5.00 each in issue as at the close of business on 16 March 2011 after deducting any shares repurchased and cancelled up to the close of business on 16 March 2011. As at 31 December 2010, 2,406,143,400 shares of HK\$5.00 each were in issue. The fourth interim dividend of HK\$0.92 per share will be payable on 28 March 2011 to shareholders registered as at 17 March 2011. The payment of the new fourth interim dividend is one month earlier than the former final dividend which was usually paid in April after the Company's annual general meeting.

The Register of Shareholders will be closed on 17 March 2011. To rank for the fourth interim dividend, all transfers should be lodged with the Company's Registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 16 March 2011.

### **ANNUAL GENERAL MEETING**

The thirteenth Annual General Meeting (AGM) will be held at the Jockey Club Auditorium, The Hong Kong Polytechnic University, Hung Hom, Kowloon, Hong Kong on Thursday, 12 May 2011, at 11:00 a.m. The Notice of AGM will be published on the websites of the Company and the Stock Exchange of Hong Kong Limited and despatched to Shareholders on or about 28 March 2011.

To facilitate the processing of proxy voting, the Register of Shareholders will be closed from 10 May 2011 to 12 May 2011, both days inclusive, during which period the registration of transfers of shares will be suspended. To be entitled to attend and vote at the AGM, all transfers should be lodged with the Company's Registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Monday, 9 May 2011.

By Order of the Board  
**April Chan**  
Company Secretary

Hong Kong, 24 February 2011

*The Company's Annual Report containing the Directors' Report and Financial Statements for the year ended 31 December 2010 will be published on the Company's website at [www.clpgroup.com](http://www.clpgroup.com) and the website of the Stock Exchange of Hong Kong on or about 10 March 2011. The Annual Report, the CLP Group Sustainability Report and the Notice of Annual General Meeting will be despatched to shareholders on or about 28 March 2011. All of these will be made available on the Company's website.*

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## **CLP Holdings Limited**

**(incorporated in Hong Kong with limited liability)**

(Stock Code: 00002)

**Non-executive Directors:** The Hon. Sir Michael Kadoorie, Mr. William Mocatta, Mr. R. J. McAulay, Mr. J. A. H. Leigh, Mr. I. D. Boyce, Dr. Y. B. Lee and Mr. Paul A. Theys  
(Mr. Neo Kim Teck as his alternate)

**Independent Non-executive Directors:** The Hon. Sir S. Y. Chung, Mr. V. F. Moore, Mr. Hansen C. H. Loh, Professor Judy Tsui, Sir Rod Eddington and Mr. Nicholas C. Allen

**Executive Directors:** Mr. Andrew Brandler, Mr. Peter P. W. Tse and Mr. Peter W. Greenwood