# Announcement of Interim Results as from 1 January 2010 to 30 June 2010, Dividend Declaration and Closure of Books

## Financial Highlights

- Group operating earnings before one-off items for the first half of 2010 increased by 23.1% to HK$4,435 million, while total earnings (including one-off items) increased 83.0% to HK$5,921 million. The one-off items included a tax consolidation benefit from Australia of HK$989 million.
- Consolidated revenue rose by 17.5% to HK$27,618 million.
- Earnings from our electricity business in Hong Kong increased by 3.0% to HK$3,014 million, with revenue up by 5.3% to HK$13,669 million.
- Earnings from our businesses outside Hong Kong and other earnings rose by 82.6% to HK$1,654 million.
- Second interim dividend of HK$0.52 per share.

## CHAIRMAN'S STATEMENT

In our Interim Report, as was the case with our Annual Report 2009, we explain how our business performance stems from the implementation of a clear business strategy. This strategy rests on a firm set of values, an objective analysis of the abilities of the Company and a determination to manage effectively the relationships with key stakeholders, ranging from employees, customers, governments and capital providers, on whose continued support, trust and confidence we rely.

When I wrote to you in last year's Interim Report, the world was experiencing extremely challenging economic and market conditions as governments, regulators, financial institutions and businesses grappled with the consequences of the financial turmoil which had started towards the end of 2008.

CLP, no more than any other major international business, was not immune from the impact of depressed and difficult economic conditions, even if, as I said at that time, our prudent financial management and strong balance sheet meant that we were well positioned to ride out the storm. Twelve months later, we have emerged into calmer financial waters, albeit that the risk of further market disruption or dislocation arising from instability in the Euro zone and the implications of government-led austerity measures, especially in western Europe cannot yet be fully ascertained.

Delivering strong financial results

CLP's financial results for the first half of 2010 reflect both an underlying improvement in overall operating conditions, as well as the ongoing and careful implementation of our strategy of 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 the Chinese mainland, Australia, India and Southeast Asia, always with an eye on our environmental objectives.

The Group's operating earnings for the first half of 2010 were HK$4,435 million, an increase of 23.1% compared with the corresponding period in 2009. The Group's total earnings, which include the tax consolidation benefit of HK$989 million from Australia and the gain on sale of our shareholding in CLP Power China (Anshun), which owns 70% interest in the Anshun II coal-fired power station in Guizhou Province, China, rose to HK$5,921 million, an increase of 83.0% over the first six months of 2009.

This increase in earnings reflected a growing contribution from most of our business streams. In both percentage and absolute terms, the strongest performer in the first half of 2010 came from our portfolio of investments in the Mainland, where we benefited significantly from the improved performance of our Fangchenggang power station. This performance reflected the strong upturn in electricity demand as China's economy rebounded, together with a fall in competing generation from hydro electric resources. Although the operating earnings from our Indian activities declined, this was predominantly due to the accounting treatment of net exchange losses on the translation of Pound Sterling and Euro receivables under the foreign exchange protection clause of the power purchase agreement (PPA) for our Gujarat Paguthan Energy Corporation Private Limited (GPEC) gas-fired power station. The underlying performance of our Indian business remains strong.

I was also encouraged by the continued improvement in earnings from TRUenergy, our energy business in Australia. Operating earnings increased by 126% compared to the corresponding period in 2009, building on the upward trajectory in the performance of that business which we have seen since 2007. In addition to the growth in operating earnings, the tax consolidation benefit of HK$989 million which results from amendments to tax consolidation rules will have the effect of increasing the amount available for tax deductions from profits made in future years from our Australia business.

In addition to the weight we have always attached to prudent financial management, the performance of the business in the first six months of 2010 was a demonstration of our commitment to operational excellence and to responsibility in managing the environmental aspects of our business.

Delivering on our commitments

During the past six months, we have seen substantial progress in the construction of a range of generating assets in different markets and involving quite different engineering and technical challenges. In Hong Kong, our Emissions Control Project, which will lead to substantial reductions in emissions of sulphur dioxide, nitrogen oxides and particulates from the Castle Peak "B" Power Station is well on the way towards completion by the end of this year. In India, our 1,320MW greenfield coal-fired power station project at Jhajjar is advancing well – despite the challenges of managing a large local workforce, in particular from a safety perspective, working in difficult climate conditions and to a tight programme. This has demanded the maximum effort from our India-based management resources, supported by expertise from across the Group. In the Mainland, we are completing construction of our first fully-owned wind project, at Qian'an in Jilin Province and our 330MW wholly-owned hydro project at Jiangbian in Sichuan Province remains on schedule for completion in 2011.

Mention of these last two projects leads me to the subject of environmental responsibilities. CLP now has investments in over 60 operating and committed renewable energy projects in Australia, Chinese mainland, Thailand and India. Within those projects, CLP's own shareholdings amount to over 2,000 equity MW. The scale of these investments has risen rapidly in recent years – as recently as 2005 CLP had interests in only about 230 equity MW of renewable energy. These investments are characterised not only by geographical spread but by the range of technologies which CLP is now applying. These include wind, hydro and biomass.

Most recently, CLP has been the driving force behind, and holds an effective 37.8% interest in, a 55MW solar farm in Thailand. Contracts for this project were signed and construction has commenced recently. On completion in early 2012 this will possibly be the largest solar energy project in Asia. Our wind energy portfolio started out in 2004 with a joint venture in a single project at Changdao in Shandong Province, Chinese mainland and our hydro presence grew from our first investment at Huaiji in 1998. I believe that, in similar vein, the experience gained in Thailand may provide a starting point for exploring further solar energy opportunities across the Group. In that regard, we are already considering potential projects in both India and Australia where we may be able to benefit from solar energy initiatives promoted by the central governments.

Our interests in clean energy are not restricted only to renewable energy itself. Our long-standing partnership with China Guangdong Nuclear Power Holding Company, Limited (CGNPC) established through our successful experience in working together on the Guangdong Daya Bay Nuclear Power Station is providing a platform for CLP to participate further in the growth of the Mainland's nuclear energy sector. For example, in July, we announced that CLP would be taking a 17% shareholding in the 6,000MW nuclear power station being constructed at Yangjiang in Guangdong Province. I can also foresee that, in the longer term, nuclear energy will play an increasing role in electricity generation in the Southern China region.

In the conclusion to my Chairman's Statement to last year's Interim Report, I explained that CLP had tackled the challenges of the global economic downturn squarely and effectively. I expressed confidence that CLP remained well-positioned and well-prepared to exploit the opportunities available to us across our various business streams. I believe that you will find that our Interim Report 2010 describes a Company which has lived up to those commitments, has delivered a strong performance in the first six months of 2010 and is on course to deliver value to its shareholders through the remainder of the year.

**The Hon. Sir Michael Kadoorie**

## PERFORMANCE

We deploy our experience and expertise to maximise the performance of our assets and investments to realise our strategy. This section describes CLP's operational performance in Hong Kong, Australia, the Chinese mainland, India and Southeast Asia and Taiwan over the first six months of 2010.

### Electricity Business in Hong Kong

In the first half of 2010, local electricity sales were 14,202 gigawatt hours (GWh), an increase of 2.6% over the same period last year. This was mainly due to the economic recovery and a relatively higher humidity level in January, February and April, leading to higher load demand.

A breakdown of the local sales growth by sector during the period is as follows:

| | Increase | As Percentage of Total Local Sales |
|---|---|---|
| Residential | 3.2% | 25.6% |
| Commercial | 2.5% | 41.9% |
| Infrastructure & Public Services | 2.0% | 25.9% |
| Manufacturing | 3.3% | 6.6% |

*Note: The method of allocating sales between sectors was refined in July 2009. Since the adjustments were only made between the sectors, there was no impact to the total local sales. To enable like-to-like comparison, previous monthly sector sales have been revised using the new method so as to present the sales growth in a consistent manner.*

Sales to the Chinese mainland amounted to 1,433GWh, representing a reduction by 13.3% as compared to the same period last year. This was primarily due to lower contract volume with Guangdong Power Grid Corporation for 2010 compared with 2009.

Total electricity sales, including both local sales and sales to the Chinese mainland, increased by 0.9% over the period to 15,635GWh.

There was a 2.6% average net tariff increase with effect from 1 January 2010. This was the result of an increase of 2.6 cents in basic tariff, partially offset by a reduction of 0.3 cents in the fuel clause charge due to the downward movement of coal prices in 2009. The basic tariff, after this adjustment, is still lower than it was 10 years ago and remains the lowest in Hong Kong. The tariff adjustment will enable CLP to fund projects that will help improve environmental performance and support infrastructure developments in Hong Kong. We continue to work hard to ensure our customers enjoy a stable and competitive tariff through stringent cost control and the enhancement of operational efficiency.

In order to enhance its quality supply and reliability and to provide for demand created by infrastructure development projects, CLP incurred HK$3,425 million of capital expenditure in generation, transmission and distribution networks, as well as customer services and other supporting facilities during the period. Major projects included Castle Peak "B" Emissions Control Project, construction of new transmission substations on Lantau Island and in Southeast Kowloon, replacement of oil-filled cables and improvement of the 400kV overhead line network.

Progress continues to be made with Mainland oil companies on the implementation of gas supply projects to secure the three gas sources highlighted in the Memorandum of Understanding (MOU) signed between the Central People's Government and Hong Kong SAR Government in August 2008. Negotiations on long-term gas supplies and front end activities for the development of required infrastructure are underway. The Environmental Permit for the Hong Kong section of the pipeline between Dachan Island and Black Point Power Station was awarded on 25 May 2010. Ensuring the necessary infrastructure and commercial agreements are in place remains a key focus for the Hong Kong business as the current gas supply approaches the end of its life.

Construction and commissioning work is progressing well on the Castle Peak "B" Emissions Control Project. The equipment being added to the four Castle Peak "B" units will reduce the output of nitrogen oxides ($NO_x$), sulphur dioxide ($SO_2$), and particulate matter. Two of the four units have now had the full package of emissions reduction equipment installed, and a third unit is currently undergoing installation work. The last remaining unit already has part of the equipment installed and is expected to be completed around the end of this year. Good progress has been made in time to help achieve the Hong Kong Government's 2010 target for emission reduction.

Following the issue of an environmental permit for the development of an offshore wind farm in Hong Kong, preparations are being made to collect environmental and engineering data at the proposed site through the construction and installation of a data collection mast. A project management team has been assembled to take this initiative forward with a target mast installation date set for the second half of 2011.

We continually strive to improve customer services to our 2.3 million customer accounts in Hong Kong. Our record attests to that, with the latest survey showing our customer satisfaction level positioned well above benchmarked utilities.

Work continues on the promotion and development of electric vehicles (EV) in Hong Kong. CLP implemented a trial plan to install standard EV charging stations in 21 public car parks which has now been completed. A major milestone was reached when CLP launched Hong Kong's first EV Quick Charger which facilitates quicker charging compared with standard EV charging stations. In addition, CLP has received the first batch of 10 EVs from Mitsubishi and is currently testing them in our business.

CLP is always at the forefront of adopting innovative technologies to deliver electricity more reliably while adding new values to customers in particular on energy conservation and efficiency. One of the initiatives is the development of a smart grid. Smart grid is an aggregate of the latest automation and information technologies on an integrated digital architecture that enable the real time monitoring and intelligent control of the power grid, distributed renewable generation and customers' appliances. A number of smart grid projects are being implemented. These include the installation of on-line condition monitoring systems on major transmission network equipments and the commissioning of the Company's first digital transmission substation by 2012. Also in progress are pilot projects on advanced metering infrastructure (AMI) and smart meters in selected residential buildings in order to explore their potential in helping customers to save electricity. To promote the benefits of a smart grid to the general public, a Smart Grid Demonstration Centre is being established to showcase the related technologies.

**Energy Business in Australia**

Yallourn Power Station's gross generation was 1.6% above budget for the first half of 2010. The major outage on unit 3 was completed in early June with all significant planned work completed. The output and efficiency of the unit has increased by more than 3% due to the replacement of the High Intermediate Pressure turbine and other refurbishment and improvement works. The outlook for Yallourn generation is continued base load operation in line with budget and preparation for the unit 4 major outage in the first half of 2011.

Throughout the first six months of 2010, gross generation from the Tallawarra Power Station was 18% above budget. Tallawarra's reliability was unfavourable to budget with a forced outage rate of 3.6% against a year-to-date target of 3%.

As a fast-start, peaking power station with a capacity factor typically below 3%, the key operating requirement for Hallett Power Station is start reliability to generate during peak price periods when power demand is high. In the first half of 2010, Hallett achieved a start reliability of 98.5% against a target of 96%. The project to increase the output of Hallett by fogging the air inlet of the plant's gas turbines was completed and has exceeded the objective of increasing capacity by 20MW at ambient temperatures above 40℃. The outlook for Hallett is for continued low capacity factor and high levels of start reliability. An additional gas turbine, which will increase plant capacity by 20MW, is expected to be operational by the end of 2010.

Throughout the first half of 2010, Iona Gas Plant utilisation was 29% against a budget of 32%. Availability of the plant was 91.8%, unfavourable to plan at 94% due to additional outages to complete the expansion project works. The Iona Gas Plant expansion project, which added a second gas processing train, achieved a major milestone on 12 March with the first gas flow. The first stage of commissioning of Train 2 was completed on 29 March and increased Iona's Gas Plant capacity from 320 terajoules a day to more than 400 terajoules a day. The plant expansion to 500 terajoules per day was completed in the second quarter with the commissioning of two new compressors.

TRUenergy's Retail Profit Improvement Programme continued to make good progress in the first half with the overall programme on track to achieve or exceed its target in the 2010 business plan. The focus during the first six months of the year has been on prioritising key initiatives, such as credit measures to continue to reduce bad debt.

Project Odyssey, TRUenergy's new retail customer service and back office information technology platform, continues to be challenging and at the end of June was behind schedule.

While key user training has commenced and IBM continues to execute Systems Integration Testing with 30% of test cases passed at the end of June, testing progress is slower than planned. Customer billing testing has also commenced producing 94% of bills when processing 100,000 customer accounts. Billing accuracy testing (comparing Odyssey produced bills to current bills) has also commenced.

Project suppliers IBM and Oracle have added significant additional resources to the project and TRUenergy has also escalated the project within IBM USA to ensure a revised and realistic schedule is set and can be met.

In March 2010 TRUenergy Solar Solutions was launched – a solar hot water business providing in home assessments, advice, support and installation of solar hot water systems for customers. TRUenergy Solar Solutions is part of the Energy Management Initiative, a dedicated team to implement our response to the increasing demand for energy efficiency products and services. The Solar Solutions offer has now been extended with a roof top solar power pilot programme underway in metropolitan Melbourne for residential customers.

Roaring 40s 111MW Waterloo Wind Farm project in South Australia is under construction and on track to be commissioned in the fourth quarter of 2010. The first of 37 turbines were installed during June.

In May the Australian Government announced that TRUenergy's proposal to build a solar plant of up to 180MW in Victoria using commercially proven thin-film photovoltaic modules developed by U.S. company, First Solar, had been shortlisted under the Solar Flagships programme. TRUenergy is now conducting a detailed feasibility study to confirm and optimise the final parameters of the plant, including the specific location and size. The announcement of final selected projects by the Government is expected in early 2011.

On 27 April 2010, the Australian Government announced that it would defer its emissions trading scheme, known as the Carbon Pollution Reduction Scheme, until after the conclusion of the current Kyoto commitment period, at the end of 2012.

On 24 June the Australian Prime Minister, Kevin Rudd, called a Labor Party leadership contest. The Deputy Prime Minister, Julia Gillard, was elected unopposed as the new leader and subsequently sworn in as Prime Minister.

On 17 July Prime Minister Gillard announced that an election would be held on 21 August 2010. The new Prime Minister has stated that the Government remains committed to a price on carbon and that community consensus would need to be reached on emissions trading before implementation. On 7 July the Prime Minister reaffirmed the 2012 timeframe for consideration of an emissions trading scheme.

The Opposition continues to advocate a direct action policy to reduce carbon emissions.

Changes to the structure of the 20% Renewable Energy Target were passed by the Australian Parliament on 25 June. The amendments, which were announced by the Government in February, split the scheme into a large-scale renewable energy target and a small-scale renewable energy scheme and are effective from 1 January 2011. The new structure was developed in response to the fall in the price of Renewable Energy Certificates (RECs), which was largely attributed to the major uptake of residential solar hot water systems. The lower REC prices had discouraged investment in large-scale renewable projects and the changes are intended to provide greater investment certainty.

The New South Wales (NSW) Government confirmed it is continuing with its electricity reform plan with data rooms for bidders opening on 1 July. The process will include the sale of three retail businesses, four gentrader (tolling agreements with existing black coal generators) contracts and seven power station development sites. The government has indicated that binding bids for assets are due by 1 November 2010. TRUenergy is continuing to assess the opportunity.

The Victorian Government's AMI programme is on track to achieve its next roll-out target of 10% of small customers having a smart meter by the end of 2010. The government introduced a moratorium on the introduction of new Time Of Use tariffs until the end of 2010 while the likely impact is assessed. TRUenergy preparations are also on track with the AMI team recently completing key deliverables and achieving critical milestones, including an assessment of the impact of AMI on customer profitability and pricing.

**Chinese Mainland**

In March 2010, CLP completed the acquisition of a 32% shareholding in CGN Wind Power Company Limited (CGN Wind), a strategic joint venture with CGNPC to develop CGN Wind as a major platform for our future expansion in wind power projects in China. As at end of June 2010, the joint venture has a controlling generation capacity 1,768MW, of which 1,045MW under operation and 723MW under construction.

CLP signed an agreement with China Guodian Corporation on 13 April 2010 to sell CLP's entire interest in CLP Power China (Anshun) Limited which owns 70% interest in the 600MW Anshun II Power Station in Guizhou Province. The Anshun II project has a complicated, suboptimal ownership and operating structure which shared common facilities and despatch arrangements with the adjoining Anshun I (which was majority-owned by China Guodian Corporation). The divestment will streamline the operational efficiency of the two power plants and rationalise CLP's asset ownership in coal-fired projects in the Mainland.

Construction of the Jiangbian Hydro 3 x 110MW project in Sichuan is proceeding generally to plan, though we continue to face difficulties with poor rock quality in the extensive tunneling works that are required. Adverse weather and the remote location are also significant factors. We hope to have the plant in service in 2011. Our priority for this project is, and will continue to be, construction safety. We have acquired the remaining 35% equity interest of CLP Sichuan (Jiangbian) Power Company Limited from the local partner, Sichuan Basic Power Company Limited.

It has been possible to uprate the two Fangchenggang units from 600MW to 630MW. Demand in Guangxi has continued to grow following the economic recovery and production has been high so far this year. The plant has achieved good operational performance, but coal procurement is a challenge with electricity production being higher than plan and the market price of coal gradually increasing. Nevertheless, we have been able to import the necessary quantities of coal and the economic performance of the plant is favourable. We are exploring the possibility of adding two more units at Fangchenggang, using the available site area and infrastructure that was included in the first stage of the project.

Construction of CLP's first wholly-owned wind farm in China, Phase I of Qian'an wind farm (49.5MW) in Jilin Province, is proceeding as planned. The erection of all 33 wind turbines was completed in April, and preliminary testing was completed in June 2010. The project is expected to begin commercial operation in October 2010. We are also commencing construction of our second wholly-owned wind project, a 48MW wind farm at Penglai, Shandong Province. The scheduled commissioning date for the project is second quarter of 2011.

Since 1994, the Guangdong Daya Bay Nuclear Power Station has been supplying electricity to Hong Kong safely and reliably, establishing itself as a key player in supplying CLP's customers with reliable energy at virtually no emissions and on account of its impressive operational environmental and safety records. A minor operational matter occurred on 23 May at the Daya Bay Nuclear Power Station, which was unfortunately inaccurately reported by a number of media services. CLP, our partner CGNPC at

Daya Bay, the operator of the power station and the Ministry of Environmental Protection of China have all confirmed that this case had no impact on public safety, public health or the environment.

An investigation into the matter is in progress but preliminary assessment indicates that there may be an imperfect sealing of one fuel rod (out of over 40,000 in the reactor core) in Unit 2. The investigation findings will be shared with the Hong Kong Government in line with established processes. This minor matter did not require classifying or reporting under the International Atomic Energy Agency's zero-to-seven scale for reporting nuclear safety incidents. Daya Bay retains its good safety record and there are many levels of safeguards to ensure secure operations at the Station. In addition, there are robust and vigorous national and international requirements for the monitoring, reporting and disclosure of nuclear-related incidents and CLP will continue to explore with the Hong Kong Government and our Daya Bay partner with a view to enhance local communication.

In July, CLP entered into an agreement of cooperation intent with CGNPC to take up 17% equity share of a 6,000MW nuclear power project in Yangjiang in Guangdong Province. Located on the coast of Guangdong, approximately 220 kilometres west of Hong Kong, the Yangjiang Nuclear Power Station will supply electricity to meet local demand in Guangdong Province. The construction of the station commenced in 2008, and the project is expected to be commissioned in phases between 2013 and 2017.

Cooperation with Shenhua Group through CSEC Guohua, our joint venture, is progressing well. Construction of the two 1,000MW coal-fired units of Suizhong II in Liaoning Province is on schedule and the two units were successfully commissioned in February and May 2010 respectively.

We have completed modifications to the Shandong Boxing Biomass plant with the installation of an additional 15MW condensing turbine. This enables generation of electricity independently of steam sales, thereby improving operational flexibility.

**India**

The 1,320MW coal-fired Jhajjar project in Haryana State is close to 50% completion and generally on schedule, with the second phase of financing in the process of being finalised. Power plant equipment is being delivered to site progressively and installed as areas become available. Safety continues to remain a key area of concern, with the occurrence of two fatalities in the past four months. We are working extremely hard to promote a rigorous safety culture.

Coal for the Jhajjar plant will come from Indian mines. The necessary contracts for railway connections have been placed. However, work continues on finalising the documentation required to confirm the intended arrangements for the supply of coal by Coal India.

GPEC was awarded the ROSPA President's Award for Occupational Health & Safety for promoting safety at work. This is the 11th consecutive gold medal awarded to GPEC by ROSPA.

In January 2010, the Appellate Tribunal for Electricity ruled in favour of the off-taker Gujarat Urja Vikas Nigam Ltd. (GUVNL) on their claim for repayment of around HK$488 million for deemed generation on naphtha. GPEC has filed an appeal, and the matter was admitted by the Supreme Court of India on 16 April 2010, with the hearing dates yet to be fixed. The background to GUVNL's claim is explained in Note 15 on pages 27 and 28 of this Announcement, where it is treated as a contingent liability.

The 99MW wind farm at Theni, Tamil Nadu was fully commissioned in July 2010. This is CLP India's first project with Vestas and was completed in 10 months. CLP is now the largest wind developer in India, with a renewable energy portfolio comprising 446 equity MW, of which 263MW is already operational and an additional 70MW is expected to be commissioned before the end of 2010. The Samana II, Saundatti and Theni wind farms were registered to receive the Generation-based Incentive, instituted by the Indian government for wind projects in April 2010. On 12 February 2010, the 50.4MW Samana Phase I wind farm became the first project from CLP India to be registered with the United Nations Framework Convention on Climate Change (UNFCCC) to sell Certified Emissions Reductions. In the months ahead, we will continue the expansion of our renewable energy portfolio and establish processes for clean development mechanism (CDM) registration and sale, enabling us to maximise revenues from carbon credits for wind projects.

Activities at our Andhra Lake wind project are behind schedule as we continue to await land consent. Completion for Phase I (56MW) is expected by March 2011 and Phase II by July 2011.

**Southeast Asia and Taiwan**

Operations of Electricity Generating Public Company Limited (EGCO) were not affected by the anti-government protests in Bangkok. All the power plants in EGCO's portfolio operated normally in accordance with their respective PPAs. The Nam Theun 2 hydro project in Laos, of which EGCO owns 25%, achieved commercial operation in April for 1,043MW of generation capacity out of its total capacity of 1,087MW, most of which is for cross-border sale to Thailand. EGCO continued to explore opportunities for growth within Thailand and in the ASEAN markets. Options for extending the current PPAs for the Rayong and Khanom plants, which will expire in a few years, or for repowering the plants, are being studied. EGCO is also pursuing opportunities for acquisition of operating power plants and greenfield projects in Indonesia and The Philippines.

Natural Energy Development Co., Ltd., the joint venture company equally owned by CLP, Mitsubishi Corporation and EGCO, has signed the construction and supply contract and financing documents for a 55MW solar project located in Central Thailand. Construction started in early August 2010 and commissioning will be carried out in phases from 2011 to 2012.

The good operational performance recorded in 2009 at the Ho-Ping power plant in Taiwan continued into the first half of 2010. With the re-built stronger coal storage domes, we expect that interruptions to operations will be minimised during the upcoming typhoon season. Ho-Ping has also secured, at reasonable prices, most of its coal supply for the year.

In Vietnam, development activities of the 1,320MW coal-fired Vung Ang 2 project led by CLP, Mitsubishi Corporation and local partners have intensified. A "Principles Agreement" was signed with the Ministry of Industry & Trade. This serves as the heads-of-agreement of the Build-Operate-Transfer (BOT) Contract, PPA and other key project agreements. Tendering documents for the Engineering, Procurement and Construction (EPC) Contract have been issued to short-listed contractors, while discussions on fuel supplies and financing options are ongoing.

The 1,980MW coal-fired Vinh Tan 3 project, the second greenfield project that CLP and Mitsubishi Corporation are developing in Vietnam, is moving slightly behind the Vung Ang 2 project. Although our local partners for the two projects are different, we believe that significant synergies can be achieved by leveraging our involvement in both projects, especially in the areas of EPC and fuel supply. The Vinh Tan 3 project was officially awarded BOT status in January, which entitles the project to sovereign guarantees, land-use rights and favorable tax treatment for an operating period of 25 years, after which ownership of the project reverts to the state. A key task for the second half of 2010 will be to complete the investment project report, which includes the feasibility study and environmental and social impact assessment, for the Vinh Tan 3 project in Vietnam.

**Human Resources**

As at 30 June 2010, the Group employed 5,904 staff (2009: 5,700), of whom 3,941 were employed in the Hong Kong electricity and related business, 1,660 by our businesses in Australia, the Chinese mainland, India, Southeast Asia and Taiwan, as well as 303 by CLP Holdings. Total remuneration for the six months ended 30 June 2010 amounted to HK$1,718 million (2009: HK$1,528 million), including retirement benefit cost of HK$131 million (2009: HK$122 million).

**Safety**

The Jhajjar project in India and the Jiangbian Hydro project in China are our most challenging projects in respect of safety management. Despite all efforts made, there were two fatalities at Jhajjar involving subcontractor workers. The first incident occurred in March during the reconfiguration of a construction crane and a detailed investigation has since been completed. The second happened in July during energisation of a temporary light fixture and a detailed investigation is underway. We are implementing additional controls to reduce risk during construction and, on the ground, we continue to promote the message as strongly as possible that safety is our highest priority.

There was also a tragic fatality in May to one of our Hong Kong meter readers who fell into a lift shaft near the meter room of a high-rise residential block during the course of his work. An investigation by the local authority is underway, while necessary measures are being taken within CLP to strengthen the awareness of safety risks in buildings owned and managed by others.

As part of our continuing safety initiatives across the Group we conducted a safety workshop to review the progress against the original safety objectives, the implementation effectiveness and the need for any changes. Reviews of this nature help to maintain the focus on safety and to refresh our approach. We held a workshop to initiate our contractor safety standard in India, and to explain the details to our sites and their contractors. This standard was developed to provide guidance on the minimum requirements to be incorporated in site management. We held a similar workshop in PRC last year.

**Environment**

Air quality and climate change remain our top challenges and as part of our endeavors to address both, in late 2009, we signed the Manifesto for Energy Efficiency in Buildings of the World Business Council for Sustainable Development (WBCSD). We will implement the actions outlined in the Manifesto over a three-year period and will report on our progress in subsequent annual Sustainability Reports.

*Air Quality*

Throughout the first half of 2010, we continued to work hard on our emissions reduction projects.

Good progress has been made on the retrofitting of Fuel Gas Desulphurisation and NOx reduction facilities at our Castle Peak Power Station. These facilities are necessary to meet the 2010 emission targets in Hong Kong.

Emissions from CAPCO power stations in the first half of 2010 were within target. The current emissions forecast for the year-end are within the emission caps granted by the Hong Kong Government, assuming timely completion of the Emissions Control Project. However, the uncertainty of gas supply contracts will result in the need to conserve gas from Yacheng for later years, leading to the greater use of coal. Even so, with the completion of the Emissions Control Project at Castle Peak Power Station, emissions will still be substantially reduced from 2009 levels and therefore comply with the 2010 emission targets.

In order to meet with the tightening reporting requirement of emission data, a new IT platform - Emission Management Information System will be established. This new system, expected to be rolled out in the third quarter of 2010, will help improve the integrity and robustness of our reported emission data and ensure CAPCO stays at the forefront of environmental management.

*Climate Change*

Despite disappointing results from the UNFCCC Conference of Parties in Copenhagen, CLP is continuing with its effort to reduce carbon emissions. We have not experienced any weakening of policy support in climate change related initiatives in countries where we operate. In certain jurisdictions, the support seems to be strengthening as evidenced by the updated Renewable Energy Law in the Chinese mainland which became effective since 1 April 2010.

Over the last few years, the world has moved from understanding the climate change problem to exploring possible solutions. Today, the global community expects their implementation. However, the challenge is so large that cooperation is needed across the public and private sectors in order to implement the solutions that are most appropriate.

To foster this cooperation, our senior executives and managers are taking on an increasing number of public speaking engagements as well as key positions in international organisations involved with policy advocacy. At the international level, CLP continues to participate as one of the leaders in power generation in the Asia-Pacific region, in the international climate change framework discussions through the WBCSD. At the local level, CLP has engaged with local authorities on local climate change-related issues, particularly in Australia and in Hong Kong.

CLP continued to respond to the Carbon Disclosure Project (CDP) and has been doing so since its inception in 2000. Our response, which includes an in-depth discussion of our carbon emissions, trends, risks, opportunities and management of the climate change issue within CLP, is available on CDP's website.

The growth in our renewable energy portfolio, development of additional gas-fired generation and our involvement in the Mainland's nuclear energy programme, all touched upon in this Interim Report, are part of our Climate Vision 2050 which was announced in 2007. We aim to make a significant contribution to the collective effort needed to tackle the threat of catastrophic climate change through drastic reductions in the carbon intensity of our generation portfolio.

## OUTLOOK

By delivering economic value to our capital providers, as well as social and environmental value to all our stakeholders, we can create a sustainable business with a positive outlook.

### Hong Kong

Our major plans and activities for the second half of 2010 include:

- finalising gas supply and commercial arrangements for the construction of gas infrastructure projects under the inter-government MOU on Energy Cooperation. We are working closely with Hong Kong and Central People's Government authorities to solicit permits and approvals;
- completing the Emissions Control Project at Castle Peak "B" Power Station on schedule, within budget and without safety incidents, in line with the current project schedule;
- engaging the HKSAR Government on a practical plan for meeting climate change goals and achieving air quality objectives;
- promoting the development of the EV market by continuing to play a proactive role in the Government's Steering Committee on Electric Vehicles and further developing EV charging infrastructure;
- stepping up efforts to achieve and promote energy efficiency, working with eligible non-government organisations and implementing pilot smart grid projects; and
- managing critical business issues, including tariff, environment and electricity market development, through excellence in operations and clarity and credibility of communication.

### Australia

In the second half of 2010, TRUenergy will continue to focus on:

- achieving customer growth and maintaining retail margins in all the states in the National Energy Market; in particular focusing on maintaining and expanding profitable customer segments and managing retail bad debt position;
- improving the business-as-usual processes within retail operation and ensuring a high level of customer service;
- preparing meter data systems to manage the roll-out of AMI;

- delivering Project Odyssey (our new retail customer service and back office IT platform) to plan – or assessing alternative courses if this outcome appears not realisable;
- assessing the opportunities arising from the NSW energy reform process; and
- continuing to enhance our asset portfolio with the commissioning of the Waterloo wind farm, completion of the Iona Gas Plant project, the expansion of the Hallett Power Station and progressing permitting for up to 1,500MW of combined cycle gas turbine capacity at Yallourn and Tallawarra.

**Chinese Mainland**

Looking ahead to the second half of 2010, the focus of our activities in the Mainland will be to:

- continue to lobby for higher despatch for our power stations and maintain high despatch at Fangchenggang;
- explore the possibility of the Fangchenggang Phase II Expansion Project;
- complete the acquisition of 17% equity share in a nuclear power project in Yangjiang in Guangdong Province;
- grow the wind asset portfolio by expanding our current joint venture projects and developing new wholly-owned projects, either as an expansion of existing sites or as new greenfield opportunities;
- pursue wind projects through our CGN Wind platform, to the extent that the quality of the projects being undertaken by CGN Wind corresponds to our investment standards; and
- take the Jiangbian Hydro project towards completion in 2011, with a high priority on construction safety.

**India**

In the coming months, the focus of our activities will be to:

- continue the construction of Jhajjar according to schedule, within budget and with strong safety disciplines;
- commission our wind farms at Samana Phase II, Saundatti and Andhra Lake;
- register our wind projects under the CDM, enabling us to receive the necessary revenues from carbon credits;
- firm up the intended arrangements for the supply by Coal India of coal for the Jhajjar project;
- participate in generation and transmission bids, including the development of greenfield coal-fired and gas-fired projects, and, subject to the availability of sufficient long-term gas supply, explore an expansion to GPEC; and
- continue the expansion of our renewable portfolio. This will mostly be in the form of wind energy, but we are considering opportunities in solar energy and small to medium-sized hydro projects, especially run-of-the river projects.

**Southeast Asia and Taiwan**

The key tasks for the second half of 2010 will include:

- supporting EGCO’s growth through acquisition and greenfield opportunities;
- commencing construction of the 55MW solar project in Thailand;
- maintaining operational performance at Ho-Ping;
- structuring key project agreements including the EPC contract and PPA, as well as developing a financing plan for the Vung Ang 2 project in Vietnam; and
- completing the investment project report, which includes the feasibility study, environmental and social impact assessment and other reports, for the Vinh Tan 3 project in Vietnam.

## FINANCIAL PERFORMANCE

The broad increase in operating earnings across the region, together with the tax consolidation benefit from Australia and the gain on sale of CLP Power China (Anshun) Limited (CLP Power China (Anshun)), as opposed to the one-off provision for Solar Systems in 2009, raised the half-year earnings to HK$5,921 million, a 83.0% increase over the first half of 2009.

The contribution of each major activity to the Group earnings is analysed as follows:

| | **Six months ended 30 June** | | | | Increase/ (Decrease) | |
|---|---|---|---|---|---|---|
| | **2010** | | 2009 | | | |
| | **HK$M** | **HK$M** | HK$M | HK$M | HK$M | % |
| Electricity business in Hong Kong (HK) | | **3,014** | | 2,925 | 89 | 3.0 |
| Electricity sales to Chinese mainland from HK | **25** | | 33 | | | |
| Generating facilities in Chinese mainland serving HK | **351** | | 378 | | | |
| Other power projects in Chinese mainland | **458** | | (97) | | | |
| Energy business in Australia | **461** | | 204 | | | |
| Electricity business in India | **115** | | 159 | | | |
| Power projects in Southeast Asia and Taiwan | **191** | | 244 | | | |
| Other earnings | **53** | | (15) | | | |
| Earnings from other investments/operations | | **1,654** | | 906 | 748 | 82.6 |
| Unallocated net finance costs | | **(8)** | | (11) | | |
| Unallocated Group expenses | | **(225)** | | (217) | | |
| **Operating earnings** | | **4,435** | | 3,603 | 832 | 23.1 |
| Other income | | **400** | | - | | |
| Tax consolidation benefit from Australia | | **989** | | - | | |
| Yallourn coal mine subsidence insurance recovery/(costs) | | **97** | | (1) | | |
| TIPS* related contracts – MTM amortisation | | **-** | | (21) | | |
| Provision for Solar Systems | | **-** | | (346) | | |
| **Earnings attributable to shareholders** | | **5,921** | | 3,235 | 2,686 | 83.0 |

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

SoC returns rose, reflecting ongoing investment in the Hong Kong electricity infrastructure. This was partly offset by higher interest expenses on higher borrowings.

In the Chinese mainland, Fangchenggang power station sustained its excellent performance since the second half of 2009 and recorded earnings of HK$295 million (2009: loss of HK$84 million) during the period. In addition, earnings from the CSEC Guohua joint venture also improved as a result of higher demand and a lower depreciation charge with the extension of useful lives of certain fixed assets. However, the Shandong Zhonghua joint venture was adversely impacted by high coal prices. Earnings from the wind and hydro projects were above the 2009 level due to more wind farms coming into operation and higher rainfall in Huaiji.

Earnings from TRUenergy more than doubled. The increase in retail electricity price and volume and the lower gas purchase price, as well as the improved collection of bad debts, made a positive contribution to earnings. This was reinforced by the 24.0% increase in average exchange rate of Australian dollar. On the other hand, the unfavourable mark-to-market movement of energy derivatives offset part of the increase.

GPEC continued to operate reliably with high availability and recorded an increase in operating earnings. However, it suffered a loss of HK$37 million (as opposed to a gain of HK$23 million in 2009) from the translation of Pound Sterling and Euro receivables under the foreign exchange protection clause of the Power Purchase Agreement to Indian rupee at lower exchange rates. Jhajjar project also recorded a net fair value loss on its foreign exchange contracts.

Earnings from Ho-Ping came down as the energy tariff was set at a lower level, which reflected Taipower's lower prior year average coal cost. EGCO's contribution remained favourable.

Other income represented solely the gain on sale of CLP Power China (Anshun). An additional tax consolidation benefit was recognised in current period as a result of changes in the relevant tax legislation in Australia. Furthermore, the final settlement of the Yallourn coal mine subsidence insurance of HK$97 million (after tax) was received in February 2010.

*The financial information set out below in this announcement represents an extract from the condensed consolidated interim financial statements, which are unaudited but have been reviewed by the Group's external auditors, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 and by the Audit Committee. PwC's unmodified review report is included in the Interim Report to be sent to shareholders.*

## *Consolidated Income Statement – Unaudited*

| | *Note* | **Six months ended 30 June 2010 HK$M** | 2009 HK$M |
|---|---|---|---|
| **Revenue** | *4, 5* | **27,618** | 23,503 |
| Expenses | | | |
| Purchases of electricity, gas and distribution services | | **(10,650)** | (8,494) |
| Operating lease and lease service payments | | **(4,498)** | (4,063) |
| Staff expenses | | **(1,066)** | (866) |
| Fuel and other operating expenses | | **(3,426)** | (3,294) |
| Depreciation and amortisation | | **(2,357)** | (2,073) |
| | | **(21,997)** | (18,790) |
| Other income | *6* | **400** | - |
| Operating profit | *7* | **6,021** | 4,713 |
| Finance costs | | **(1,958)** | (1,668) |
| Finance income | | **36** | 35 |
| Share of results, net of income tax | | | |
| Jointly controlled entities | | **1,264** | 1,171 |
| Associated companies | | **335** | (356) |
| Profit before income tax | | **5,698** | 3,895 |
| Income tax credit/(expense) | *8* | **228** | (666) |
| **Profit for the period** | | **5,926** | 3,229 |
| (Profit)/loss attributable to non-controlling interests | | **(5)** | 6 |
| **Earnings attributable to shareholders** | | **5,921** | 3,235 |
| **Dividends** | *9* | | |
| First interim paid | | **1,251** | 1,251 |
| Second interim proposed | | **1,251** | 1,251 |
| | | **2,502** | 2,502 |
| **Earnings per share, basic and diluted** | *10* | **HK$2.46** | HK$1.34 |

## *Consolidated Statement of Comprehensive Income – Unaudited*

| | Six months ended 30 June | | | |
|---|---|---|---|---|
| | **2010** | | 2009 | |
| | **HK$M** | **HK$M** | HK$M | HK$M |
| **Profit for the period** | | **5,926** | | 3,229 |
| Other comprehensive income | | | | |
| Exchange differences on translation of | | | | |
| Subsidiaries | **(1,058)** | | 2,571 | |
| Jointly controlled entities | **29** | | 182 | |
| Associated companies | **6** | | 58 | |
| | | **(1,023)** | | 2,811 |
| Cash flow hedges | | | | |
| Net fair value (losses)/gains | **(58)** | | 93 | |
| Reclassification adjustment for amounts included in profit or loss | **(84)** | | (27) | |
| Transfer to assets | **20** | | (6) | |
| Translation difference | **-** | | 22 | |
| Tax on the above items | **36** | | (29) | |
| | | **(86)** | | 53 |
| Available-for-sale investments | | | | |
| Fair value gains | **16** | | 61 | |
| Tax on the above item | **(8)** | | (18) | |
| | | **8** | | 43 |
| Share of other comprehensive (loss)/income of jointly controlled entities | | **(20)** | | 119 |
| Reclassification adjustments | | | | |
| Sale of a subsidiary | **(91)** | | - | |
| Acquisition of additional interest in a jointly controlled entity to become a subsidiary | **(17)** | | - | |
| | | **(108)** | | - |
| **Other comprehensive (loss)/income for the period, net of tax** | | **(1,229)** | | 3,026 |
| **Total comprehensive income for the period** | | **4,697** | | 6,255 |
| Total comprehensive income attributable to: | | | | |
| Shareholders of the Company | | **4,691** | | 6,261 |
| Non-controlling interests | | **6** | | (6) |
| | | **4,697** | | 6,255 |

## *Consolidated Statement of Financial Position – Unaudited*

| | Note | 30 June 2010 HK$M | (Restated) 31 December 2009 HK$M | (Restated) 1 January 2009 HK$M |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Fixed assets | *11* | **103,278** | 97,098 | 87,416 |
| Leasehold land and land use rights under operating leases | *11* | **1,745** | 1,760 | 1,707 |
| Goodwill and other intangible assets | | **7,645** | 8,105 | 6,324 |
| Interests in jointly controlled entities | | **18,990** | 18,838 | 17,791 |
| Interests in associated companies | | **2,143** | 1,813 | 242 |
| Finance lease receivables | | **2,283** | 2,379 | 2,387 |
| Deferred tax assets | | **3,970** | 3,355 | 2,992 |
| Fuel clause account | | **-** | 14 | 800 |
| Derivative financial instruments | | **1,987** | 1,821 | 1,505 |
| Available-for-sale investments | | **1,695** | 1,692 | 224 |
| Other non-current assets | | **376** | 327 | 258 |
| | | **144,112** | 137,202 | 121,646 |
| **Current assets** | | | | |
| Inventories – stores and fuel | | **689** | 715 | 662 |
| Trade and other receivables | *12* | **11,739** | 9,018 | 8,239 |
| Finance lease receivables | | **134** | 130 | 128 |
| Derivative financial instruments | | **1,583** | 1,472 | 1,374 |
| Bank balances, cash and other liquid funds | | **2,045** | 7,994 | 782 |
| | | **16,190** | 19,329 | 11,185 |
| **Current liabilities** | | | | |
| Customers' deposits | | **(3,911)** | (3,854) | (3,722) |
| Trade and other payables | *13* | **(7,865)** | (8,926) | (5,919) |
| Income tax payable | | **(417)** | (208) | (366) |
| Bank loans and other borrowings | | **(3,736)** | (6,892) | (3,313) |
| Obligations under finance leases | | **(1,724)** | (1,523) | (1,403) |
| Derivative financial instruments | | **(1,050)** | (1,035) | (1,198) |
| | | **(18,703)** | (22,438) | (15,921) |
| Net current liabilities | | **(2,513)** | (3,109) | (4,736) |
| **Total assets less current liabilities** | | **141,599** | 134,093 | 116,910 |
| **Financed by:** | | | | |
| **Equity** | | | | |
| Share capital | | **12,031** | 12,031 | 12,031 |
| Share premium | | **1,164** | 1,164 | 1,164 |
| Reserves | | | | |
| Proposed dividends | | **1,251** | 2,214 | 2,214 |
| Others | | **57,541** | 55,352 | 47,608 |
| Shareholders' funds | | **71,987** | 70,761 | 63,017 |
| Non-controlling interests | | **96** | 107 | 105 |
| | | **72,083** | 70,868 | 63,122 |
| **Non-current liabilities** | | | | |
| Bank loans and other borrowings | | **35,745** | 32,539 | 23,383 |
| Obligations under finance leases | | **22,798** | 20,332 | 20,362 |
| Deferred tax liabilities | | **7,190** | 7,009 | 6,435 |
| Fuel clause account | | **99** | - | - |
| Derivative financial instruments | | **1,054** | 617 | 837 |
| Scheme of Control (SoC) reserve accounts | | **1,468** | 1,654 | 1,826 |
| Other non-current liabilities | | **1,162** | 1,074 | 945 |
| | | **69,516** | 63,225 | 53,788 |
| **Equity and non-current liabilities** | | **141,599** | 134,093 | 116,910 |

*Notes:*

## 1. Basis of Preparation

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard (HKAS) 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

Except as described in Note 2 below, the accounting policies used in the preparation of this set of condensed consolidated interim financial statements are consistent with those set out in the Group's annual financial statements for the year ended 31 December 2009.

The condensed consolidated interim financial statements have been approved for issue by the Board of Directors on 16 August 2010.

## 2. Changes in Accounting Policies

The Group has adopted the following new/revised Hong Kong Financial Reporting Standards (HKFRS) effective 1 January 2010:

- HKFRS 3 (Revised) "Business Combinations"
- HKAS 27 (Revised) "Consolidated and Separate Financial Statements"
- HK(IFRIC)-Int 17 "Distribution of Non-cash Assets to Owners"
- Amendments to HKAS 39 "Eligible Hedged Items"
- HKICPA's improvements to HKFRS published in May 2009

Apart from the effects as stated below, the adoption of these new/revised HKFRS 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 is classified as under 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.

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.

| | **30 June 2010 HK$M** | 31 December 2009 HK$M | 1 January 2009 HK$M |
|---|---|---|---|
| Increase in fixed assets | **417** | 494 | 543 |
| Decrease in leasehold land and land use rights under operating leases | **(417)** | (494) | (543) |
| Change in net assets | - | - | - |

## 3. Critical Accounting Estimates and Judgments

The Carbon Pollution Reduction Scheme (CPRS) as stated in the 2009 Annual Report is updated with the latest developments.

**Australia Carbon Pollution Reduction Scheme**

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.

Following the amendment of the CPRS legislation in November 2009, the bill was reintroduced a third time to the Parliament in February 2010. The bill was passed by the lower house of parliament (House of Representatives) however the legislation was not progressed to a vote in the upper house (Senate).

On 27 April 2010, the Australian Government announced that it did not intend to reintroduce the CPRS bill again before 2012. Slow progress towards a comprehensive global agreement as well as continued opposition domestically were cited as reasons for the delay.

As the Australian Government has indicated that it plans to reintroduce the legislation at some point in the future, significant uncertainty remains regarding the timing and structure of the CPRS. As such, the introduction of the CPRS presents an unquantifiable, but potentially material, market risk to the Group. At 30 June 2010, no impact of the CPRS has been reflected in the Group's financial statements (including impairment model cash flows, and assumptions on discount rate, asset useful lives, outage rates and capital expenditure) on the basis that there is currently significant uncertainty in relation to the likely structure, timing and impact of the CPRS.

The carrying amount of the Yallourn power station assets which comprise a single cash generating unit was A$1,686 million or HK$11,117 million at 30 June 2010 (31 December 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. 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.

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 |
|---|---|---|---|---|---|---|---|
| **Six months ended 30 June 2010** | | | | | | | |
| Revenue | 13,798 | 12,307 | 144 | 1,341 | 26 | 2 | **27,618** |
| Operating profit/(loss) | 4,486 | 1,154 | 427 | 183 | (4) | (225) | **6,021** |
| Share of results, net of income tax | | | | | | | |
| Jointly controlled entities | 549 | (17) | 534 | - | 198 | - | **1,264** |
| Associated companies | - | 3 | 332 | - | - | - | **335** |
| Profit/(loss) before net finance costs and income tax | 5,035 | 1,140 | 1,293 | 183 | 194 | (225) | **7,620** |
| Finance costs | (1,480) | (387) | (24) | (59) | - | (8) | **(1,958)** |
| Finance income | - | 19 | 1 | 16 | - | - | **36** |
| Profit/(loss) before income tax | 3,555 | 772 | 1,270 | 140 | 194 | (233) | **5,698** |
| Income tax (expense)/credit | (463) | 775 | (56) | (25) | (3) | - | **228** |
| Profit/(loss) for the period | 3,092 | 1,547 | 1,214 | 115 | 191 | (233) | **5,926** |
| Profit attributable to non-controlling interests | - | - | (5) | - | - | - | **(5)** |
| Earnings/(loss) attributable to shareholders | 3,092 | 1,547 | 1,209 | 115 | 191 | (233) | **5,921** |
| **At 30 June 2010** | | | | | | | |
| Fixed assets | 78,518 | 16,517 | 3,322 | 4,857 | 3 | 61 | **103,278** |
| Interests in | | | | | | | |
| Jointly controlled entities | 8,490 | 1,051 | 6,908 | - | 2,541 | - | **18,990** |
| Associated companies | - | 28 | 2,115 | - | - | - | **2,143** |
| Deferred tax assets | - | 3,907 | 63 | - | - | - | **3,970** |
| Other assets | 6,408 | 14,944 | 2,247 | 8,024 | 235 | 63 | **31,921** |
| Total assets | 93,416 | 36,447 | 14,655 | 12,881 | 2,779 | 124 | **160,302** |

## 4. 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 |
|---|---|---|---|---|---|---|---|
| Six months ended 30 June 2009 | | | | | | | |
| Revenue | 13,066 | 8,815 | 83 | 1,526 | 10 | 3 | 23,503 |
| Operating profit/(loss) | 4,106 | 582 | (77) | 320 | (3) | (215) | 4,713 |
| Share of results, net of income tax | | | | | | | |
| Jointly controlled entities | 541 | (9) | 392 | - | 247 | - | 1,171 |
| Associated companies | - | (356) | - | - | - | - | (356) |
| Profit/(loss) before net finance costs and income tax | 4,647 | 217 | 315 | 320 | 244 | (215) | 5,528 |
| Finance costs | (1,317) | (283) | (15) | (42) | - | (11) | (1,668) |
| Finance income | 10 | 14 | 2 | 9 | - | - | 35 |
| Profit/(loss) before income tax | 3,340 | (52) | 302 | 287 | 244 | (226) | 3,895 |
| Income tax expense | (399) | (110) | (28) | (129) | - | - | (666) |
| Profit/(loss) for the period | 2,941 | (162) | 274 | 158 | 244 | (226) | 3,229 |
| Loss attributable to non-controlling interests | - | - | 6 | - | - | - | 6 |
| Earnings/(loss) attributable to shareholders | 2,941 | (162) | 280 | 158 | 244 | (226) | 3,235 |
| At 31 December 2009 | | | | | | | |
| 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 |

## 5. Revenue

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$M** | HK$M |
| Sales of electricity | **23,462** | 19,444 |
| Lease service income | **1,044** | 1,302 |
| Finance lease income | **180** | 182 |
| Sales of gas | **2,387** | 1,996 |
| Other revenue | **488** | 285 |
| | **27,561** | 23,209 |
| Transfer for SoC (note) | **57** | 294 |
| | **27,618** | 23,503 |

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 these funds is recognised as revenue adjustment to the extent that the return and charges under the SoC are recognised in the income statement.

## 6. Other Income

In April 2010, the Group sold its entire interest in CLP Power China (Anshun) Limited which held 70% interest in Guizhou CLP Power Company Limited (Guizhou CLP Power), a jointly controlled entity in the Chinese mainland, at 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/(crediting) the following:

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$M** | HK$M |
| **Charging** | | |
| Net (gain)/loss on disposal of fixed assets | **(36)** | 37 |
| Impairment of fixed assets | **-** | 19 |
| Coal mine subsidence (insurance recovery)/cost of TRUenergy | **(138)** | 1 |
| **Crediting** | | |
| Net exchange loss/(gain) | **50** | (44) |

## 8. Income Tax (Credit)/Expense

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$M** | HK$M |
| Current income tax | | |
| Hong Kong | **325** | 255 |
| Outside Hong Kong | **59** | 64 |
| | **384** | 319 |
| Deferred tax | | |
| Hong Kong | **138** | 143 |
| Outside Hong Kong (note) | **(750)** | 204 |
| | **(612)** | 347 |
| | **(228)** | 666 |

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits for the period. 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.

Current financial models indicate that these deferred tax assets can be utilised in the foreseeable future. However, any unexpected changes in assumptions and estimates and in tax regulations can affect the recoverability of this deferred tax asset in future.

## 9. Dividends

| | Six months ended 30 June | | | |
|---|---|---|---|---|
| | **2010** | | 2009 | |
| | **HK$ per share** | **HK$M** | HK$ per share | HK$M |
| First interim dividend paid | **0.52** | **1,251** | 0.52 | 1,251 |
| Second interim dividend proposed | **0.52** | **1,251** | 0.52 | 1,251 |
| | **1.04** | **2,502** | 1.04 | 2,502 |

At the Board meeting held on 16 August 2010, the Directors declared the second interim dividend of HK$0.52 per share. The second interim dividend is not reflected as a dividend payable in the interim financial statements, but as a separate component of the shareholders' funds at 30 June 2010.

## 10. Earnings per Share

The earnings per share are computed as follows:

| | Six months ended 30 June 2010 | 2009 |
|---|---|---|
| Earnings attributable to shareholders (HK$M) | **5,921** | 3,235 |
| Number of shares in issue (thousand shares) | **2,406,143** | 2,406,143 |
| Earnings per share (HK$) | **2.46** | 1.34 |

Basic and fully diluted earnings per share are the same as the Company did not have any dilutive equity instruments throughout the six months ended 30 June 2010 (2009: nil).

## 11. 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$105,023 million at 30 June 2010 (31 December 2009: HK$98,858 million). Movements in the accounts are as follows:

| | Fixed Assets | | | | | | | Leasehold Land and Land Use Rights under Operating Leases |
|---|---|---|---|---|---|---|---|---|
| | Land | | Buildings | | Plant, Machinery and Equipment | | | |
| | Freehold HK$M | Leased HK$M | Owned HK$M | Leased HK$M | Owned HK$M | Leased HK$M | Total HK$M | HK$M |
| Net book value at 1 January 2010, as previously reported | 789 | - | 8,882 | 4,452 | 65,049 | 17,432 | 96,604 | 2,254 |
| Adjustment for adoption of amendment to HKAS 17 (Note 2) | - | 494 | - | - | - | - | 494 | (494) |
| Net book value at 1 January 2010, as restated | 789 | 494 | 8,882 | 4,452 | 65,049 | 17,432 | 97,098 | 1,760 |
| Acquisition of a subsidiary | - | - | 903 | - | 289 | - | 1,192 | - |
| Additions | 5 | - | 386 | 1,480 | 4,416 | 2,010 | 8,297 | 5 |
| Transfers and disposals | - | (71) | (4) | (18) | (53) | (42) | (188) | - |
| Depreciation/ amortisation | - | (6) | (101) | (146) | (1,346) | (612) | (2,211) | (21) |
| Exchange differences | (5) | - | 1 | - | (903) | (3) | (910) | 1 |
| **Net book value at 30 June 2010** | **789** | **417** | **10,067** | **5,768** | **67,452** | **18,785** | **103,278** | **1,745** |
| Cost | 789 | 475 | 12,963 | 11,216 | 102,532 | 39,779 | 167,754 | 2,016 |
| Accumulated depreciation/ amortisation and impairment | - | (58) | (2,896) | (5,448) | (35,080) | (20,994) | (64,476) | (271) |
| **Net book value at 30 June 2010** | **789** | **417** | **10,067** | **5,768** | **67,452** | **18,785** | **103,278** | **1,745** |

Leasehold land (under finance or operating leases) is mainly held under medium-term (10-50 years) leases in Hong Kong.

## 12. Trade and Other Receivables

| | **30 June 2010 HK$M** | 31 December 2009 HK$M |
|---|---|---|
| Trade receivables | **8,130** | 6,150 |
| Deposits and prepayments | **3,342** | 2,593 |
| Dividends receivable from | | |
| Jointly controlled entities | **166** | 53 |
| Associated company | **-** | 141 |
| Current accounts with | | |
| Jointly controlled entities | **63** | 81 |
| Associated company | **38** | - |
| | **11,739** | 9,018 |

The Group has established credit policies for customers in each of its core 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. For subsidiaries outside Hong Kong, the credit term for trade receivables ranges from about 30 to 60 days.

The ageing analysis of the trade receivables based on invoice date is as follows:

| | **30 June 2010 HK$M** | 31 December 2009 HK$M |
|---|---|---|
| 30 days or below | **6,785** | 5,511 |
| 31 – 90 days | **607** | 459 |
| Over 90 days | **738** | 180 |
| | **8,130** | 6,150 |

## 13. Trade and Other Payables

| | **30 June 2010 HK$M** | 31 December 2009 HK$M |
|---|---|---|
| Trade payables | **3,457** | 3,243 |
| Other payables and accruals | **3,064** | 4,163 |
| Current accounts with | | |
| Jointly controlled entities | **1,186** | 1,299 |
| Associated companies | **158** | 221 |
| | **7,865** | 8,926 |

The ageing analysis of the trade payables based on invoice date is as follows:

| | **30 June 2010 HK$M** | 31 December 2009 HK$M |
|---|---|---|
| 30 days or below | **3,064** | 3,139 |
| 31 – 90 days | **97** | 66 |
| Over 90 days | **296** | 38 |
| | **3,457** | 3,243 |

## 14. Commitments

(A) Capital expenditure on fixed assets, leasehold land and land use rights under operating leases, as well as intangible assets authorised but not brought into the interim financial statements is as follows:

| | **30 June 2010 HK$M** | 31 December 2009 HK$M |
|---|---|---|
| Contracted but not provided for | **12,021** | 14,668 |
| Authorised but not contracted for | **11,593** | 11,643 |
| | **23,614** | 26,311 |

(B) The Group has entered into a number of joint venture arrangements to develop power projects. At 30 June 2010, remaining equity contributions of HK$328 million (31 December 2009: HK$460 million) would be required to be made by the Group.

## 15. Contingent Liabilities

(A) GPEC – Deemed Generation Incentive Payment and Interest on Deemed Loans

Under the original power purchase agreement between Gujarat Paguthan Energy Corporation Private Limited (GPEC) and its off-taker Gujarat Urja Vikas Nigam Ltd. (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$1,224 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$140 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$488 million (31 December 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".

Following the issue of the ATE's judgment, GUVNL deducted Rs.3,731 million or HK$629 million from January to March 2010 invoices after adjustment for a previous deposit of Rs.500 million or HK$84 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$1,512 million.

**15. Contingent Liabilities (continued)**

(A) GPEC – Deemed Generation Incentive Payment and Interest on Deemed Loans (continued)

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 30 June 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.

**Supplementary Information on Treasury Activities**

The Group engaged in new financing activities in the first half of 2010 in support of the expansion of its electricity business. In April 2010, CLP Holdings successfully completed the refinancing of a HK$6 billion 5-year revolving bank loan facility with a consortium of 18 international and regional banks. The total funding commitment received by CLP Holdings was substantially in excess of the funding requirement so the offered amount was scaled back to maintain the total facility at HK$6 billion. In the first half of 2010, CLP Power Hong Kong successfully arranged HK$4.4 billion new financing at attractive interest rates. This comprised US$500 million (HK$3.9 billion) 10-year bond issued on 12 March 2010 under the Medium Term Note (MTN) Programme with a 4.75% coupon. The bond was priced at U.S. Treasury yield plus 1.15%. This bond issue was widely supported by investors resulting in an order book of US$4.5 billion (9 times cover). The bond is a Regulation S issue with listing on the Hong Kong Stock Exchange. All the US dollars proceeds were swapped back into fixed rate Hong Kong dollars to mitigate foreign currency and interest rate exposures and achieved favourable pricing. CLP Power Hong Kong's MTN Programme was set up by its wholly-owned subsidiary CLP Power Hong Kong Financing Limited in 2002. Under the MTN Programme, bonds in an aggregate amount of up to US$2.5 billion, may be issued and will be unconditionally and irrevocably guaranteed by CLP Power Hong Kong. As at 30 June 2010, notes with a nominal value of about HK$16 billion have been issued under the MTN Programme. In addition, a new bank loan facility of HK$500 million was arranged at an attractive interest rate margin during the period. In Australia, TRUenergy rolled over a A$300 million (HK$2.0 billion) working capital loan in June. In the Chinese mainland, Penglai Wind, a CLP wholly-owned wind power project in Shandong Province, procured a RMB332 million (HK$380 million) project level loan on a competitive basis on good terms.

As at 30 June 2010, financing facilities totalling HK$66.8 billion were available to the Group, including HK$24.6 billion for TRUenergy and subsidiaries in India. Of the facilities available, HK$39.5 billion had been drawn down, of which HK$14.9 billion relates to TRUenergy and subsidiaries in India. Facilities totalling HK$8.7 billion were available to CAPCO, of which HK$6.6 billion had been drawn down. The Group's total debt to total capital ratio as at 30 June 2010 was 35.4%, decreasing to 34.2% after netting off bank balances, cash and other liquid funds. Interest cover for the six months ended 30 June 2010 was 8 times.

Credit ratings of CLP Holdings and CLP Power Hong Kong remain at strong investment grade throughout the period of financial market turmoils. CLP's prudent approach of debt and risk management and the disciplined investment strategy have enabled the Group to maintain good investment grade credit ratings, meet all commitments to lenders, secure adequate financing to support operations and expansion and preserve the capacity to access the financial markets to support future funding needs.

Moody's re-affirmed the A2 credit rating of CLP Holdings and A1 credit rating of CLP Power Hong Kong with stable outlooks in July and June 2010 respectively. This reflects CLP Power Hong Kong has strong and predictable cash flows generated from the highly stable regulatory SoC business in Hong Kong; a sound liquidity profile supported by the good track record in accessing the domestic and international bank and capital markets; an appropriately managed debt maturity profile; and management's prudent and gradual approach in pursuing overseas expansion. According to Moody's, CLP Holdings' rating also reflects its weakened financial profile resulting from the lower permitted rate of return under the SoC; and the ongoing expansion into riskier, non-regulated merchant energy and retail businesses in the region.

Standard & Poor's (S&P) re-affirmed the A- credit rating of CLP Holdings and A credit rating of CLP Power Hong Kong with stable outlooks in June 2010. This reflects the strength of CLP Holdings' 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. S&P opined that the strength which CLP Power Hong Kong brings to CLP Holdings is tempered by the parent's expansion into Asia-Pacific power investments – typically into higher-risk generation assets. However, S&P believed that CLP Group's good track record in prudent financial management with a balanced funding strategy should not unduly pressure CLP Holdings' financial risk profile, relative to the current rating, when CLP Holdings aspires to expand overseas.

S&P raised the credit rating of TRUenergy Holdings from BBB- to BBB with stable outlook in July 2010. 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.

The Group's investments and operations have resulted in exposure to foreign currency risks, interest rate risks, credit risks, as well as price risks associated with the sale and purchase of electricity in Australia. We actively manage these risks by using different derivative instruments with the objective of minimising the impact of rate and price fluctuations on earnings, reserves and tariff charges to customers. In meeting the objectives of risk management, we always prefer simple, cost-efficient and HKAS 39 hedge-effective instruments. For instance, we prefer foreign currency forward contracts, cross currency and interest rate swaps to options and structured products. We also monitor our risk exposures with the assistance of a "Value-at-Risk" (VaR) methodology and stress testing techniques. Other than very limited energy trading activities engaged by our Australia business, all derivative instruments are employed solely for hedging purposes.

As at 30 June 2010, the Group had gross outstanding derivative financial instruments amounting to HK$104.9 billion. The fair value of these derivative instruments was a net surplus of HK$1.5 billion, representing the net amount receivable if these contracts were closed out on 30 June 2010.

# CORPORATE GOVERNANCE

## Corporate Governance Practices

In the Corporate Governance Report of 25 February 2010, which was published in our 2009 Annual Report, we reported that the Company had adopted its own Code on Corporate Governance (CLP Code) on 28 February 2005 (further updated in February 2009). This incorporated all of the Code Provisions and Recommended Best Practices in the "Code on Corporate Governance Practices" issued by the Hong Kong Stock Exchange (the Stock Exchange Code), save for one exception.

This single deviation from the Recommended Best Practices of the Stock Exchange Code relates to the recommendation that an issuer should announce and publish quarterly financial results. The considered reasons for this deviation were stated in the Corporate Governance Report on page 94 of the Company's 2009 Annual Report. Although CLP does not issue quarterly financial results, CLP issues quarterly statements which set out key financial and business information such as revenue, electricity sales, dividends and progress in major business activities over the quarter.

During the six months ended 30 June 2010 the Company met the Code Provisions 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 Limited (Listing Rules).

In 2010, we made further progress in our corporate governance practices. This included sharing our expertise and views on corporate governance issues by participating in formal and informal working groups organised by the Hong Kong Stock Exchange, as well as by responding to formal Consultation Papers issued by the Securities and Futures Commission and the Financial Services and the Treasury Bureau. Director of Risk Management was appointed to develop group-level risk management framework which will enhance integration of current risk management practices done from the individual asset level up to the regional offices.

On 1 April 2010 Mr. Kan Man Lok Paul retired as an Independent Non-executive Director and Mr. Rudolf Bischof retired as a Non-executive Director. Mr. Jason Whittle resigned as a Non-executive Director on 1 July 2010.

The composition of Board Committees remains the same as set out in the Corporate Governance Report (pages 98, 99 and 116), save that Mr. Rudolf Bischof retired as a member of the Provident & Retirement Fund Committee with effect from 1 April 2010.

There were no substantial changes to the information of Directors as disclosed on pages 88 and 89 of the 2009 Annual Report and on CLP's website. The positions held by each Director with CLP Holdings' subsidiary companies and their directorships held in the last three years in public companies are updated in each Director's biography on CLP's website.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the unaudited condensed consolidated interim financial statements for the six months ended 30 June 2010. All of the Audit Committee members are appointed from the Independent Non-executive Directors, with the Chairman and two members having appropriate professional qualifications and experience in financial matters.

At the Company's Annual General Meeting held on 27 April 2010, shareholders approved the re-appointment of PricewaterhouseCoopers as the Company's External Auditors for the financial year ending 31 December 2010.

## Change of Remuneration

*Non-executive Directors*

There has been no change to the basis of determining Directors' remuneration. The revised levels of fees payable to Non-executive Directors and Independent Non-executive Directors for serving on the Board and Board Committees as set out on page 119 of the 2009 Annual Report, which were proposed by Management, independently reviewed by Stephenson Harwood, Solicitors and considered and endorsed by the Human Resources & Remuneration Committee, have been approved by shareholders at the Annual General Meeting held on 27 April 2010.

*Executive Directors*

There was an increase, effective 1 April 2010, of 2% in the base salary of the three Executive Directors. This followed a base salary freeze in 2009.

For Mr. Andrew Brandler (Chief Executive Officer) and Mr. Peter P. W. Tse (Group Executive Director) there was an increase in their target Long-term incentive (LTI) award from 16.67% of base salary to 25% with effect from 1 January 2010. As there is a three-year vesting period for the awards, the first payment under the increased LTI will be in 2013. The combined impact of the changes in base salary and target LTI was an increase in their target total remuneration of 6.74% compared to previous year. As for Mr. Peter W. Greenwood (Group Executive Director – Strategy), he joined the LTI scheme with effect from 1 January 2010 and was given a target award of 7.56% of base salary. The amount of this award was calculated to ensure that Mr. Peter Greenwood receives the same percentage increase in target total remuneration as the other Executive Directors. The first LTI payment to Mr. Greenwood will be in 2013 following the three-year vesting period. The combined impact of these changes in base salary and target LTI was an increase in his target total remuneration of 6.74% compared to previous year.

*Senior Management*

Mrs. Betty Yuen stepped down as Group Director - Managing Director Hong Kong and was appointed as the Vice Chairman of CLP Power Hong Kong on 4 January 2010. This role involves a change in responsibility from her previous role and is also a part time role. To reflect this Mrs. Yuen's package was revised on 1 January 2010 so that she no longer participates in the LTI. Her target total remuneration, which is defined as base salary plus target Annual Incentive and Company's contribution to the CLP Group Provident Fund Scheme, was also reduced by 42.41% to reflect a part time role.

To succeed Mrs. Yuen, Mr. Richard Lancaster was appointed as Group Director – Managing Director Hong Kong on 4 January 2010, and joined the Senior Management group.

There was an increase, effective 1 April 2010, of 2% in the base salary of all Senior Management. This followed a base salary freeze in 2009. There was an increase in the target LTI award from 16.67% of base salary to 25% with effect from 1 January 2010. This LTI increase did not apply to Mrs. Yuen. As there is a three-year vesting period for the awards, the first payment under the increased LTI will be in 2013. The combined impact of these changes in base salary and LTI was that each of the members of the Senior Management (excluding Mrs. Betty Yuen) received an increase in target total remuneration of 6.74%.

Target total remuneration for Executive Directors and Senior Management (excluding Mrs. Betty Yuen) is defined as base salary plus target Annual Incentive, target LTI and Company's contribution to the CLP Group Provident Fund Scheme.

## Internal Controls

In respect of the year ended 31 December 2009, the Board considered CLP's internal control system effective and adequate. During the six months ended 30 June 2010, no significant areas of concern that might affect shareholders were identified. All of the 11 reports on the Group's affairs submitted by Group Internal Audit during this period carried a satisfactory audit opinion. Details of the standards, processes and effectiveness of CLP's internal control system were set out in the Corporate Governance Report on pages 103 to 105 of the Company's 2009 Annual Report.

**Interests in CLP Holdings' Securities**

Since 1989, the Company has adopted its own CLP Securities Code, which is largely based on the Model Code set out in Appendix 10 of the Listing Rules. The CLP Securities Code has been updated from time to time to reflect new regulatory requirements as well as CLP Holdings' strengthened regime of disclosure of interests in its securities. The current CLP Securities 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 they have complied with the required standard set out in the Model Code and CLP Securities Code throughout the period from 1 January to 30 June 2010.

We have voluntarily extended the ambit of the CLP Securities Code to cover Senior Management (comprising the three Executive Directors, Group Director & Chief Financial Officer, Vice Chairman – CLP Power Hong Kong, Group Director – Managing Director Australia, Group Director – Operations, Group Director – Managing Director Hong Kong, Managing Director – India, Managing Director – China, Managing Director – Southeast Asia, Group Director – Corporate Finance and Development and Group Director – Carbon Ventures, whose biographies are set out on CLP's website) and other "Specified Individuals" such as senior managers in the CLP Group.

All members of the Senior Management have confirmed, following specific enquiry by the Company, that throughout the period from 1 January to 30 June 2010 they have 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 six months ended 30 June 2010.

## INTERIM DIVIDEND

Directors today declared the second interim dividend of HK$0.52 per share (2009: HK$0.52 per share) which will be payable on 15 September 2010 to Shareholders registered as at the close of business on 6 September 2010. The dividend of HK$0.52 per share is payable on the existing 2,406,143,400 shares of HK$5.00 each in issue.

The Register of Shareholders will be closed on 7 September 2010. To rank for the second interim dividend of HK$0.52 per share, 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, 6 September 2010.

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

Hong Kong, 16 August 2010

*The Interim Report containing financial statements and notes to the financial statements will be published on the Company's website www.clpgroup.com and the website of the Stock Exchange of Hong Kong by 21 August 2010 and despatched to shareholders on 31 August 2010.*

# 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 |