

CLP 中電

Powering Asia
Responsibly



2011 Annual Report

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Want to see more?



Integrated Reporting

In this year's Annual Report we have moved further towards integrated reporting as envisaged by the International Integrated Reporting Council (IIRC - www.theiirc.org). In the IIRC's words "Integrated Reporting brings together material information about an organisation's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates. It provides a clear and concise representation of how an organisation demonstrates stewardship and how it creates and sustains value".

For CLP "integrated reporting" also means linking this Annual Report with all the other means available to us to bring information to our stakeholders, including our [online Sustainability Report](#) and the wealth of other information available on our website (www.clpgroup.com) and in our other publications. These, taken together, are designed to give you a coherent and integrated picture of CLP and to demonstrate our ability to create value now and in the future.

The IIRC suggests an integrated report should address each of the six questions, set out on the next page, about our business, and do so in a way which makes the interconnections between them, so that investors and other stakeholders can assess CLP's long-term prospects in a clear, concise and connected format.

To help readers, we have highlighted those areas of this Annual Report where further information is available in the [online Sustainability Report](#) or on our [website](#), by using the symbols  and .

Organisational Overview and Business Model

What does CLP do and how do we create and sustain value in the short, medium and long-term?

CLP Holdings Limited, listed on the Hong Kong Stock Exchange, is the holding company for the CLP Group, which is one of the largest investor-owned power businesses in the Asia-Pacific region. Through CLP Power we operate a vertically integrated electricity supply business in Hong Kong. Elsewhere, CLP holds a diversified portfolio of power generation investments which includes gas, coal, renewable and nuclear energy in Australia, the Chinese mainland, India and Southeast Asia and Taiwan, as well as a major gas and electricity retail business in Australia.

In a changing world, CLP's mission is to produce and supply energy with minimal environmental impact to create value for shareholders, customers, employees and the wider community.

Strategic Objectives

Where CLP wants to go and how is it going to get there?

CLP's vision is to be the leading responsible energy provider in the Asia-Pacific region, from one generation to the next. This means conducting our business in a sustainable manner and delivering economic, social and environmental value now and over the long-term to our stakeholders.

Governance and Remuneration

What is CLP's governance structure and how does governance support our strategic objectives and relate to our approach to remuneration?

CLP's governance structure is based on the CLP Code on Corporate Governance. This not only embraces the Hong Kong Stock Exchange's Code on Corporate Governance Practices, but also goes beyond that to reflect the demanding standards we have set ourselves. CLP's remuneration policies, which are overseen by the Board's Human Resources & Remuneration Committee, ensure that the interests of Directors and Senior Management are aligned with those of the Company and its shareholders.

In addition, CLP's Value Framework sets out the business principles and ethics that help drive the Company forward and expresses the standards we expect of ourselves and which other people would expect of us.

Operating Context

What are the circumstances under which CLP operates, including the key resources and relationships on which it depends?

CLP provides electricity, an essential public service, to both developed and developing economies in the Asia-Pacific region – one of the most dynamic and fast-moving regions of the world. Our key relationships include those with capital providers, governments, customers and employees. The key resources which we apply include our values, our expertise and experience, our people and our ability to raise and deploy capital to support the large scale and long-term investments which our business demands.

Future Outlook

What opportunities, challenges, and uncertainties is CLP likely to encounter in achieving its strategic objectives?

Our strong business presence in Hong Kong, the Chinese mainland, India, Australia and elsewhere in the region provides a strong platform from which to continue to grow.

Although the challenges and risks we face vary from one market to another, many are inherent in the nature of our business. These include political and regulatory uncertainty, the need to procure fuel on a timely, adequate and cost-effective basis, risks associated with the construction and operation of new technology and the need for prudent management of our financial resources. Our knowledge of the power industry, our familiarity with our markets and our disciplined approach to risk management give CLP confidence that we can exploit the opportunities and manage the challenges which our business presents.

Performance

How has CLP performed against its strategic objectives?

In 2011, Group operating and financial performance has been solid with Group operating earnings higher than those achieved in 2010. In addition, CLP's performance in the wider aspects of its business, including its social and environmental dimensions, was fully aligned with our mission, vision and values. The following "5-Minute Annual Report" gives you a snapshot of CLP's financial, social and environmental performance – all of which is described in much greater detail throughout this Annual Report and in our [online Sustainability Report](#). 

2011 — Our 5-Minute Annual Report

Business Description

Hong Kong

- Electricity supplier since 1903.
- We own and operate an electricity supply business,
 - Generation: 6,908 megawatts (MW), including 100% of generating capacity owned by Castle Peak Power Company Limited and operated by CLP Power
 - Energy Delivery: over 13,900 kilometres (km) of transmission and high voltage distribution lines
 - Customer Service: 2.4 million customer accounts, representing over 80% of Hong Kong's population
- We're regulated by the Hong Kong Government under a Scheme of Control (SoC) Agreement.

Australia

- We've been in the Australian power sector since 1999.
- We're in energy markets throughout Australia (excluding Western Australia and the Northern Territory). As TRUenergy, we operate a vertically integrated energy business,
 - Generation: 2,103MW from wholly-owned coal and gas-fired power stations, 3,366MW from long-term hedge and GenTrader contracts
 - 2.8 million customer accounts (gas and electricity)
 - Gas storage and processing
 - Renewable energy purchases and investments

Chinese Mainland

- We've been an owner, developer, project manager and operator in the Chinese mainland power industry since 1985.
- We're the largest external investor with 5,957 equity MW.
- We've interests in nuclear, pumped storage, coal, hydro, wind and biomass power generation located in Guangdong, Beijing, Hebei, Tianjin, Shandong, Shanghai, Shaanxi, Liaoning, Inner Mongolia, Guangxi, Sichuan, Jilin and Yunnan.

India

- We've been a developer, project manager and operator in the power business since 2002.
- We're one of the largest foreign investors in the Indian power sector with 2,594 equity MW in power projects in the country.
- We're the largest private sector investor in wind energy in India with 619MW of wind projects under operation or in construction.

Southeast Asia and Taiwan

- We've been an owner, developer, investor, project manager and operator in the Southeast Asia power business since 1994.
- We've a 20% interest in the 1,320MW Ho-Ping power station in Taiwan and a 33% interest in the 55MW Lopburi solar project in Thailand.
- We're co-developing two coal-fired projects in Vietnam.

Major Events in 2011

- We continued to provide world-class reliability, environmental performance and customer service.
- Good progress in securing long-term gas supplies from the Chinese mainland.
- The announcement of a 4.9% tariff increase for 2012 was unwelcome, controversial but unavoidable.
- Hong Kong's transition towards cleaner forms of generation, including more gas and nuclear generation, is expected to continue, but the Fukushima accident may delay Government's decision on more imported nuclear energy.

- We completed the acquisition of EnergyAustralia Retail, which is the largest electricity retailer in New South Wales (NSW), the Delta Western GenTrader contracts and three power station development sites.
- Integration of the EnergyAustralia retail business, which doubled our customer numbers, has progressed well.
- Following the passage of Australia's "Clean Energy" legislative package we wrote down the book value of our Yallourn brown coal-fired power station by A\$350 million.
- We integrated the 111MW Waterloo and 66MW Cathedral Rocks wind farms into the TRUenergy generation portfolio.
- We acquired an effective interest in 500 petajoules (PJ) of upstream gas to support our retail and generation businesses.

- Fangchenggang Power Station performed well. We await approval for two further 660MW units on the same site.
- We completed construction of our wholly-owned Jiangbian hydro project (3x110MW) in June 2011 within budget and ahead of schedule.
- We completed construction of our Qian'an Phase II (49.5MW) and Penglai Phase I (48MW) wind power projects during the year.
- Daya Bay Nuclear Power Station has undergone an extensive safety review as part of China's response to the Fukushima accident.
- Completion of the acquisition of a 17% shareholding in the 6x1,080MW Yangjiang Nuclear Power Station awaits regulatory approval and the outcome of the national comprehensive nuclear safety review.

- Safety has been a major challenge with five subcontractor fatalities during the year.
- Our 1,320MW coal-fired power plant based on supercritical technology at Jhajjar, Haryana remains on schedule for commissioning in the first half of 2012.
- Our GPEC plant maintained high availability at 91.5% compared to 90.1% in 2010. A new long-term maintenance and support contract with Siemens will help control ongoing maintenance costs.
- 129MW of wind projects were commissioned with a further 176MW under active development or construction.

- We completed the sale of our stake in EGCO in Thailand, recognising a gain of HK\$876 million.
- Ho-Ping achieved good operational and safety performance, but earnings were affected by high coal market prices.
- 8MW of the Lopburi solar project was commissioned. The remaining 47MW will be completed by mid-2012.
- Development efforts continued on the coal-fired projects in Vietnam.

137,266
million kWh

was sent out from power stations
in which CLP have invested

Electricity Supplied

51%

of the total assets of CLP are now
outside Hong Kong, compared to
only 26% in 2002

Diversifying our Investment

A-
A2

CLP Holdings' credit rating from
Standard & Poor's and Moody's
respectively

Strong Financial Position

5.19
million

comprising 2.38 million customer
accounts in Hong Kong and
2.81 million in Australia (where
we doubled the number
through the acquisition of the
EnergyAustralia retail business in
2011)

Customer Accounts

HK\$
9,288
million
Total Earnings

**HK\$
2.52**
Total Dividends
Per Share

0.23
DIIR

Disabling Injury Incidence Rate (DIIR), a key measure of safety performance, was worse than 2010 and not acceptable by our standards

Commitment to Safety

58,000
people

directly engaged by CLP community initiatives in 2011

Community Investment

18.3%

of CLP's generating capacity came from renewable energy sources in 2011, compared to only 1% in 2005

Commitment to Renewable Energy

0.8
kg CO₂ / kWh

carbon emissions intensity of CLP's generating capacity, down from 0.84 kg CO₂ / kWh in 2007

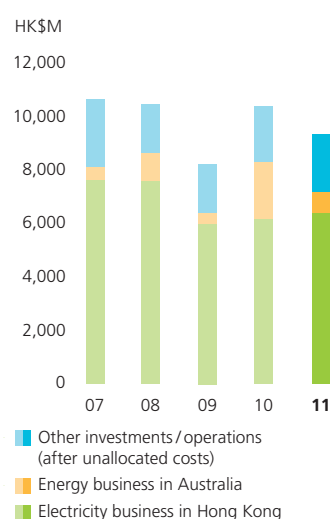
Tackling Climate Change

Financial Highlights

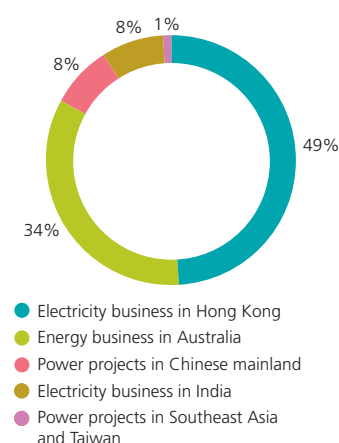
Operating earnings increased by 12.7% to HK\$10.3 billion whilst total earnings declined by 10.1% to HK\$9.3 billion, largely due to the impairment provision for Yallourn of HK\$1.9 billion

	2011	2010	Increase / (Decrease) %
For the year (in HK\$ million)			
Revenue			
Electricity business in Hong Kong (HK)	31,518	29,944	5.3
Energy business in Australia	56,325	25,182	123.7
Others	3,791	3,284	
Total	91,634	58,410	56.9
Earnings			
Electricity business in HK	6,339	6,129	3.4
Energy business in Australia	2,911	1,303	123.4
Other investments / operations	1,581	2,173	(27.2)
Unallocated net finance costs	(48)	(18)	
Unallocated Group expenses	(471)	(439)	
Operating earnings	10,312	9,148	12.7
Impairment provision for Yallourn	(1,933)	–	
Gain on sale of EGCO / CLP Power China (Anshun)	876	356	
Valuation gain on Hok Un redevelopment	225	–	
Tax consolidation benefit from Australia	–	989	
Other one-off items from Australia	(192)	(161)	
Total earnings	9,288	10,332	(10.1)
Net cash inflow from operating activities	18,062	16,085	12.3
At 31 December (in HK\$ million)			
Total assets	214,288	179,355	19.5
Total borrowings	65,521	44,623	46.8
Shareholders' funds	81,259	79,661	2.0
Per share (in HK\$)			
Earnings per share	3.86	4.29	(10.1)
Dividends per share	2.52	2.48	1.6
Shareholders' funds per share	33.77	33.11	2.0
Ratios			
Return on equity ¹ (%)	11.5	13.7	
Total debt to total capital ² (%)	44.6	35.9	
Net debt to total capital ³ (%)	43.1	33.3	
Interest cover ⁴ (times)	4	7	
Price / Earnings ⁵ (times)	17	15	
Dividend yield ⁶ (%)	3.8	3.9	

Total Earnings



Total Assets in 2011



Notes:

- Return on equity = Total earnings / Average shareholders' funds
- Total debt to total capital = Debt / (Equity + debt). Debt = Bank loans and other borrowings.
- Net debt to total capital = Net debt / (Equity + net debt). Net debt = Debt - bank balances, cash and other liquid funds.
- Interest cover = Profit before income tax and interest / (Interest charges + capitalised interest)
- Price / Earnings = Closing share price on the last trading day of the year / Earnings per share
- Dividend yield = Dividends per share / Closing share price on the last trading day of the year

Chairman's Statement

"I am unreservedly proud of the **quality** of the service provided by CLP Power to electricity customers"

The Hon. Sir Michael Kadoorie, Chairman



Dear Shareholders,

This Annual Report presents a solid performance by the CLP Group during 2011. In line with our move towards integrated reporting, the social and environmental aspects of that performance are described both in this Annual Report and, more fully, in our [online Sustainability Report](#). Our financial performance, which is explained in detail in the Financial Review and in the Financial Statements which form part of this Annual Report, showed an improvement in Group operating earnings to HK\$10,312 million, a 12.7% increase compared to HK\$9,148 million in 2010. Group total earnings, including non-recurring items at HK\$9,288 million, were 10.1% lower than those of the previous year. 🌱

Shareholders will particularly note the substantial growth in operating earnings from TRUenergy in Australia, following the acquisition in early 2011 of the EnergyAustralia retail business and the Delta Western GenTrader contracts, based in NSW. Overall, earnings from our activities outside Hong Kong contributed HK\$3,711 million to operating earnings. This was the largest ever contribution from those activities, both in absolute terms and as a proportion of Group earnings. Even so, the Hong Kong electricity business remained the largest single source of earnings for CLP and its shareholders.

Serving Hong Kong

Rather than giving a broad overview of the Group's activities, it has been my practice in my Chairman's Statement in recent years to focus on specific issues which I consider are of particular importance or concern to our shareholders. This year, I wish to continue this practice by discussing issues arising from the tariff increase which CLP Power announced in December 2011 for our Hong Kong electricity customers, with effect from the beginning of this year. This is an appropriate subject for detailed discussion since this business contributes substantially towards the continued delivery of shareholder value. Moreover, shareholders, many of whom live in Hong Kong, and other stakeholders will have already seen the extensive press coverage of the tariff issue. This has included much criticism of the justification for the tariff increase and of the performance by CLP of its responsibilities to Hong Kong as the provider of an essential service, as well as numerous comments on future regulatory change.

At the outset, I wish to emphasise that we can have no objection to the close, continuing and critical scrutiny to which our Hong Kong electricity business is subject. This is both inevitable and proper, given that we are the sole supplier of an essential public service to 80% of Hong Kong's population. It is also not surprising that some of the criticism we received in the political domain and in the press is, in our view, misinformed, incorrect and unjustified. That, after all, is part and parcel of free speech on public issues. At the same time, I do not think that any fair-minded person would deny me an opportunity to express my views on such matters, on behalf of my colleagues, our Board and our shareholders – and to do so in the frank and straightforward manner which these issues deserve.

Let me start by saying that I am unreservedly proud of the quality of the service provided by CLP Power to electricity customers in Kowloon and the New Territories. For over a century, we have had the privilege of serving our community. Throughout those many decades, which have included troubled and turbulent times, CLP has faithfully discharged its responsibilities to provide Hong Kong with the electricity needed to power its remarkable social and economic development.

In the past ten years alone, CLP's shareholders and lenders have invested almost HK\$70 billion in ensuring that Hong Kong has the electricity infrastructure it needs. All of those investments were aimed at providing an improved service – and all of them were made with the prior approval of the Hong Kong Government. By any of the characteristics by which the quality of an electricity supply should be measured, CLP delivers excellence to our community:

- Reliability – the reliability of our electricity supply is amongst the best of any city in the world – more reliable than New York, London and Sydney and greatly superior to that delivered to customers in other major cities of China such as Beijing, Shanghai and Shenzhen;
- Cost-competitiveness – even after the tariff increases which took effect in January 2012, CLP's tariffs, on average, are amongst the most competitive in the world. For example, within our region, they are lower than those of Tokyo, Sydney and Manila. What is more, CLP achieves these tariff levels without receiving any subsidies or support from taxpayers, whether direct or indirect such as in the form of property rights;
- Customer service – our customer service levels meet those of any developed economy and, in some instances, rank amongst the very best in the world. For example, CLP's service quality recently led to Hong Kong being ranked fourth out of 183 economies in the ease and speed by which electricity is connected to newly-constructed buildings;
- Environmental performance – with full operation of the emissions control facilities at Castle Peak Power Station in 2011, the Station now removes 99.76% of Respirable Suspended Particulates (RSP), as well as over 90% and 50% of emissions of Sulphur Dioxide (SO₂) and Nitrogen Oxide (NO_x) respectively – making this amongst the cleanest coal-fired power stations in the world. This is just a recent example of the sustained effort made by CLP to reduce emissions from the generating capacity which serves our customers. Our CO₂ emissions intensity has also seen massive reductions. Since 1990 total emissions of CO₂ from power generated to meet our customers' needs has only increased by 13%, even though there was an 82% increase in electricity demand over the same period; and
- Affordability – since 1991 CLP's average tariffs have risen by 64%. During the same period, Hong Kong's GDP rose by 170% and average household incomes rose by over 100%. In real terms, that is to say taking into account inflation, the price for electricity paid by our customers is unchanged since 1991. In other words, electricity has become more, not less, affordable – as is also demonstrated by the ongoing rise in electricity demand.

I would like to think that these figures speak for themselves about the quality of the electricity service which CLP provides. However, it is clear that they do not. There may be a number of reasons for this, some particular to Hong Kong's current political and social climate and some particular to the electricity industry. In many respects, excellence in electricity supply is something which Hong Kong people take for granted – rightly so, since our citizens need and deserve quality in the provision of this essential service. In the case of CLP, much of the service we provide and the investments which lie behind it are "invisible" to the public – our connection with customers may often be only a plug in a wall and a bi-monthly bill. In addition, for reasons which others may be able to comment on with greater insight, rises in the cost of public services which elsewhere would be unremarkable, and unremarked upon, have become issues of major political, press and public criticism and controversy in Hong Kong – as our counterparts in the provision of other public services, including utilities and transport, have similarly experienced. It is also noteworthy that the SAR Government has found difficulty, or has perhaps been reluctant, in explaining its policies for the provision of public services, including electricity, the choices involved in its policy decisions, the consequences for service providers and the resulting cost increases for consumers. This leads me to the key message which I wish to convey in this Chairman's Statement. This is one of "Choices and Balance".

Choices

Choices about Hong Kong's electricity supply are made by the community and by the SAR Government, speaking and acting on behalf of the community. Those choices should aim to strike society's preferred balance between cost, supply reliability and security, customer service and environmental performance.

Historically, Hong Kong placed great weight on the rapid expansion of generating, transmission and distribution infrastructure in order to meet the rapidly growing demand for electricity without jeopardising supply reliability. In recent times, Government, with the support of our legislature, has chosen to move towards cleaner generation and to place greater weight on improvement in environmental performance. This choice has direct consequence in terms of the need for major investment in new generating capacity to replace existing coal-fired generation and massive increases in fuel costs. The latter arises because gas is a considerably more expensive fuel than coal and gas prices have moved sharply upwards in recent years, given that Asian gas prices are generally linked to oil prices.

Let me give a specific example of a choice which Government has made, and the consequences. In August 2008 the SAR Government entered into the Memorandum of Understanding (MOU) with the National Energy Administration regarding Hong Kong's future energy supply. In so doing, the SAR Government chose to look towards the Mainland for long-term gas supply and to avoid the potential environmental impact associated with the development of a Liquefied Natural Gas (LNG) terminal on the South Soko Islands within Hong Kong waters. At the same time, that choice had consequences in reducing Hong Kong's options and ability to directly access potentially cost-competitive gas supplies from the international gas market, as well as upon Hong Kong's potential to become a centre for design, engineering and operating expertise in LNG terminals.

As part of the policy orientation towards cleaner generation, the SAR Government has also been setting increasingly stringent emission caps on our Hong Kong generating capacity. Such a choice is entirely understandable and legitimate. All of us, as Hong Kong citizens, myself included, would greatly welcome a significant improvement in local air quality.

Government's choice leads to more gas-fired generation and has already required the investment of about HK\$9 billion in further emissions reduction plant for coal-fired generation at Castle Peak. These environmental improvements must be paid for. Let me take the increased use of gas as an example. The cost of fuel used to generate electricity for our Hong Kong customers is passed through to customers under CLP's fuel clause charge. CLP and its shareholders make no profit on fuel. At present, the amount charged under the fuel clause is set at a level which recovers only the costs of coal purchases and the cheap Yacheng gas (contracted for 20 years ago, and with declining production due to field depletion). In fact, over the past five years, the amounts charged to customers have not even been sufficient to cover the lower, historic fuel costs. By the end of 2012, unless the cost of fuel is more fully borne by those customers who benefit from the electricity which it generates, CLP's customers would have paid about HK\$800 million less than the actual costs of the fuel used to supply their electricity in the past.

As a result of the gas supply agreements with Mainland suppliers, required by the MOU signed by the SAR Government, we estimate that, by 2015, fuel costs alone will increase by around 250% from current levels. This is the equivalent of about a 40% increase in overall cost to the consumer and will require regular and substantial tariff increases over the intervening period. I emphasise, once again, that this increase represents the price of gas paid to Mainland suppliers – none of this increase is for the benefit of CLP's shareholders.

I might also add, in anticipation of the point being made, that none of this increase is attributable to the SoC. Irrespective of whatever regulatory regime is in place, the costs of fuel must ultimately be paid by electricity customers. Singapore has already transitioned towards predominantly gas-fired generation. Singapore has competition between differing generating companies. It might, therefore, be regarded by some as a model towards which Hong Kong might migrate over time. And yet, a typical Singapore resident can face electricity bills which are over 80% higher than those paid by his or her counterparts in Hong Kong.

In its public consultation on Hong Kong's Climate Change Strategy and Action Agenda the Government is contemplating new policy developments to set a fuel mix target by 2020 for the power sector of 50% nuclear, 40% gas, 3 to 4% renewable energy and not more than 10% coal. The environmental benefits which this might deliver in terms of tackling climate change will come at substantial additional costs for fuel – above and beyond those which will already arise by 2015 due to higher gas costs. These increased costs will be reflected in sustained upwards tariff pressure on customers through to the end of the decade.

Balance

I explained earlier that CLP currently delivers an electricity supply which is first-class by any meaningful measures. Those who represent our society have already spoken for and made changes which are leading to a major transformation of Hong Kong's electricity sector and are contemplating further changes. These will deliver improved environmental performance, but will also have other consequences, notably in the form of the increased costs of delivering to our customers an electricity service which reflects the new balance which has been struck. A proper debate about the future of our industry involves not just discussion about the choices which can be made, but an honest and informed discussion about their consequences. A much more open debate needs to take place within Government, the political community and society as a whole to develop a sound energy policy which allows private sector investment to deliver an electricity supply and infrastructure whose qualities correspond to the wishes of our citizens. A sound energy policy will also promote the wise and sustainable use of energy in the interests of both cost-efficiency and the environment – an outcome from which all of us will benefit and to which all of us can contribute.

The choices to be made on energy policy, such as where the balance is to be struck between supply reliability, lower emissions and higher tariffs are not easy. They should be made by Government and society – not CLP. Our own role is two-fold. First, we welcome any opportunity to contribute an informed, authoritative and reasoned voice to the public debate on choices about Hong Kong's electricity service and their consequences. Secondly, and this is where CLP can truly add value to our community, we will implement whatever choices are made as effectively, responsibly and efficiently as possible – as we have for over 100 years.

The Hon. Sir Michael Kadoorie

Hong Kong, 27 February 2012



Opening "A Partnership with the People: Kadoorie Agricultural Aid Association and Post-war Agricultural Hong Kong" – an exhibition at the Hong Kong Museum of History

CEO's Strategic Review



“Turning our
2020 Vision into reality”

Andrew Brandler, Chief Executive Officer

CLP's business model is a simple one. We are an investor and operator in the energy sector of the Asia-Pacific region. We do not wish to conduct any other activity, nor extend our business beyond that region. Our basic business model may be simple, but realising our vision as the leading responsible energy provider in the Asia-Pacific region, from one generation to the next, is an extremely challenging task. Our business requires us to make large-scale capital investments in assets whose economic life may span many decades, in widely differing markets, volatile economic conditions, with evolving expectations of government and society and potentially disruptive changes in technology. In the circumstances, it is essential that there is strategic clarity as between CLP management, our Board and our Shareholders. This CEO's Review provides me with an ideal platform to reinforce that clarity and sense of common purpose. In doing so, I want to return to the remarks I made in my Review to our 2009 Annual Report. Although only two years have passed since then, the increasing velocity of the events which shape our industry and the intervening developments within CLP itself, mean it is timely to review the progress we have made in realising our strategy and on our journey towards our vision of CLP in 2020 as a diversified electricity company which:

- maintains its base and core operating business in Hong Kong, subject to the opportunities and challenges offered by any changing electricity regulatory framework;
- holds a significant stake in a leading listed Australian energy supplier, following industry consolidation;
- is the controlling shareholder of a listed energy company in India and Southeast Asia;
- has a significant, but minority, stake in nuclear energy in Southern China and is looking to exploit this in other Asian markets;
- invests in and operates, if available, transmission and distribution assets in India and in the Chinese mainland;
- has largely exited conventional coal-fired generation in the Chinese mainland; and
- is one of Asia's largest investors in clean and renewable energy.

Hong Kong

As regards our strategy for the Hong Kong business, we have always recognised the priority to be given to the ongoing management of the interface with our regulator, the HKSAR Government, both to protect shareholders' interests under the current SoC and to position the business for a post-2018 regulatory structure. We have identified the continued quality of our operations as critical to the relationship with Government, the shape of any revised regulatory structure and the willingness of Hong Kong people to extend our "social franchise" as the trusted provider of an essential public service. We understand that quality operations must include a strengthened focus on cost control and efficiency, as well as levels of customer service. Although our environmental performance has been first-rate, we expect to lower our emissions even further, including carbon emissions. This will involve further investments in lower carbon emission generation and, over time, a continued move away from coal-fired generation – provided that Government and our customers understand the implications of doing so on tariff levels, reliability and energy security.

This Annual Report, and the accompanying [online Sustainability Report](#), demonstrate that we have continued to deliver on our commitment to provide our Hong Kong customers with an electricity supply which is characterised by supply reliability, power quality, environmental performance, excellence in customer service and reasonable tariff levels. As regards the quality of the relationship with our regulators within the HKSAR Government, and as Sir Michael Kadoorie has remarked in his Chairman's Statement, we would have welcomed Government being more forthcoming in the public domain about the consequences of its energy policy, the choices which it has made and the impact of its decisions on tariff levels. In 2012 and beyond we will re-double our efforts in explaining to Government and to the wider community the importance of a stable, fair and a long-term regulatory structure to enable the large-scale and long-term capital investment which is required to maintain the outstanding quality of Hong Kong's electricity supply. 

We will also seek to explain, in an honest, informed and transparent manner, that the major transformation in Hong Kong's electricity infrastructure which Government has set in place as we move away from heavy reliance on coal-fired generation towards cleaner energy sources, notably gas and nuclear energy, requires substantial investment and the entering into contracts and commitments which will last 20 years or more. We will explain that the environmental benefits of this cannot be attained and maintained without increased cost, through higher tariffs, to the community for whom those benefits are intended. We welcome an intelligent and informed debate about Hong Kong's electricity supply – the motor of the SAR's social and economic development. We welcome rational and balanced choices about the future shape of that industry.

Outside Hong Kong

Our strategy outside Hong Kong is to adopt a flexible, market-by-market approach, with a focus on a balanced portfolio which reflects our long-term move towards a low-carbon business. We have moved away from our earlier intention of building "meaningful" businesses in pre-selected markets. We have become more cautious when contemplating wide-scope corporate joint ventures. Traditionally, CLP has always been a long-term holder of its assets and investments. Whilst CLP has not become a "trader", which reflects neither our business nor our philosophy, we have become more flexible in the timing and manner of the maximisation of portfolio values. This involves harvesting legacy assets without obvious growth opportunities, and the exploitation of the growth potential of other assets and market positions, on a case by case basis, with a view to long-term expansion through retention and organic growth, or through a partial sale, merger, or separate listing of various businesses.

In the following paragraphs, I discuss each of our four business streams outside Hong Kong from the perspective of our strategic approach and our progress towards our 2020 vision.

A couple of years ago, I described TRUenergy in Australia as a platform either for organic growth or positioning within future industry consolidation. The acquisition in March 2011 of the EnergyAustralia retail business in NSW and substantial additional generating capacity was a transforming transaction for TRUenergy. It positions TRUenergy firmly as one of the three leading energy generators and retailers in Australia's national energy market and as the second largest in terms of electricity alone.

The size and quality of this business is such that it may be regarded as capable of being listed on the Australian Securities Exchange if and when such a step would be beneficial to CLP's shareholders and to TRUenergy's long-term future. Such a listing may have a number of potential benefits: it allows a return of capital to CLP, provides TRUenergy with its own capability to raise capital to fund future investment and strengthens the Australian identity of the business. In addition, it would allow TRUenergy's board and management to focus single-mindedly on its own business, rather than competing for resources and capital within the CLP Group as a whole. To that end, we have engaged financial advisors, on a preliminary basis, to review the prospects for a future possible listing. Even so, the quality of the business, and our growing experience in the Australian energy market are such that TRUenergy is a major asset to CLP, as it stands. As such, whilst a listing is an option for serious consideration, we have not yet taken any decision as to the principle, terms or timing of any such step.

Within the Chinese mainland we are repositioning our investment in coal-fired generation, as demonstrated in 2010 by the sale of our 70% interest in the Anshun II power station in Guizhou. We are also looking critically at those coal-fired assets with limited scope for expansion where we have a minority interest. On the other hand, our majority-owned coal-fired power station at Fangchenggang has proved to be a valuable asset and, within the next year, we hope to obtain the necessary approvals for

two further 660MW units at the site. Other than Fangchenggang, our growth opportunities are predominantly in renewable energy and in nuclear power. We have started to build on the longstanding relationship with China Guangdong Nuclear Power Holding Company (CGNPC), which originated through our work together at Daya Bay. CLP's agreement to take a 17% interest in CGNPC's Yangjiang Nuclear Power Station in Guangdong is an example of how that relationship offers an avenue for further participation in the expansion of China's nuclear power industry, principally in Southern China and, possibly, in the longer term in overseas markets where CLP already has established a business presence, reputation and relationships. The Fukushima accident has, understandably, caused a pause in the planned expansion of China's nuclear energy capacity. Nonetheless, I firmly believe that China's nuclear expansion will resume its projected path, once the lessons of Fukushima have been carefully analysed and absorbed and any necessary design and operating changes and improvements have been fully assessed and implemented.

India continues to present significant long-term development opportunities aligned with the overall upward trajectory of social and economic development. There are indications, such as the volatility of the Indian rupee, the Union Government's budget deficit and disruptions in coal supplies, that the power sector in India may be going through a period of turbulence. However, CLP has gained considerable experience in the Indian market over the past decade, whilst other foreign energy players have withdrawn or stayed away. Our existing gas-fired power station in Gujarat, the progress of our greenfield coal-fired power station project in Jhajar and the growth of our wind energy portfolio mean that CLP has a broad presence in the Indian power sector and the capabilities to catch opportunities as they arise. It is possible that, as with TRUenergy, our Indian business may at some stage make demands on CLP Holdings' capital on a scale beyond that we are prepared to fund ourselves. Our response might involve recourse to joint ventures at project level, in order to ease our capital commitments. In due course we would consider a local listing, although the time scale for such a step is well beyond that which I might envisage for TRUenergy.

In our 2020 vision, I suggested that the future might see CLP, amongst other outcomes, as a controlling shareholder of a listed energy company in Southeast Asia. For the moment, this is the aspect of our 2020 vision in which I have lowest degree of optimism. Markets such as Indonesia, the Philippines, Vietnam and Thailand, have a significant need for additional generating capacity and transmission infrastructure to support ongoing economic growth. However, in practice, the opportunities for outside private sector participants such as CLP to invest in these markets on terms which meet our required investment criteria and quality seem limited. The outcome of our development efforts on the two coal-fired projects which we are jointly developing in Vietnam, and on which we have already expended considerable time and effort, will be a major indicator of the medium to longer term prospects for this aspect of the Group's activities.

Climate change

Shareholders will recall that CLP's Climate Vision 2050, which we announced in December 2007, set targets for the progressive reduction of the emissions intensity of our generation portfolio. These targets were based on our best forecast at the time of the speed of change in our business and the scale of policy and regulatory support. Our target was to reduce the CO₂ emissions intensity of our generating portfolio from 0.84kg CO₂/kWh progressively to 0.2kg CO₂/kWh by 2050. We also planned to increase the non carbon-emitting generating capacity in our portfolio to 20% by 2020 and to ensure that 5% of our generating capacity came from renewable energy by 2010.

By December 2010 we had made substantial progress towards our targets, in some cases significantly beyond our own expectations. For example, our renewable energy generating capacity had already grown from approximately 1% in 2005 to 15% by 2010. In those circumstances, we set new and more stringent targets for 2020. These are set out on our website and explained in our publication ["Our Journey to A Low-Carbon Energy Future"](#). They include a commitment to reduce our CO₂ emissions intensity to 0.6 kg CO₂/kWh by 2020, increase our renewable energy to approximately 20% of our generating portfolio and to ensure that 30% of our generating capacity will be non-carbon emitting. We remain on track to meet these more ambitious targets. For example, our renewable energy capacity now stands at over 18% of our total generating portfolio and about 22% of our generating capacity is non-carbon-emitting. 

The series of UN-sponsored meetings on a multinational framework for tackling climate change have, as yet, produced disappointing results. Even so, I believe that international efforts to reduce carbon emissions, including those from the power sector, will continue, even if those efforts may sometimes be slowed by adverse economic conditions. In the medium-term the impetus for clean energy will likely stem less from a new global accord and more from policies and regulations at a national level. CLP has seen examples of this in all of the markets in which we are present – each of which offers support, in one form or

other, for renewable energy. I am, therefore, confident that CLP is on the right path in moving towards large-scale reductions in the carbon emissions from our activities. In doing so, we do the right thing for our planet, we are aligned with the direction of national policy in our markets and we mitigate the risks associated with future carbon liabilities – and we have seen an example of the scale and potential of such risks with the impairment we have made to our brown coal-fired power station at Yallourn, following the passage of the Australian Government’s “Clean Energy” Legislative package.

Sustainability

CLP has been around for over 100 years. In that sense, we have already proved ourselves to be a sustainable business. We aim to be here a century from now. To achieve this, our mission is to produce and supply energy with minimal environmental impact to create value for shareholders, employees and the wider community. The Sustainability Committee Report, which is at page 116 of this Annual Report, explains the sustainability framework which we established in 2011 and the steps we are taking to embed sustainability goals in business planning and operations throughout the CLP Group. We do not see sustainability as purely an environmental concept, nor do we see it as something which is separate from the main stream of our business activities. In addition to establishing our sustainability framework, and setting specific and measurable sustainability goals for each of our business streams, we aim to improve our reporting to stakeholders, such as in this Annual Report and our accompanying [online Sustainability Report](#), so that you have a wider and more informed view of CLP’s performance in all aspects of its operations. 

Funding

Our strategy and vision cannot be realised, nor would CLP be a sustainable business, without the necessary financial strength to achieve our objectives. CLP Holdings’ liquidity and financial position remains strong. We have used this strength to implement several major financing efforts on favourable terms. For example, in the first half of 2011, CLP Holdings and TRUenergy arranged significant corporate loan facilities to support capital investment commitments, as well as to provide a reasonable liquidity cushion. CLP Power in Hong Kong continues to utilise non-bank finance through the public capital markets, as well as private placement with Hong Kong and other Asian investors. This strategy of lengthening maturities and diversifying funding sources has positioned CLP well to meet its short to medium-term financing requirements. Nonetheless, the uncertainties of financial markets and the scale of demands on CLP’s capital mean that we must exercise discipline and caution in the pursuit of the opportunities available to us, in order to avoid over-extending ourselves. Substantial new investment opportunities will be carefully scrutinised for their potential to generate strong returns or deliver significant strategic benefits.

CLP’s price earnings ratio is comparable to those Australian power companies such as AGL. In any restructuring of its Australian business (including a possible listing of TRUenergy), how will CLP maximise value for CLP shareholders and avoid any discount to its current valuation?

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We have not taken any decision to proceed with a possible listing of TRUenergy. In any case, we would only do this if we were satisfied that this would create value for CLP’s shareholders. This would require a valuation which properly reflected the quality of the business, including by reference to relevant benchmarks such as AGL and Origin. In that regard, TRUenergy’s valuation is not necessarily that which would be derived by applying the price / earnings ratio of the CLP Group as a whole to the TRUenergy business in isolation. The attractiveness of any potential IPO would be enhanced by good timing – choosing a moment when the full potential of TRUenergy’s business, including following last year’s NSW acquisition, was apparent to investors and when market conditions as a whole were welcoming for new issues.



Mr. Pierre Lau
Managing Director, Head of Regional Utilities,
Deputy Head of China,
Asia Pacific Equity Research,
Citigroup Global Markets Asia Limited



A New Home

As many of our shareholders are residents in Hong Kong, they may have seen recent press coverage regarding the possible redevelopment of CLP's head office at Argyle Street in Kowloon. This has been CLP's home since 1940. Over the past 70 years the building has served CLP extremely well. However, after many decades we have reached a point where it is no longer suitable for modern business needs – as to which, it might be noted that most of the building was originally designed years ago as residential accommodation. Moreover, changes to fire safety and building regulations require substantial and expensive renovation works. These would involve major disruption to our operations over an extended period.

As a result, during 2012 we will move to occupy two floors of a converted commercial centre at Hok Un. This will provide additional office space, allow us to once again bring under one roof most of the major group functions and provide an improved working environment for our staff. The costs of the move are being carefully monitored and the location, layout and facilities at the new head office will correspond to CLP's typically modest and low-key approach to such matters.

The departure from Argyle Street does allow the possibility of residential redevelopment at the site. We do have approved plans for such redevelopment, but the decision, timing and details of any such redevelopment are not yet determined. We are aware of the heritage value of the Argyle Street building, in particular the Clock Tower which will be a familiar sight to many of our fellow citizens. We are working towards an outcome which would see a proper balance being struck between the legitimate interest of CLP's shareholders in the realisation of value from the redevelopment of the site and the community's desire, supported by Government, to see the preservation of an important and distinctive element of Hong Kong's built heritage.

Although the office from which I write to you next year may have changed, I look forward to the opportunity to report on continued progress in turning our 2020 vision into reality.

Andrew Brandler

Andrew Brandler

Hong Kong, 27 February 2012

How can Management strike a balance between making the maximum profit for the shareholders on one hand and not to overburden the electricity consumers on the other?



Mr. Silvanus Lo
Shareholder

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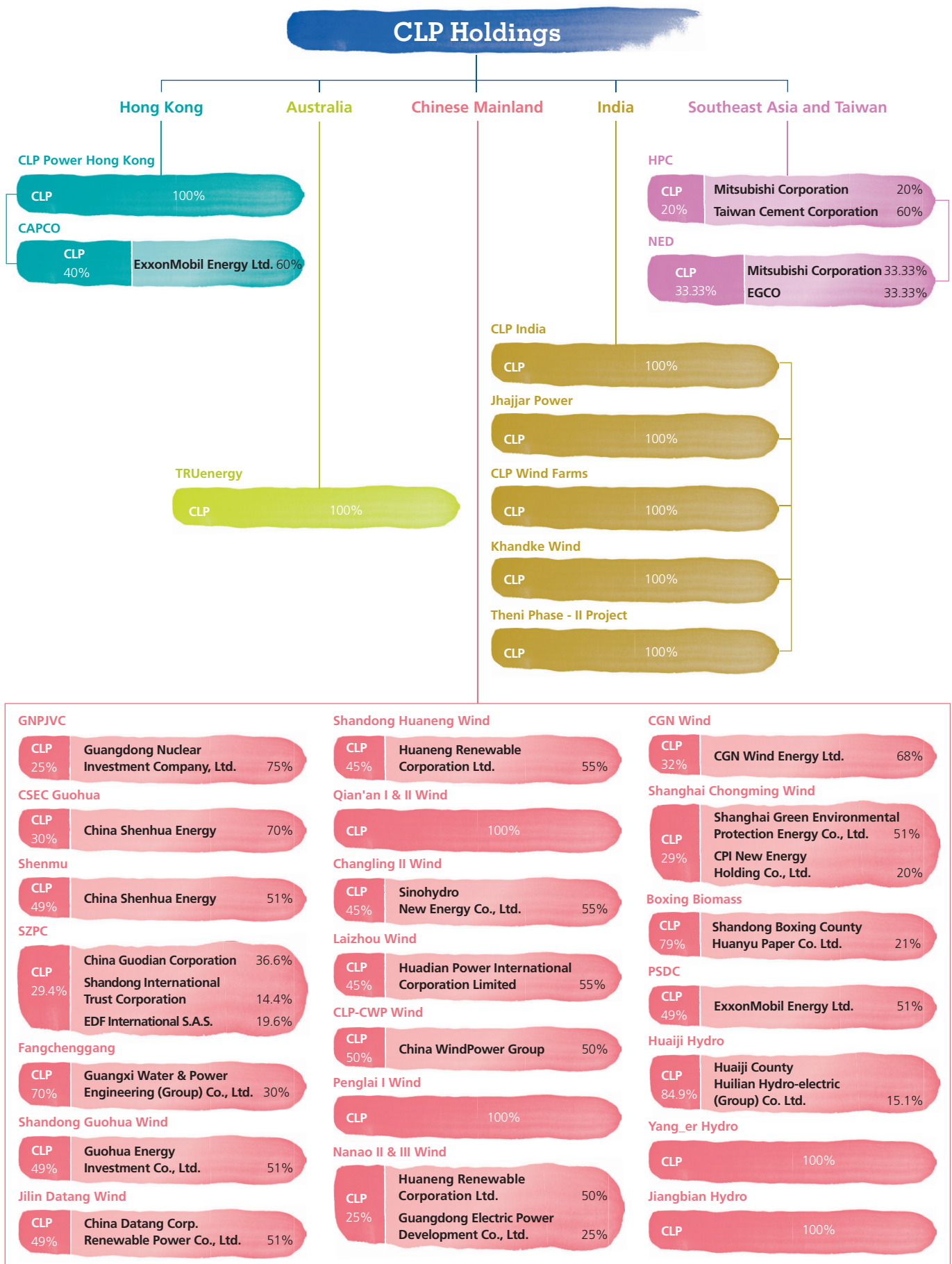
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In the case of our Hong Kong electricity business, we cannot simply maximise profit for shareholders since this is capped by the SoC – and our permitted returns were substantially reduced under the new SoC which took effect towards the end of 2008. As regards the burdens on electricity consumers, it is important to note that shareholder profit represents only one element of the overall tariff paid by those customers. The majority of the tariff is attributable to the cost of generating, transmitting and distributing electricity – most notably the purchase of fuel to generate electricity (on which CLP makes no profit whatsoever). CLP has an outstanding and demonstrable track record in controlling tariff levels. The facts speak for themselves – tariffs have fallen in real terms by about 30% since 1986, whilst at the same time, being accompanied by world-class levels of reliability, customer service and environmental performance.



CLP Group Structure and Partnerships

as at 31 December 2011



Assets / Investments

as at 31 December 2011

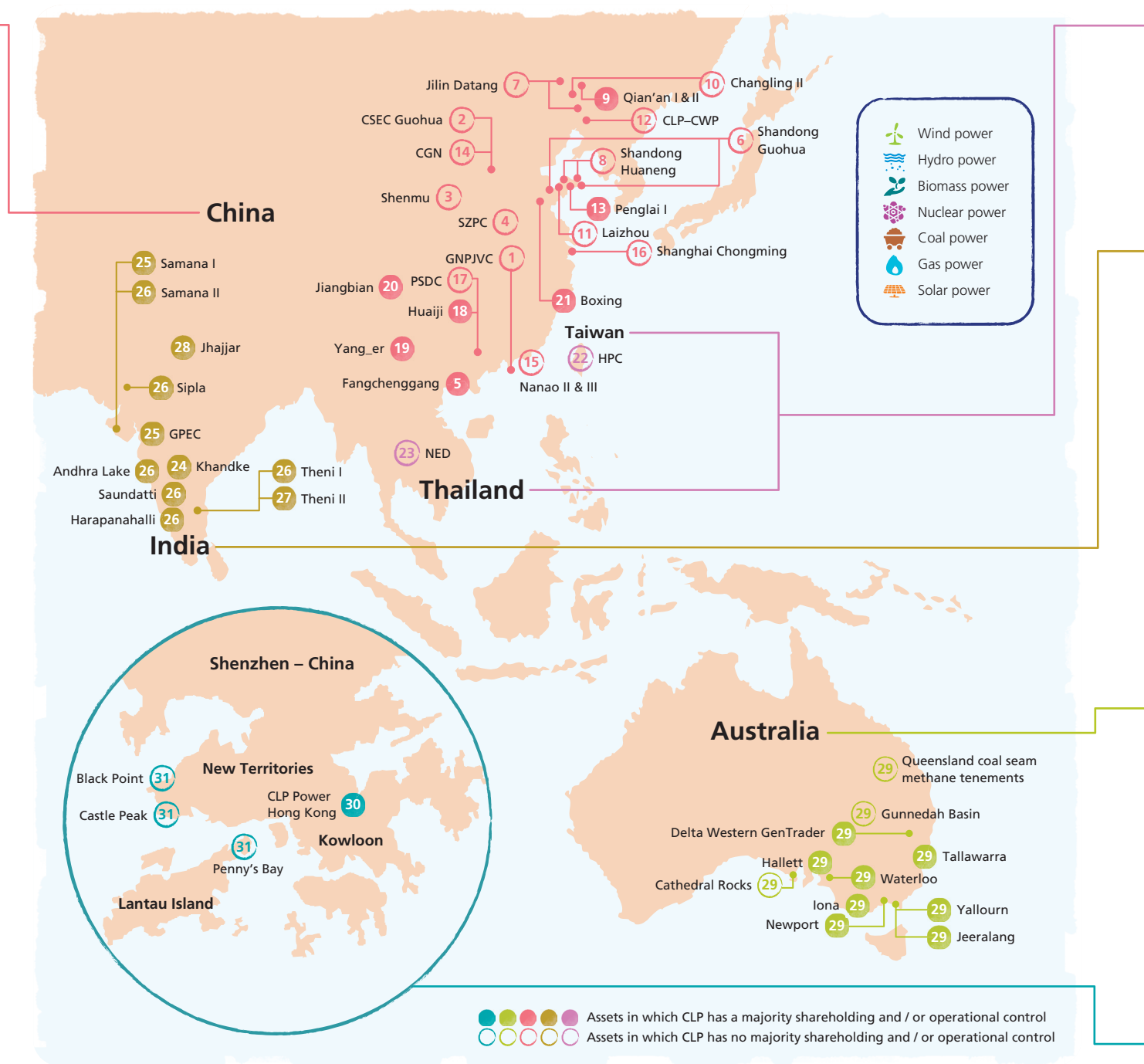
Chinese Mainland Investments Gross/Equity MW

1	Equity Interest 25%		Guangdong Nuclear Power Joint Venture Company, Limited (GNPJVC) 1,968 / 492MW GNPJVC constructed the Guangdong Daya Bay Nuclear Power Station (GNPS) at Daya Bay (大亞灣). GNPS is equipped with two 984MW Pressurised Water Reactors incorporating equipment from France and the United Kingdom. 70% of electricity generated is supplied to Hong Kong, with the remaining 30% sold to Guangdong Province (廣東省)
2	30%		CSEC Guohua International Power Company Limited (CSEC Guohua) 7,650 / 1,333MW⁽¹⁾ Ownership interests in five coal-fired power stations: • 100% of Beijing Yire (400MW) • 65% of Panshan in Tianjin (1,030MW) • 55% of Sanhe I and II in Hebei (1,300MW) • 50% of Suizhong I and Suizhong II in Liaoning (3,600MW) • 65% of Zhungeer II and III in Inner Mongolia Autonomous Region (1,320MW)
3	49%		CLP Guohua Shenmu Power Company Limited (Shenmu) 220 / 108MW Owns and operates Shenmu Power Station in Shaanxi (220MW)
4	29.4%		Shandong Zhonghua Power Company, Ltd. (SZPC) 3,060 / 900MW Owns four coal-fired power stations in Shandong: • Shiheng I and II (1,260MW) • Liaocheng I (1,200MW) • Heze II (600MW)
5	70%		CLP Guangxi Fangchenggang Power Company Limited (Fangchenggang) 1,260 / 882MW Owns and operates two 630MW supercritical coal-fired units at Fangchenggang, Guangxi
6	49%		Shandong Guohua Wind Joint Ventures (Shandong Guohua Wind) 445 / 218MW Owns nine wind farms in Shandong: • Rongcheng I (48.8MW) • Rongcheng II (49.5MW) • Rongcheng III (49.5MW) • Dongying Hekou (49.5MW) • Lijin I (49.5MW) • Lijin II (49.5MW) • Zhanhua I (49.5MW) • Zhanhua II (49.5MW) • Haifang (49.5MW), under development
7	49%		Jilin Datang Wind Joint Ventures (Jilin Datang Wind) 148 / 73MW Owns three wind farms in Jilin: Datong (49.5MW), Shuangliao I (49.3MW) and Shuangliao II (49.5MW)
8	45%		Shandong Huaneng Wind Joint Ventures (Shandong Huaneng Wind) 96 / 43MW Owns three wind farms in Shandong: Changdao (27.2MW), Weihai I (19.5MW) and Weihai II (49.5MW)
9	100%		Qian'an IW Power Company Limited (Qian'an I Wind) 50 / 50MW (Qian'an II Wind) 50 / 50MW Owns and operates Qian'an I (49.5MW) and Qian'an II (49.5MW) wind farms in Jilin
10	45%		Sinohydro CLP Wind Power Company Limited (Changling II Wind) 50 / 22MW Owns Changling II wind farm (49.5MW) in Jilin
11	45%		Huadian Laizhou Wind Power Company Limited (Laizhou Wind) 41 / 18MW Owns Laizhou wind farm (40.5MW) in Shandong
12	50%		CLP-CWP Wind Power Investment Limited (CLP-CWP Wind) 99 / 24MW⁽²⁾ Owns two wind farms in Liaoning: 49% of Qujiagou (49.5MW) and 49% of Mazongshan (49.5MW)
13	100%		CLP (Penglai) Wind Power Ltd. (Penglai I Wind) 48 / 48MW Owns and operates Penglai I wind farm (48MW) in Shandong
14	32%		CGN Wind Power Company Limited (CGN Wind) 2,142 / 569MW⁽³⁾ Owns and operates 1,969MW of wind projects in various parts of China
15	25%		Huaneng Shantou Wind Power Company Limited (Nanao II Wind) 45 / 11MW (Nanao III Wind) 15 / 4MW Owns two wind farms in Guangdong: Nan'ao II (45MW) and Nan'ao III (15MW)
16	29%		Shanghai Chongming Beiyuan Wind Power Generation Company Limited (Shanghai Chongming Wind) 48 / 14MW Owns Chongming wind farm (48MW) in Shanghai, under construction

Notes:

- (1) The 1,333 equity MW attributed to CLP, through its 30% equity interest in CSEC Guohua, takes into account that CSEC Guohua holds varying equity interests in the generating assets included in the 7,650 gross MW.
- (2) The 24 equity MW attributed to CLP, through its 50% equity interest in CLP-CWP Wind, takes into account that CLP-CWP Wind holds varying equity interests in the generating assets included in the 99 gross MW.
- (3) The 569 equity MW attributed to CLP, through its 32% equity interest in CGN Wind, takes into account that CGN Wind holds varying equity interests in the generating assets included in the 2,142 gross MW. CGN Wind is expected to undergo restructuring in the near future whereby its gross capacity under operation and construction will be reduced to 1,794MW, and in which CLP's equity stake will be diluted to about 15.75%, with corresponding equity capacity reduced to 232 equity MW.

More than 20,000MW, 7 different energy sources...



17	49%	Hong Kong Pumped Storage Development Company, Limited (PSDC) 1,200 / 600MW PSDC may use half of the 1,200MW pumped storage capacity of Phase 1 of the Guangzhou Pumped Storage Power Station until 2034
18	84.9%	Huaiji Hydropower Stations (Huaiji Hydro) 125 / 106MW Owns and operates 12 small hydro power stations (125MW) in Guangdong
19	100%	Dali Yang_er Hydropower Development Co., Ltd. (Yang_er Hydro) 50 / 50MW Owns and operates Yang_er hydro power station (50MW) in Yunnan
20	100%	CLP Sichuan (Jiangbian) Power Company Limited (Jiangbian Hydro) 330 / 330MW Owns and operates Jiangbian hydro power station (330MW) in Sichuan
21	79%	CLP Huanyu (Shandong) Biomass Heat and Power Company Limited (Boxing Biomass) Equivalent of 15 / 12MW Owns and operates Boxing biomass combined heat and power plant (15MW + 75 tonnes/hour steam) in Shandong

...over 60 assets and investments – One Group

Southeast Asia and Taiwan Investments Gross/Equity MW

- 22** **Equity Interest**  **Ho-Ping Power Company (HPC) 1,320 / 264MW**
HPC owns the 1,320MW coal-fired Ho-Ping Power Station in Taiwan. CLP's 20% interest is held through OneEnergy Taiwan Ltd., a 50:50 project vehicle with Mitsubishi Corporation. Taiwan Cement Corporation owns the other 60% interest in HPC
- 23** **Equity Interest**  **Natural Energy Development Co., Ltd. (NED) 55 / 18MW**
NED owns a 55MW solar farm under construction in Lopburi Province in Central Thailand. NED is a joint venture company with equal shareholding by CLP, Mitsubishi Corporation and EGCO

India Investments Gross/Equity MW

- 24** **Equity Interest**  **CLP Wind Farms (Khandke) Private Limited (Khandke Wind) 50 / 50MW**
Khandke Wind – 50.4MW project in Maharashtra. The project is fully commissioned
- 25** **Equity Interest**  **CLP India Private Limited (CLP India) 705 / 705MW**
 - **GPEC Gas Plant** – 655MW combined-cycle gas-fired power plant in Gujarat. The plant is designed to run on natural gas and naphtha (backup) as fuel
 - **Samana Phase I Project** – 50.4MW project in Gujarat. The project is fully commissioned
- 26** **Equity Interest**  **CLP Wind Farms (India) Private Limited (CLP Wind Farms) 368 / 368MW**
 - **Samana Phase II** (50.4MW) in Gujarat
 - **Saundatti** project (72MW) and **Harapanahalli** project (39.6MW) in Karnataka
 - **Andhra Lake** project (106.4MW) in Maharashtra
 - **Theni Phase I** project (49.5MW) in Tamil Nadu
 - **Sipla** project (50.4MW) under construction in Rajasthan
- 27** **Equity Interest**  **CLP Wind Farms (Theni – Project II) Private Limited (Theni Phase-II Project) 50 / 50MW**
Theni Phase II Project – 49.5MW project in Tamil Nadu. The project is fully commissioned
- 28** **Equity Interest**  **Jhajjar Power Limited (Jhajjar Power) 1,320 / 1,320MW**
Jhajjar Power – 1,320MW (2 x 660MW) coal-fired project, being constructed using supercritical technology at Jhajjar, Haryana. Both units are scheduled for commissioning in the first half of 2012

Australia Investments Gross/Equity MW

- 29** **Equity Interest**  **TRUenergy 5,646 / 5,613MW**
TRUenergy is an integrated generation and retail electricity and gas business in Victoria, South Australia (SA), NSW, Queensland and the Australian Capital Territory, comprising:

 - **Yallourn** coal-fired power station 1,480MW
 - **Tallawarra** gas-fired power station 420MW
 - **Hallett** gas-fired power station 203MW
 - **Delta Western GenTrader** (Mount Piper and Wallerawang) off-take from coal-fired power stations 2,400MW
 - **Newport** and **Jeeralang** off-take from gas-fired plants 966MW
 - **Waterloo** wind farm 111MW
 - **Cathedral Rocks** (50%JV) wind farm 66MW
 - **Iona** Gas Storage facility and processing plant 22PJ
 - **Gunnedah Basin** 20% (>500PJ of equity coal seam gas)
 - Equity in **Queensland coal seam methane tenements**

Hong Kong Investments

- 30** **Equity Interest**  **CLP Power Hong Kong Limited (CLP Power Hong Kong)⁽⁴⁾**
CLP Power Hong Kong owns and operates the transmission and distribution system which includes:
 - 555 km of 400kV lines, 1,531 km of 132kV lines, 27 km of 33kV lines and 11,809 km of 11kV lines
 - 59,454 MVA transformers and 213 primary and 13,361 secondary substations in operation
- 31** **Equity Interest**  **Castle Peak Power Company Limited (CAPCO)⁽⁴⁾, 6,908MW of installed generating capacity**
CAPCO owns and CLP Power Hong Kong operates:

 - **Black Point Power Station (2,500MW)**
One of the world's largest gas-fired power stations comprising eight combined-cycle turbines of 312.5MW each
 - **Castle Peak Power Station (4,108MW)**
Comprising four coal-fired units of 350MW each and another four units of 677MW each. Two of the 677MW units can use gas as backup fuel. All units can use oil as a backup fuel
 - **Penny's Bay Power Station (300MW)**
Three diesel-fired gas turbine units of 100MW each

Note:

(4) CLP Power Hong Kong purchases its power from CAPCO, PSDC and Guangdong Daya Bay Nuclear Power Station. These sources of power amount to a total capacity of 8,888MW available to serve the Hong Kong electricity business.

Economic Value

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



Financial Review

CLP Group's Financial Results and Position at a Glance

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

Strategy to Diversify Electricity Business

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

Outcome

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

Last Year's Consolidated Statement of Financial Position

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

Beyond Last Year's Statement of Financial Position

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

Consolidated Statement of Comprehensive Income for Two Years

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

Consolidated Profits Retained for This Year

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

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

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

Consolidated Statement of Cash Flows for This Year

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

Breakdown of Capital Expenditure and Investments

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

Today's Consolidated Statement of Financial Position

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

Beyond Today's Statement of Financial Position

	HK\$M
Charges on assets	18,063
Contingent liabilities	1,366
Operating commitments	10,449
Capital commitments	24,415

Strategy to Optimise Financial and Capital Structure

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

Outcome

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

Strategy to Manage Risks

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

Outcome

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

Strategy to Reduce Carbon Intensity

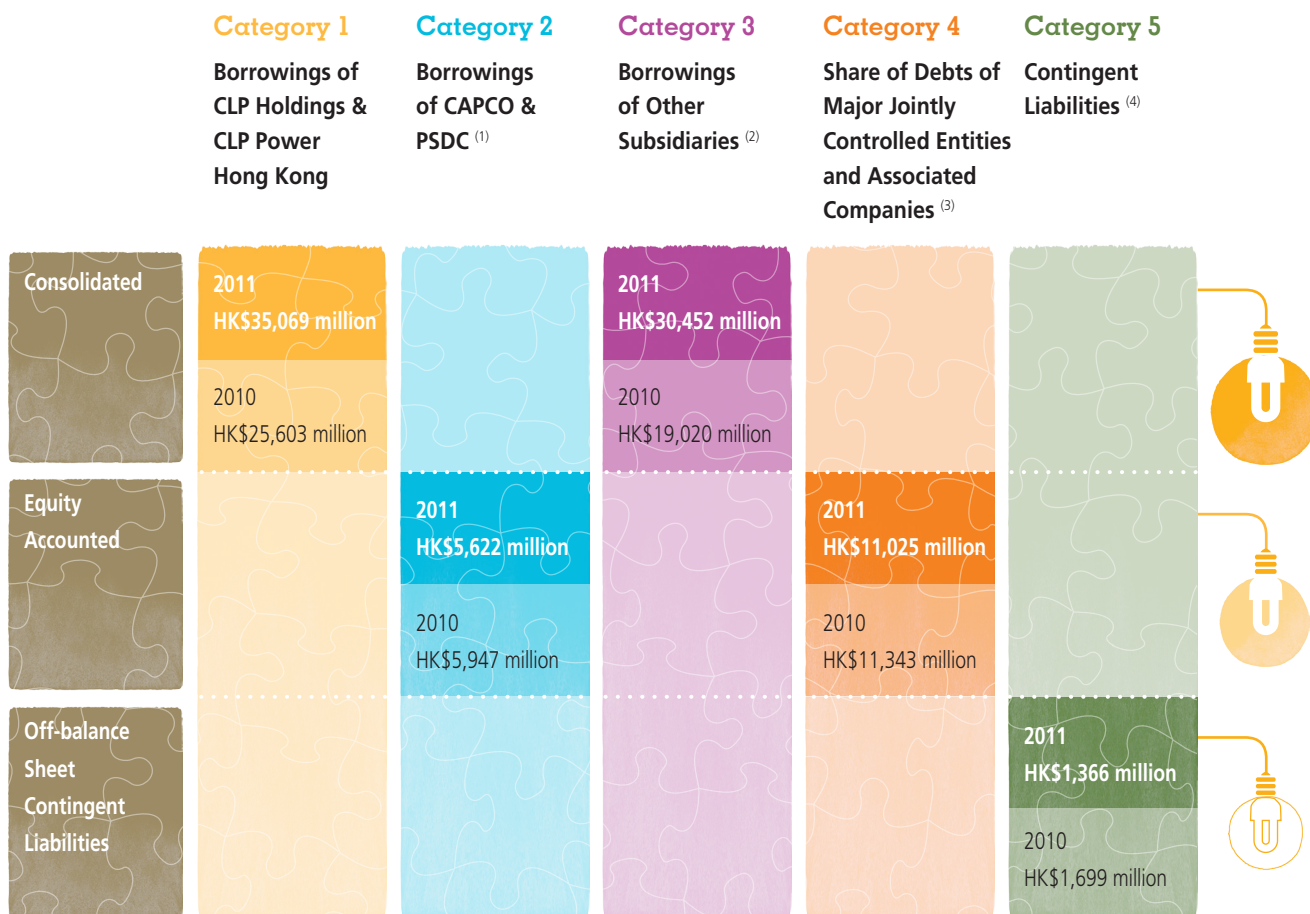
CLP continues to invest in renewable energy to reduce the carbon intensity of its generating portfolio and capture the opportunities of low carbon emissions generation.

Outcome

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

CLP Group's Financial Obligations at a Glance

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



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

Notes:

- (1) 100% of the debts of CAPCO and PSDC. Although the Group holds only a 40% interest in CAPCO and a 49% interest in PSDC, CLP Power Hong Kong has commitments to these companies through power purchase and service agreements, as explained in the SoC Statement on pages 211 to 213 and Note 33 to the Financial Statements.
- (2) These debts are non-recourse to CLP Holdings. These debts mainly comprise debts of TRUenergy and CLP India.
- (3) These debts are non-recourse to CLP Holdings or its subsidiaries. The share of debts is calculated by reference to the Group's shareholdings in the relevant jointly controlled entities and associated companies.
- (4) Details of the contingent liabilities of CLP Holdings and its subsidiaries are set out in Note 34 to the Financial Statements.
- (5) Included additional 60% and 51% of the equity of CAPCO and PSDC, respectively, in the denominator to ensure consistency.

Financial Analysis

Group's Financial Results



HK\$91.6 billion

record high revenue
following the NSW
Acquisition

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

Revenue and Expenses

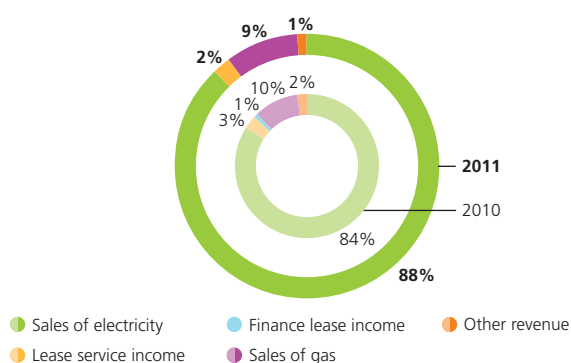
Because the market structure in Australia separates retail and generation, revenue from Australia includes revenues from both activities. In Hong Kong, because of its different market structure, we recognise retail revenue.

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

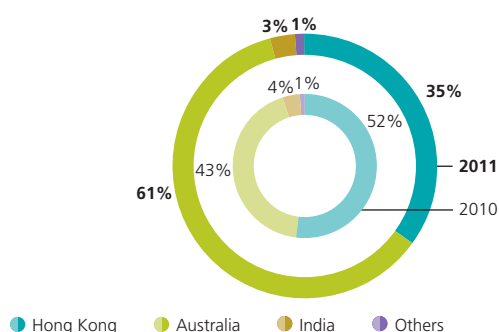
There was a corresponding and substantial increase in expenses in Australia such as transmission and distribution charges, fuel costs, depreciation and other operating costs.

Analysis of Revenue

By Nature

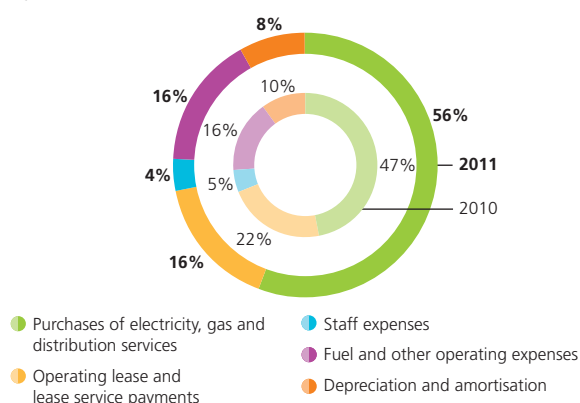


By Region

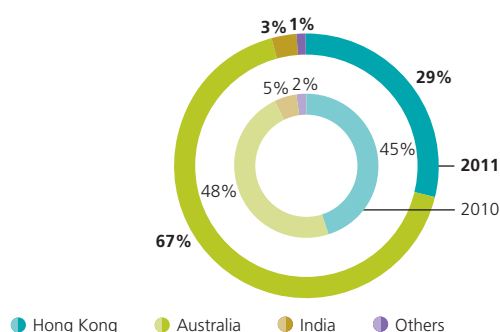


Analysis of Expenses

By Nature



By Region



Finance Costs

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

Income Tax Expense

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

Earnings Attributable to Shareholders

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

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



123% increase in operating earnings of Australia over 2010

Group's Financial Position



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

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

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

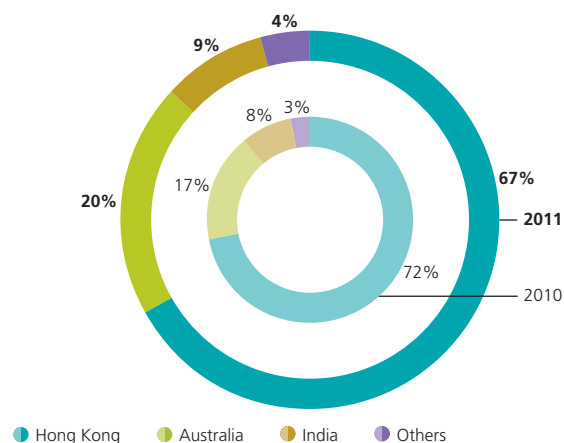
The power business is highly capital-intensive and continuous investment in capital assets is essential for CLP to maintain its high quality electricity supply.

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

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

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

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



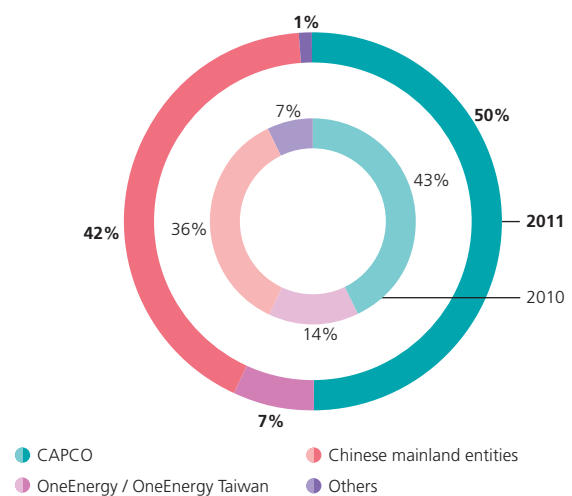
Goodwill and Other Intangible Assets

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

Interests in Jointly Controlled Entities

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

The Group's Major Jointly Controlled Entities



Deferred Tax Assets

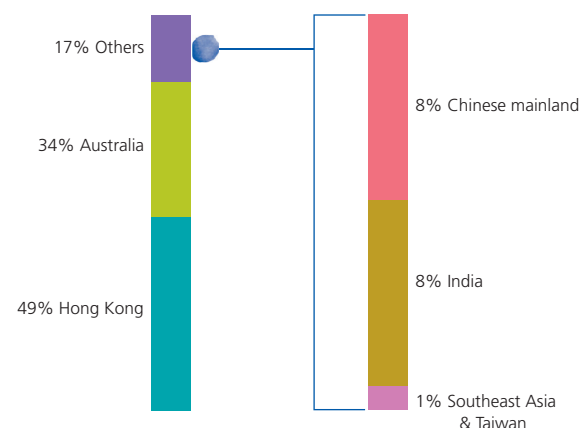
Most of the deferred tax assets relate to the unused tax losses of TRUenergy. The significant decrease was largely attributable to the recognition of net deferred tax liabilities from the NSW Acquisition of HK\$2,640 million, and the utilisation of tax losses against TRUenergy's taxable profit in the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

Total Assets and Net Assets

Net assets and total assets are further analysed as follows:

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

Total Assets by Geographical Location in 2011



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

Group's Financial Position

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

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

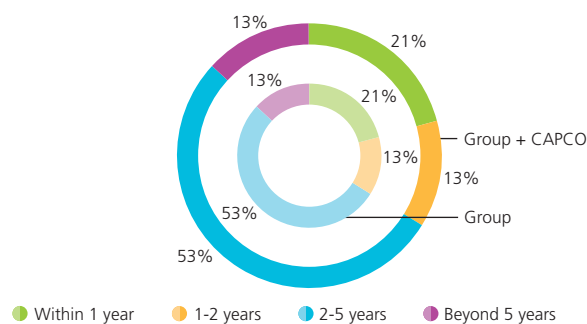
* Including current and non-current portions

Derivative Financial Instruments and Hedging

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

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

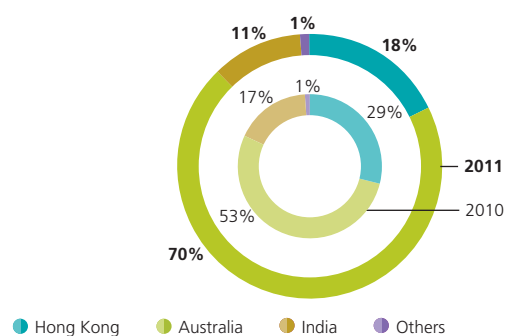
Maturity Profile in 2011



Trade and Other Receivables

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

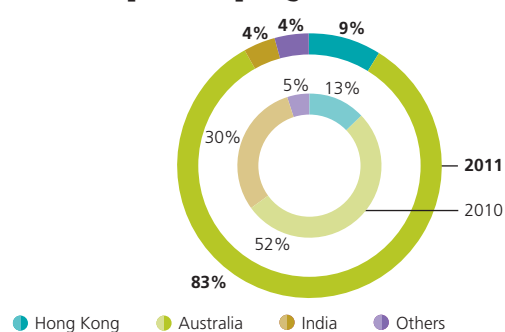
Trade Receivables by Segment



Trade and Other Payables

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

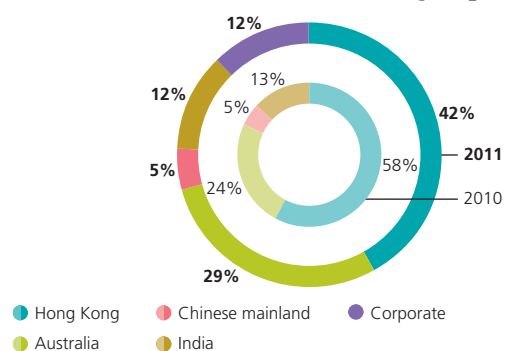
Trade Payables by Segment



Bank Loans and Other Borrowings

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

Bank Loans and Other Borrowings by Segment



Shareholders' Funds

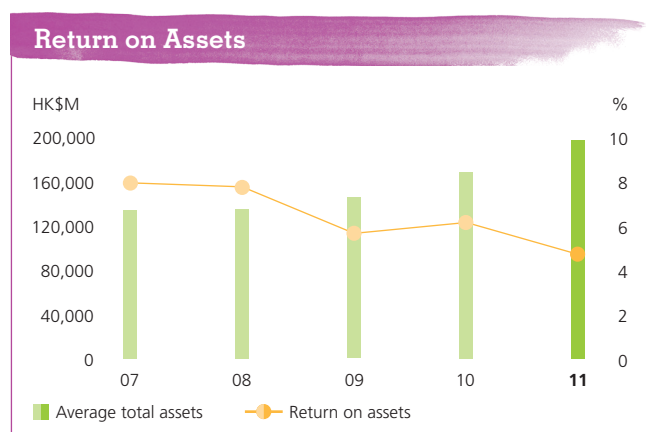
The undistributed earnings for the year, partly offset by the translation loss from our Australia and India businesses accounted for the increase in shareholders' funds.

A Broader Perspective

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

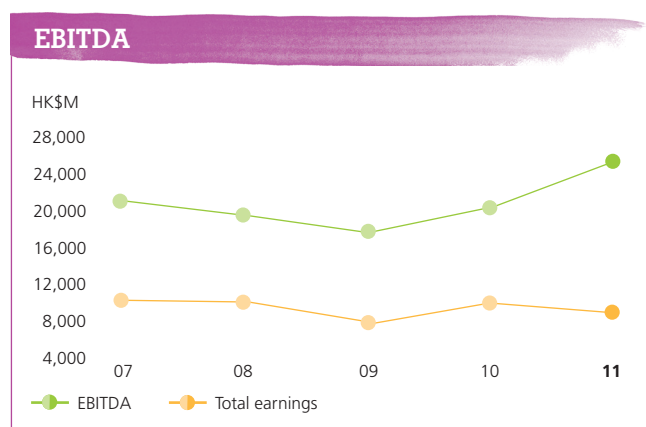
Performance Indicators

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



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

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



$$\text{EBITDA} = \text{Total Earnings}^* + \text{Finance Costs} - \text{Finance Income} + \text{Income Tax} + \text{Depreciation and Amortisation}$$

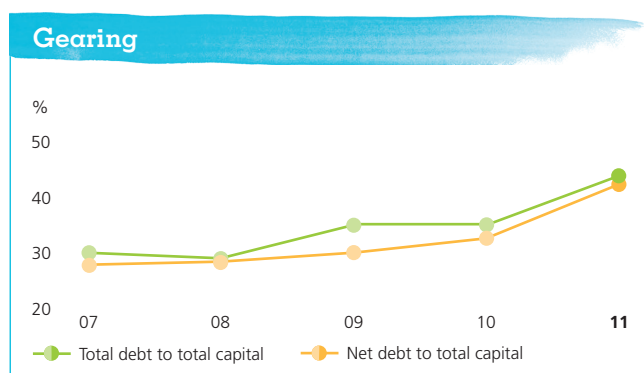
* Excluding non-cash one-off items

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

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

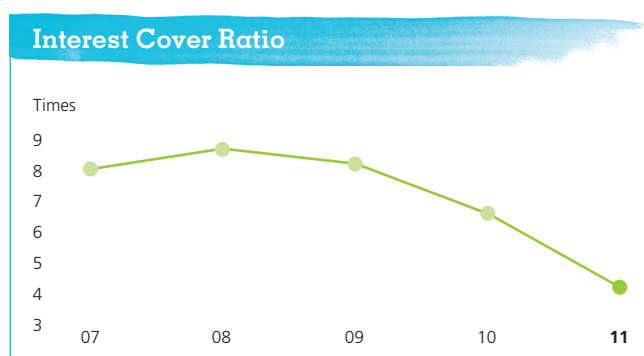
Financial Health Indicators

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



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

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

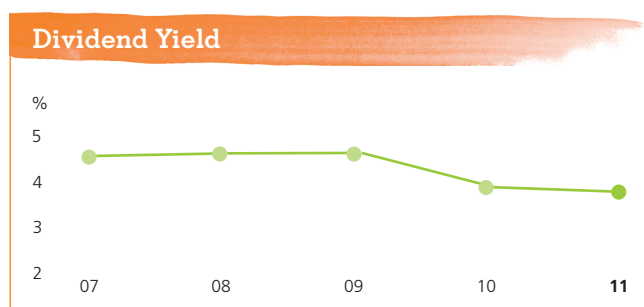


$$\text{Interest Cover Ratio} = \frac{\text{Profit before Income Tax and Interest}}{\text{Interest Charges + Capitalised Interest}}$$

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

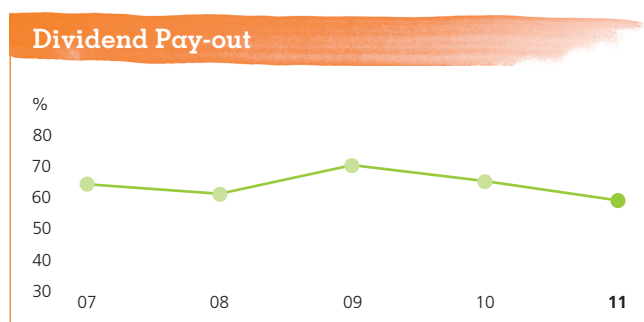
Investors' Return Indicators

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



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

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



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

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

Shareholder Value

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

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

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

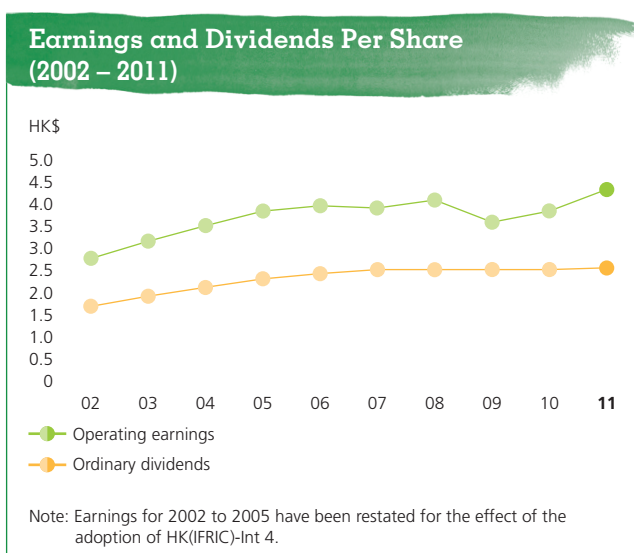
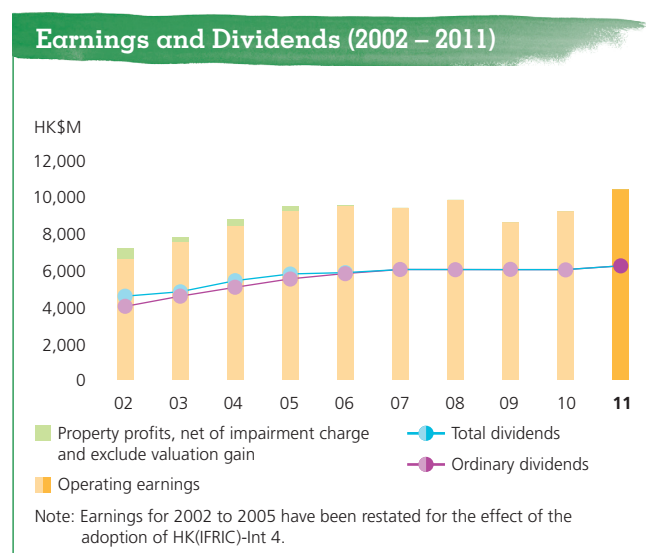
Share Price Performance

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



Dividends

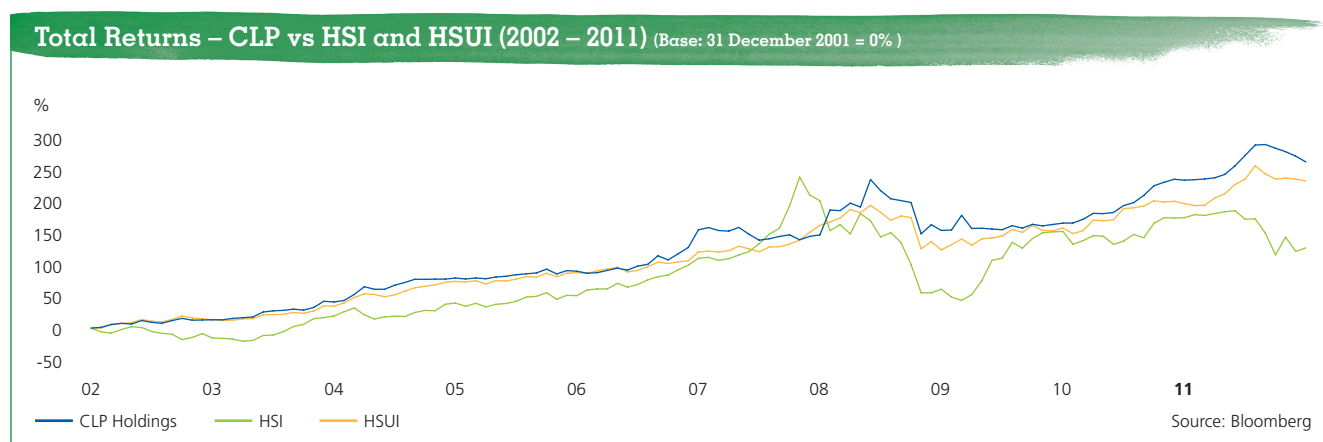
Our longstanding policy is to provide consistent increases in ordinary dividends, linked to the underlying earnings performance of the business. Our shareholders, whether institutional or retail investors, have repeatedly emphasised to us the importance they attach to a consistent and substantial dividend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



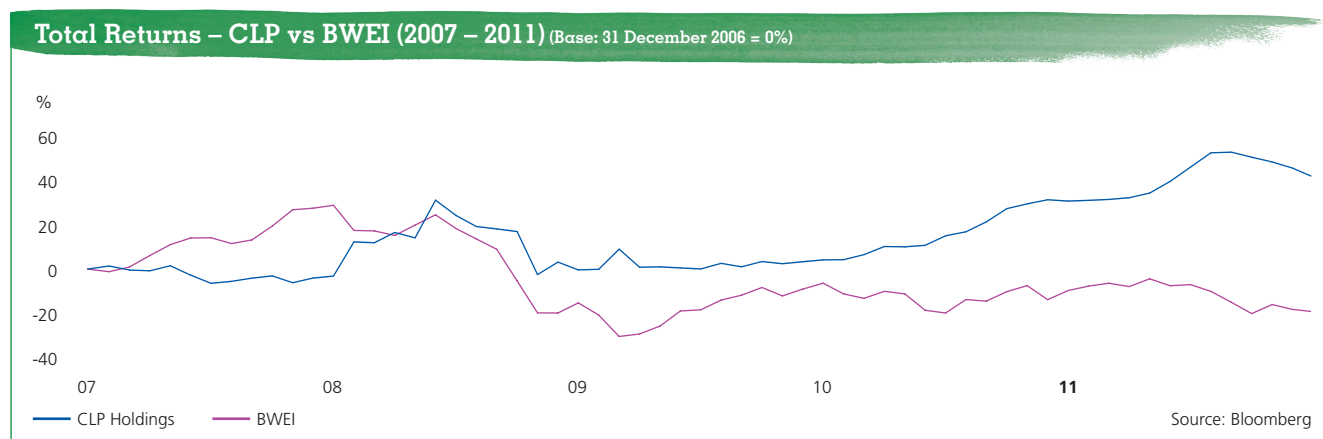
From 2002 to 2010, CLP's ordinary dividend payments were between 60% and 65% of operating earnings, except for 2009 when our pay-out ratio rose to 70% of operating earnings, due to a significant decline in earnings caused by the substantial reduction in the permitted return under the SoC. Earnings from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

Total returns

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



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



Listen to a Q&A

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



Shareholder Value

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

Total Investment Worth at Different Types of Investment

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

Adapted from Bloomberg / Reuters

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



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

Performance and Business Outlook

We offer a wide-ranging view of CLP's performance against its strategic objectives, including our operating context and the opportunities and challenges we are likely to encounter in achieving our strategic objectives. Our [online Sustainability Report](#) adds to the description here of our social and environmental performance to give an integrated picture of CLP's activities. 

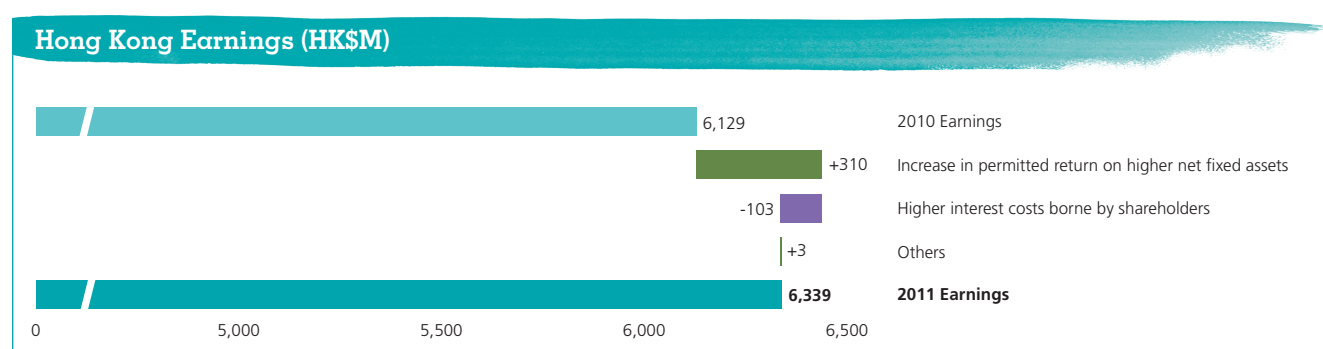


Hong Kong



Financial Performance

In 2011, the earnings from our Hong Kong electricity business were HK\$6,339 million, compared to HK\$6,129 million in 2010. This increase of 3.4% was due to the higher permitted return on a higher level of average net fixed assets, partially offset by the higher interest costs on increased borrowings for the financing of fixed assets.



Operational Performance

Meeting Demand

The most important aspect of our performance remains our ability to meet the demand for electricity in Hong Kong, every day of every year. We achieved this in 2011. Local sales of electricity were 31,168 gigawatt hours (GWh), an increase of 0.8% compared to 2010. Sales growth was supported by the strong local economy and by increased cooling load from the residential sector due to hot summer months. There was slower growth in sales from the commercial sector and a decline in sales from the manufacturing sector due to the continued closure of local textile factories.

Local Sales			
	Increase / (Decrease)		As Percentage of
	GWh	%	Total Local Sales
Residential	137	1.6	27%
Commercial	28	0.2	41%
Infrastructure & Public Services	140	1.8	26%
Manufacturing	(66)	(3.4)	6%

Sales to the Chinese mainland were 2,957GWh, an increase of 13.3% as against 2010. This was primarily due to higher contract volumes with Guangdong Power Grid Corporation in 2011. Overall, total electricity sales, which include both local sales and sales to the Chinese mainland, increased by 1.8% compared to the previous year.

Capital Investment

The ongoing maintenance and enhancement of supply quality and reliability, as well as the need to meet the demand created by infrastructure development projects, requires continuing and substantial investment by CLP. In 2011 CLP invested HK\$7.8 billion in generation, transmission and distribution networks as well as in customer services and supporting facilities. The reliability and operational performance of our supply network was reinforced by further upgrading existing plant and equipment. This included,

for example, the replacement of ageing oil-filled cables with the more environmentally friendly “XLPE” cables, strengthening the support structures and lightning protection of overhead lines to improve their resilience against adverse weather conditions, and the mid-life extension of substation buildings and high voltage switchgear.

Gas Supply

Government policy requires a significant increase in the use of gas for the generation of electricity to meet Hong Kong’s needs. As part of that policy, the HKSAR Government and the Central People’s Government entered into a MOU in 2008 for long-term gas supply from the Mainland to Hong Kong.

In preparation for those new sources of gas supply, the construction of a new gas receiving station and other plant modifications at Black Point Power Station was approved by the HKSAR Government in early 2011. This was the first stage in securing the Executive Council’s approval for the various gas supply and gas infrastructure projects resulting from the MOU. The plant modification for the control systems in the first two units, out of a total of eight units, at Black Point was successfully completed. This modification will enable the Black Point plant to migrate progressively from the existing Yacheng gas supply to the various future new gas supplies from the Chinese mainland. The new gas receiving station and related plant modification works should be completed by the end of 2012 and early 2013 respectively.

Progress is being made in securing additional natural gas from all three sources contemplated under the MOU:

- New gas fields in the South China Sea – discussions with CNOOC on both short-term and long-term replacement natural gas supply have advanced. In the short-term, a Gas Sales Agreement entered into in December will allow for a small field, adjacent to the existing and depleting Yacheng field, to supplement those existing gas supplies for five years. Discussions with CNOOC on the long-term supply arrangements are still progressing.
- Second West-to-East Pipeline – negotiations have been finalised with PetroChina for substantial supplies of gas from the second West-to-East Pipeline and for the ownership of the branch line which will connect Black Point Power Station to that pipeline. The National Development and Reform Commission (NDRC) of the PRC approved PetroChina and CAPCO’s investment in the branch line (PetroChina 60%, CAPCO 40%) in December 2011. The proposed gas supply contract is under review by the SAR Government and awaiting approval from the Executive Council. Preparations are now underway for sub-sea pipeline construction at the PRC side to start early in 2012. New supplies are expected to arrive by the first quarter of 2013.
- Shenzhen LNG terminal – this has not progressed as quickly as expected, due to difficulties in securing an appropriate site. Currently, a new site in eastern Shenzhen is being reviewed, with a feasibility study under preparation. Project approval from the National Energy Administration is targeted for 2012.

These projects have major implications for the future reliability of supply to our customers in Kowloon and the New Territories and on the emissions levels from our local generating capacity. They will also have a substantial upward impact on future tariff levels, as discussed in the Chairman’s Statement to this Annual Report.

Innovation

Meeting our customers’ needs calls for ongoing improvement and innovation in our equipment, systems, business processes and programmes. All of our initiatives are focused on reliability, customer services, lowering costs or improving environmental performance. This is illustrated by the following examples of the efforts we made in 2011:

- Customer Process Re-engineering – five key customer processes were critically reviewed from end to end, leading to significant cost savings, enhanced operational efficiency and reduced demand for metering site works.
- Customer Supply Connections – this process was streamlined to shorten turnaround times and optimise the use of resources. In the latest “Doing Business 2012 Report” by the World Bank, Hong Kong ranks fourth amongst 183 economies in the ease of obtaining an electricity connection for a newly-constructed building.
- Data Centre – as a major financial and international trading centre, there is heavy demand for secure data centre facilities and services in Hong Kong. Two of the most pressing local challenges that the data centre sector faces are availability of space and power. CLP has worked closely with Government and industry to support Hong Kong as the best choice for data centre establishment. In 2011, we launched our data centre portal as part of a wider engagement programme with stakeholders to ensure that CLP helps to power Hong Kong as a high-tier data centre hub.

Hong Kong

- Live-Line Work Techniques – live-line working greatly increases the flexibility of scheduling maintenance and repair activities and reduces the inconvenience to customers which would arise if their supply needed to be switched off to allow work to proceed. In 2011, we conducted 481 live-line operations on our 11kV overhead network. We are training more live-line work crews to expand this aspect of our operations.
- Smart Grid – we are undertaking extensive work in research and testing smart grid technologies which have the potential to enhance reliability of electricity supply, optimise use of assets and promote operational efficiencies. Our “Smart Grid Experience Centre” opened in March 2011. This forms part of our efforts to work with our customers to identify and implement smart grid technologies, including the use of enhanced intelligence and automation to support renewable generation, strengthen power grid resilience and promote energy saving and demand management.

Fulfilling our Duty to our Customers

CLP has long recognised that Hong Kong’s people rightly demand the highest levels of service from their electricity provider. Most of our population live and work in high-rise buildings – they could not get to their homes or places of work without uninterrupted services from lifts and escalators. This, together with Hong Kong’s hot and humid climate, heavy reliance on air-conditioning, and high population density, means that individual power failures can quickly cause inconvenience and distress to many thousands of people. Moreover, Hong Kong’s role as a financial and services hub and as a tourist centre depends on the high quality of its infrastructure, including the electricity system which powers our society and our economy.

CLP has a duty to deliver an electricity supply characterised by reliability, power quality, excellence in customer service, reasonable tariffs and good environmental performance. In 2011, CLP fulfilled its duty to customers in all these respects – and we will continue to do so.

Reliability

Hong Kong has one of the most reliable electricity services in the world. Since 2000, unplanned Customer Minutes Lost per year, a standard measure of supply reliability, has been improved by 87%. The result is that a typical CLP customer would have experienced an average of only 2.3 minutes of unplanned power interruptions each year between 2009 and 2011. This compares with 15 to 44 minutes (between 2008 and 2010 – the latest available data) of power outages experienced by electricity users in New York, Sydney and London. In 2011, CLP supply reliability reached its best ever levels. This was the result of the adoption of proven technologies, judicious investment in our network, focused asset and operational management strategies and the expertise and dedication of our workforce.



Black Point Power Station

Power quality

Like all developed economies, Hong Kong requires stable electricity supply for critical and sensitive equipment. Given the susceptibility of Hong Kong's power system to voltage fluctuations caused by lightning strikes and third party interference, CLP has been making substantial efforts to strengthen the resilience of our overhead line and cable networks against thundery weather and third party damage respectively. We have also been assisting our customers in resolving power quality issues by offering technical consultancies, such as the performance evaluation of sensitive equipment and fit for purpose solutions. In 2011, more than 30 technical evaluations were conducted and proposals recommended to our major corporate customers.

Excellence in customer service

Our commitment to excellence in customer services remains most clearly expressed in our 12 performance pledges. These set out our targets in areas of our performance which we know are of particular importance to our customers, such as reliable electricity supply and speedy response to our emergency service hotline. These pledges are set out on our website at www.clponline.com.hk, where we also describe our performance against those pledges. In 2011, we met all of our service pledges. 

Like the other aspects of our business, customer service requires continuous review and improvement. In 2011, we launched our "Customer Services Improvement Plan" for commercial, industrial and residential customers. This includes 18 initiatives which have been developed and launched over the year. The 24-hour INFOLINE service of the Customer Interaction Centre was launched in October 2011. INFOLINE is expected to receive over 1.4 million calls each year and provides one-stop customer services such as account application and termination. Operating 24 hours a day, seven days a week with customer relations officers speaking in three languages, namely Cantonese, English and Mandarin, INFOLINE will continue to be a key service channel for over 2 million customers. The Improvement Plan also included better arrangements for our customers to receive service visits from CLP staff. Towards the end of 2011, we introduced our weekend installation inspection service and a one-month advance booking schedule.

Tariff

Supply reliability, power quality, excellence in customer service and environmental improvement comes at a price, which must be reflected in the tariffs paid by our customers for their electricity. We do all that we can to maintain those tariffs at reasonable levels. However, a tariff increase for 2012, whilst unwelcome, was unavoidable. The Average Net Tariff in 2012 will be 98.7 cents, an increase of 4.9% from 2011. Details of the tariff increase we announced on 30 December 2011 are as follows:

Components	Previous (HK¢/unit)	Effective 1 Jan 2012 (HK¢/unit)
Average Basic Tariff	80.0	84.2 (+4.2)
Fuel Clause Charge	14.1	17.8 (+3.7)
Rent & Rates Special Rebate	–	-3.3 (-3.3)
Average Net Tariff	94.1	98.7 (+4.6)

This increase, as noted in the Chairman's Statement, was a matter of significant political, media and public controversy. The background and breakdown of the tariff increase, whilst widely communicated, have not always been fully understood.

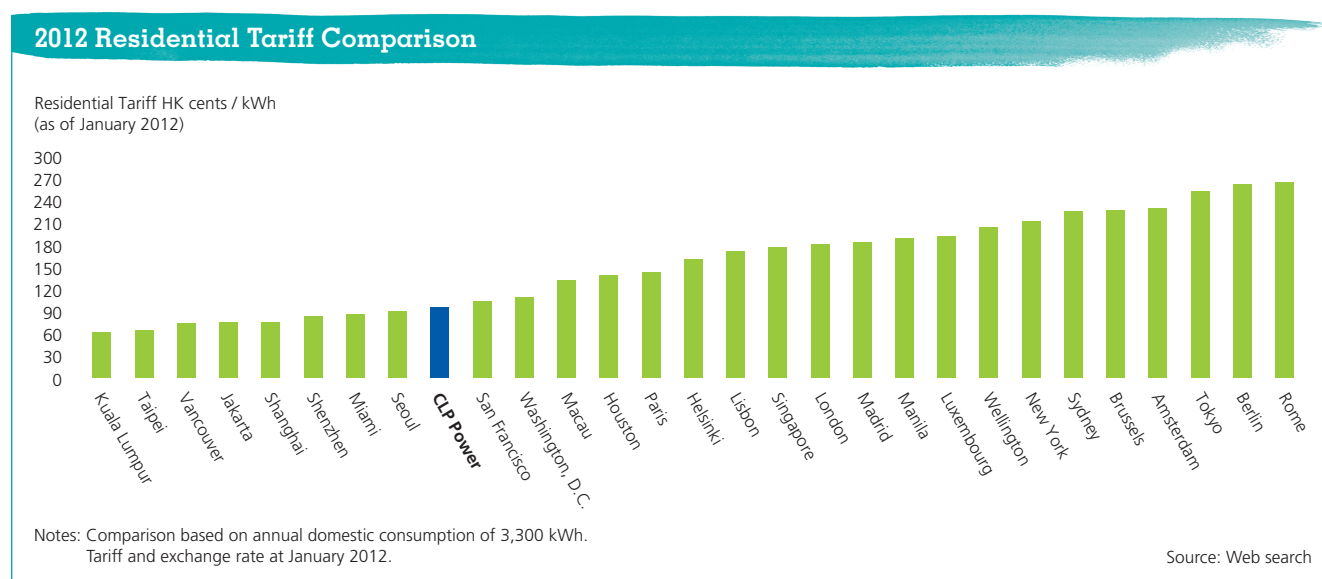
- The increase in basic tariff is primarily due to the costs associated with meeting increasingly stringent Government emission regulations in support of Hong Kong's drive for better air quality, with the need to invest in emissions control facilities and new infrastructure to allow increased use of natural gas for power generation. Under the SoC, a "Tariff Stabilisation Fund" is used to smooth out the impact of tariff increases. This Fund has been drawn down heavily over the past two years to defer the need for a tariff increase. Despite the recent increase, the Fund will drop to a projected level of only HK\$100 million by the end of 2012. This is the lowest balance ever recorded and represents just one day of electricity sales for CLP.
- The fuel clause charge is used to recover the costs of the fuel purchased to generate the electricity supplied to our customers. CLP makes no profit on fuel. CLP already carries a deficit in the fuel clause charge account held on behalf of customers. This deficit is growing. This is because of a global trend of higher fuel costs, in particular for gas to generate cleaner electricity. The challenges that we face in managing fuel costs are becoming more serious in the context of these rising costs and the increasing use of gas to meet Government's regulatory requirements, including tighter emission caps on our generation operations.

Hong Kong

- The rent and rates special rebate reflects our commitment to return to customers any repayments made by Government upon the final resolution of proceedings we have brought in the Hong Kong courts to recover the overcharging by Government of rent and rates over the past decade. Even though the case is still continuing, we have provided a special rebate of 3.3 cents per unit. This was the primary factor which enabled us to reduce the 2012 tariff increase from the level we had initially proposed.

The tariff increase, and CLP's overall tariff structure, have been carefully managed so that 30% of our domestic customers are expected to bear no tariff increase in 2012, with 50% having a monthly increase of no more than HK\$3.4. Finally, half of our commercial customers should have a monthly increase of no more than HK\$27.5.

Even with the 2012 tariff adjustment, CLP's tariffs remain highly competitive when compared with other major metropolitan cities, especially when many of those cities will not benefit from the levels of supply reliability, power quality and customer service which are provided by CLP.



Environmental Performance

With full operation of the emissions control facilities at Castle Peak Power Station, our overall 2011 emissions performance continued to meet the stringent regulatory requirements. Emissions of SO₂ reduced by 20% compared with 2010. RSP emissions were maintained at a similar level. Emissions of NO_x saw an increase of 22% due to less use of natural gas as a result of the depletion of the Yacheng gas reserve.

We know that the Hong Kong SAR Government, in support of national policy, aims for further carbon intensity reductions from Hong Kong. To this end, in September 2010 Government launched a public consultation on Hong Kong's Climate Change Strategy and Action Agenda, in which it envisaged an overall 50 to 60% carbon intensity reduction for Hong Kong. For the power sector, Government proposed a fuel mix target of 50% nuclear, 40% gas, 3 to 4% renewable energy and not more than 10% coal by 2020. CLP responded constructively to the consultation document (see our response, "[Clean Energy](#)" on our website). Although the consultation process was completed at the end of December 2010, Government is still considering the views expressed before finalising its intended policy direction, in particular with regard to increased reliance on nuclear energy in light of the Fukushima accident. 

If Government moves ahead on the basis of its original proposal, this will require significant change in CLP's fuel mix and generating capacity. By way of reference, in 2011 the electricity used by our customers came from a fuel mix of 30% nuclear, 21% gas and 49% coal. For its part, CLP is in favour of a balanced mixture of fuel sources and generating capacity which meets our society's need for electricity supply which is secure, adequate, reliable, cost effective and environmentally responsible as regards both local air quality and climate change. Differing fuel types have different characteristics: there is no single fuel source or generating technology which by itself can satisfy Hong Kong's electricity needs across all criteria.

We will continue to contribute to the safeguard of our environment not only through the way in which we generate energy, but also by helping our customers and the public to use energy wisely. In 2011:

- energy efficiency workshops were conducted with a total of over 300 small and medium enterprise customers from the retail, catering, facility management, engineering, information technology, non-governmental organisation (NGO) and education sectors;
- the “Eco Optimizer”, an online energy assessment tool which helps our residential customers use energy more efficiently was launched with over 4,300 accounts successfully completed in 2011;
- Meter Online services offered a free, simple and convenient means for business customers to track, compare and analyse energy consumption performance, so that they can adjust their operations to reduce their energy bills;
- over 150 energy audits were conducted for commercial and industrial customers from different sectors including hospitals, commercial complexes, manufacturing plants, hotels, shopping arcades, office buildings, elderly homes, schools and MTR stations;
- our education fund of HK\$5 million per annum provided financial support for energy efficiency educational promotion activities in primary and secondary schools and amongst the general public;
- as many of our business customers have operations in Southern China, CGN CLP Energy Services (Shenzhen) was established as a joint venture with CGNPC to provide energy services there to commercial and industrial customers who are looking for ways to use energy more efficiently; and
- we have been studying the feasibility for an offshore wind farm of up to 200MW in the southeastern waters of Hong Kong. For the project to proceed, the next stage would be to install an offshore wind data collection mast to collect wind and other meteorological data for about one year to evaluate the project feasibility and final project design.

Social Performance

The greatest contribution which CLP can make to society in Hong Kong is through the provision of an excellent electricity supply, an essential public service. However, we support the community through a wide range of activities and initiatives, of which only a few examples are given below:

- Since its launch in September 2011 the Hotmeal Canteen has served over 5,500 nourishing, dietician-supervised hotmeals for needy residents in Sham Shui Po who have difficulty in having proper meals.
- The Active Mind programme provided free cognitive assessment and memory training courses for over 5,500 people to fight against dementia.
- “Here WEEE Go” programme 2011 is the first large scale corporate Waste Electrical and Electronic Equipment (WEEE) recycling partnership programme in Hong Kong. CLP helped St James’ Settlement collect more than 1,600 WEEEs in 2011. CLP volunteers also conducted weekly caring visits to deliver over 200 refurbished appliances to more than 100 underprivileged families in Hong Kong.
- Our “LS-energy.hk” is Hong Kong’s first comprehensive, free of charge e-learning kit provided to senior secondary students and teachers to help them engage in discussions on issues regarding Energy Technology and the Environment module in their Liberal Studies curriculum. Since its launch, the platform has engaged over 1,000 students and teachers from over 100 schools.
- CLP’s support for the Clown Doctor Programme organised by the Foundation Theodora at local hospitals helped more than 5,000 children patients and their parents.
- CLP volunteers spent more than 8,500 hours providing re-wiring services and in other volunteering programmes which benefit the elderly and the disabled, new immigrants and young people. CLP’s volunteer team currently has over 800 members, comprising both employees and their families.
- Through participation in various initiatives, CLP and its employees raised over HK\$1 million for the Community Chest of Hong Kong.

Outlook

Hong Kong is a small and open economy, whose performance is closely tied to financial, economic and market conditions in its major trading partners, including the Mainland and North America. Hong Kong's overall economic performance, and the shift from a manufacturing economy to a services economy which has been underway for more than two decades, has led to a slowdown in the growth in electricity demand. This means that the priority for Hong Kong's electricity sector is less on substantial additions of generating capacity to meet new demand, but in investments and operational expertise which enhance supply reliability, power quality, customer service standards and environmental performance.

Guangdong is likely to reduce its reliance on power imports from CLP over time. However, the problem of power shortages in Guangdong still persists, even if on a smaller scale than hitherto. In the near term, CLP may still have the opportunity to supply Guangdong, although the progressive tightening of environmental regulations in Hong Kong makes this more and more challenging because additional electricity generation to support Guangdong's needs is likely to take CLP over its emission caps. The application of these more stringent local emissions standards will have an adverse tariff impact, since 80% of the earnings from electricity sales to Guangdong accrue to the benefit of Hong Kong customers and help alleviate tariff pressure.

The proposed changes to CLP's fuel mix for electricity generation, as canvassed in the Government's public consultation on Hong Kong's Climate Change Strategy and Action Agenda, would have a significant impact on our generation facilities and interconnected transmission network with Guangdong. However, following the Fukushima nuclear accident, public concerns about increased reliance on nuclear energy seem to have put the Government's decision to import more nuclear energy on hold. This poses uncertainties for the long-term planning of CLP's generating capacity and transmission networks, especially when our experience has been that the time taken for the necessary approvals has been lengthening. Long-term contracts on cross-border gas and nuclear supply need to be put in place in the coming years, as well as strengthened transmission links between Hong Kong and Guangdong. Clarity on the Government's energy strategy and processes is required in order to allow decisions to be taken in a timely and informed manner.

Policy clarity is also necessary to resolve uncertainties about the future regulatory regime for Hong Kong's electricity sector. The power business is long-term and capital-intensive in nature. A stable and transparent regulatory framework is essential for CLP to plan and make long-term energy infrastructure investments to deliver on Government's policy objectives. The present SoC provides a framework until at least 2018, but the future of the electricity sector after 2018 and the longer term direction for market changes in Southern China remains uncertain. This is a challenging background against which to make commitments for nuclear energy and natural gas supplies with a duration of 20 years or more involving contracts of many billions of dollars.

During the year ahead, CLP's priorities will include:

- continuing to closely monitor fluctuations in gas availability from the existing Yacheng gas field and prudently manage gas usage prior to the arrival of replacement gas;
- securing the three gas sources outlined in the inter-Government MOU on energy supplies signed in August 2008, including progressing contracts for gas supply, and the commercial arrangements and technical development of the related pipeline infrastructure;
- enhancement of stakeholder engagement activities and communication plans in relation to nuclear safety to reinforce public confidence in nuclear power and its ability to meet Hong Kong's energy demands safely and securely. We will also take part in emergency drills for nuclear and other operational matters to enhance co-ordination and responsiveness between CLP, Government and key stakeholders;
- engaging actively with the HKSAR Government on a practical plan for meeting proposed climate change goals and achieving air quality objectives, as well as starting to plan and pursue the major infrastructure developments in our business which will be needed if these policies are to be successfully implemented on time;
- evaluating the options for the additional import of nuclear energy to Hong Kong, both to meet increasing electricity demand and to ensure that this is done in line with any decision by the Government regarding the role of nuclear energy in Hong Kong;
- taking forward innovative initiatives such as electric vehicle market development, pilot smart grid projects and supporting the development of the best local renewable energy projects;

- stepping up efforts towards achieving and promoting energy efficiency through public education and the provision of energy efficiency related services; and
- managing our operating costs amidst rising international fuel prices and local labour costs.

Looking beyond 2012, and subject to the shape of Government policy, including the development of any regulatory changes to the Hong Kong electricity sector, our plans would include:

- strengthened infrastructure integration with Guangdong, notably through the import of gas and nuclear power;
- a cleaner fuel mix. This will involve using more gas, importing more nuclear energy and reducing our reliance on coal, as well as promoting the use of local renewable energy sources to the extent that this is practical;
- the continued implementation of the inter-Government MOU on energy supplies so that new, long-term gas supplies are brought to Hong Kong in a timely fashion;
- the promotion of energy efficiency – we will continue to help our customers to boost energy conservation through energy efficiency-related services and public education, as well as offering advice on energy efficient products, better building energy design and optimal equipment selection for businesses;
- management of the ongoing capital expenditure which our business will require, both to timetable and within budget; and
- excellence in operations at all times, including the effective management of critical business issues such as supply reliability, environmental and safety performance.

The use of “renewable energy” like solar energy and wind energy is a hot topic. However, it is expensive to connect to the existing electricity system and to have a backup power supply when the electricity generated by the renewable energy system is unable to provide the power required. Will your company promote “renewable energy” and provide assistance like sponsorship funding or free technical support?



Mr. CH Mok
Managing Director,
Hong Yip Service Co. Ltd.

Q

A

We are working hard to make it easier for our customers to connect their renewable generation to our grid. By the end of 2011 more than 90 renewable energy systems had been connected to our grid. For small renewables we have greatly simplified the connection application process and lowered the associated cost. In fact, in the case of NGO's and schools, our service is free.

Larger scale renewables usually require more complex technical considerations and solution engineering. In addition, each case can be quite different, thus requiring tailor-made assessment and design effort. Our experienced engineers are more than happy to offer their professional advice and support to serve the specific needs of our customers.

To help our customers, we have developed a grid connection application procedure, as well as technical guidelines in conjunction with EMSD. These can be found on the [CLP](#) and EMSD websites. 



Richard Lancaster
Group Director –
Managing Director Hong Kong

Listen to more Q&As

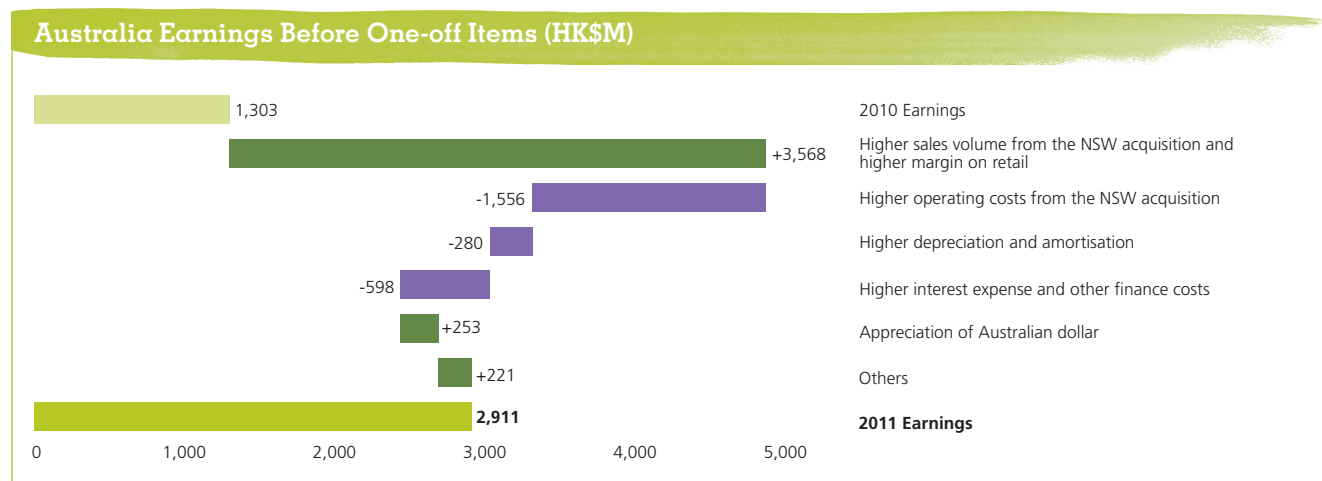


Australia



Financial Performance

The operating earnings from TRUenergy in 2011 were HK\$2,911 million, compared to HK\$1,303 million in 2010. Apart from the increase in the average exchange rate of the Australian dollar, the increase in earnings was primarily driven by the acquisition of the EnergyAustralia retail business and Delta Western GenTrader contracts with effect from 1 March 2011 and by retail tariff increases during the course of the year. The increased operating costs compared to the previous year were due to the additional costs associated with the NSW acquisition, including higher employee costs, transitional services provided by Ausgrid, the NSW state-owned distribution company and higher bad debt expense. The NSW acquisition also resulted in higher depreciation and amortisation arising from the acquired assets, as well as higher interest costs due to additional borrowings.



Following the passing of the Australian Government's Clean Energy legislation on 8 November 2011, the book value of our Yallourn brown coal-fired generation business was written down by A\$350 million (HK\$2,761 million) as at 31 December 2011. As a result, a post-tax impairment loss of A\$245 million, or HK\$1,933 million, has been recognised for the year ended 31 December 2011. The methodology used in the assessment of this impairment and the assumptions which we have applied, are set out in more detail in Note 6 to the Financial Statements on pages 164 and 165 of this Annual Report.

Operational Performance

Asset Portfolio

2011 was marked by a number of changes to TRUenergy's asset portfolio. The most significant of these was the simultaneous acquisition of the EnergyAustralia retail business and the Delta Western GenTrader contracts through which TRUenergy acquired the retail, and industrial and commercial customers of EnergyAustralia (approximately 1.5 million customers), the Delta Western GenTrader contracts for the output of Mount Piper (1,400MW) and Wallerawang (1,000MW) power stations and three power station development sites. A Transition Services Agreement (TSA) was entered into with Ausgrid to manage the integration process and to ensure that a number of retail support services continue to be provided by Ausgrid until they are taken over by TRUenergy.

In June, we completed the disaggregation of our Roaring 40s wind joint venture, which was owned 50/50 by CLP and Hydro Tasmania. This resulted in an expansion of TRUenergy's renewable energy portfolio by 144MW, through acquiring the Waterloo Wind Farm and a 50% share of the Cathedral Rocks Wind Farm, both in SA and both previously owned by Roaring 40s. TRUenergy also acquired a number of Roaring 40s' development sites, representing a 400MW pipeline of projects at various stages of development.

In July, TRUenergy announced an agreement to acquire from gas producer Santos an effective interest in over 500PJ of coal seam gas reserves in the Gunnedah Basin in northern NSW for A\$285 million. This was part of binding agreements by Santos to acquire 100% of a major coal seam gas company, Eastern Star Gas (ESG), with the subsequent sale to TRUenergy of a 20% working level interest in key ESG production and exploration permits and other assets. The purchase by Santos and subsequent sale to TRUenergy of the gas reserves was completed in November 2011. TRUenergy's purchase of the stake in the Gunnedah Basin has long-term strategic value and provides it with upstream gas reserves to help support generation and retail gas demand into the future.

The rezoning of land near TRUenergy's Tallawarra Power Station has been completed and the Federal Government's assessment of the development concept has been concluded. TRUenergy's mixed-use development concept and rezoning of the site is now in the final stages of NSW Government approval. The intention is that the Tallawarra lands will be sold in phases for development through a competitive tendering process.

TRUenergy had been in a joint venture with Petratherm and Beach Petroleum for a geothermal project at Paralana in SA. During 2011, the testing and simulation of temperatures and potential waterflows at depths of greater than 3,400 metres continued, including the injection of a larger volume of water at higher rates in order to determine the power generating capacity of the geothermal resource. In last year's Annual Report, we advised that any decision about the future of the Paralana project would be driven by the results of this testing and an assessment of the overall commercial and technical viability of the project. The relevant agreements had been carefully constructed to include a series of milestones. These allowed TRUenergy to leave the project before substantial financial commitments arose, if our assessment, based on increased geological information, was that the project was not likely to meet our technical and financial thresholds. Following a review of the project, including the most recent drilling data and hydraulic fracture treatment and flow tests, TRUenergy exercised its rights under the project agreements to withdraw from the project in mid-December 2011.

Generation

A major 60-day outage on Unit 4 at Yallourn Power Station was successfully completed to schedule in May. This included the installation of a new high and intermediate pressure turbine on Unit 4. The ongoing project for the redesign and repacking of the cooling tower has resulted in significant improvement in the tower's performance. The State and Federal Government approved the proposed Maryvale field realignment at Yallourn to improve the coal extraction from the field. As part of the transition to Maryvale, major conveyor works for the establishment of the field were progressed including a new overburden system which started operation in September 2011 and installation of a dedicated coal conveyor to be completed in the first half of 2012.

The Iona Gas Plant operated to high levels of reliability during the first full year of operations of the second gas train that was introduced as part of the expansion project completed in June 2010.

Tallawarra carried out its first major outage. The gas turbine, steam turbine and generator were closely inspected and a number of maintenance and replacement activities were carried out. These included replacement of high and low pressure turbine blades and vanes and the repair or replacement of control valves. Just prior to commencement of the outage, a failure of a compressor blade occurred and the outage was extended so the compressor could be rebuilt. The unit returned to service on 6 November 2011 and has performed well.

Australia

At Hallett, which provides peaking capacity for our generating portfolio, an additional turbine generator package came into commercial operation in May, increasing Hallett's generation capacity from 180MW to 203MW.

TRUenergy's generating activities are characterised not only by good operating performance of the existing assets, but also by an attractive portfolio of development options and sites. For example, permitting for two potential power station sites in Queensland was initiated, one in Ipswich, close to the population growth areas of Southeast Queensland and the other at Gladstone in Central Queensland, which is projected to be a major hub for industrial growth. Both sites are close to existing infrastructure connections. These developments would utilise high efficiency gas-fired turbines, emitting less carbon than existing coal-fired power plants. TRUenergy's proposal envisages developing these sites in stages as electricity demand grows and market conditions warrant. The initial units would be 500MW and have a total capacity of up to 1,500MW. At full capacity, they would be able to meet the projected growth in demand for electricity in Queensland for the next 10 years and increase the State's total generating capacity by more than 20%. Subject to all permitting and development approvals, construction at these sites could begin as early as 2013.

The Marulan development site in NSW, which was acquired as part of the NSW acquisition, offers scope for an open-cycle gas-fired power station project with a capacity of around 700MW. The permitting for this site is already in place, although some modifications to the project approval are still required. Subject to final investment review, analysis and decision, construction on this project could start as early as 2012. Peaking capacity at Marulan would reinforce TRUenergy's capability to meet its retail customers' needs at periods of high demand in NSW.

Maintaining a balanced generating portfolio, and complying with Federal Government policy on renewable energy capacity, will require TRUenergy to continue to increase its investment in renewable energy sources throughout this decade. Amongst other wind energy projects, TRUenergy has lodged an application for the development of a 123MW wind farm at Stony Gap in SA, as well as securing options to acquire wind farm sites in NSW with a potential total capacity of 250MW. TRUenergy's proposal to build a solar plant of up to 180MW in Victoria was unsuccessful in the initial competitive process for funding under the Australian Government's Solar Flagships Program. However, in February 2012, we, along with three other shortlisted photovoltaic projects, were invited to update our application for reassessment.



Yallourn Power Station

Retail

The year marked a period of significant growth and change for TRUenergy's retail operations, which now represent one of the largest energy retail businesses in the National Electricity Market.

The acquisition of EnergyAustralia's retail business more than doubled TRUenergy's existing customer base and cemented TRUenergy's position as the third largest gas retailer and the second largest electricity retailer in Australia. The acquisition supported TRUenergy's broader strategy of building a diversified and integrated energy business by substantially expanding its retail presence in NSW, Australia's largest electricity market. The acquired customer base is of high quality, with a major concentration of accounts in metropolitan Sydney. EnergyAustralia also has a strong retail brand, being the most recognised brand in NSW, and enjoys high levels of satisfaction amongst its customers.

From March 2011 onwards, the EnergyAustralia retail business continued to operate under the TSA, whereby the state-owned network business Ausgrid (formerly the EnergyAustralia network business) provides operational and billing services to TRUenergy for up to three years. The TSA has been designed to support a smooth migration of the EnergyAustralia retail customer accounts to TRUenergy's retail billing platform. The initial phase of integration of the EnergyAustralia retail business with TRUenergy has been successfully completed, including the transfer of a number of services to TRUenergy such as sales and marketing, load forecasting and settlements. The final phase, which is expected to be completed within two to three years of the acquisition date is the core services transition. This includes transition of the remaining services such as customer service, billing, credit and collections, and customer data management.

An important element of the integration will be the move to a single national brand. While both the TRUenergy and EnergyAustralia brand names are strong in their primary markets of Victoria and NSW respectively, with strong levels of customer awareness and satisfaction, we have decided to adopt a single national brand. Research with customers and stakeholders has been completed to inform the final brand name decision. The new brand will be launched towards the middle of 2012.

Project Odyssey, the development of TRUenergy's new retail customer service and billing platform saw significant and encouraging progress in 2011, with system integration testing and user acceptance testing scheduled to be completed shortly. A dress rehearsal for the roll-out of Project Odyssey was successfully held in December 2011. Odyssey roll-out is now targeted for the first half of 2012.

The Australian energy markets remain amongst the most competitive in the world and are characterised by high levels of customer turnover (known as "churn"). The EnergyAustralia retail acquisition, and resulting diversification from its previously more concentrated customer base in Victoria, helped TRUenergy reduce its annualised mass market churn rate from 22.5% in 2010 to 20.2% in 2011. Despite increased competitive activity, not only in NSW but also in Victoria, TRUenergy's home state, the overall churn for the expanded retail business stayed below the market average of 20.4%. Over the whole TRUenergy business, customer numbers increased from 1.24 million to 2.81 million during 2011. This includes the 1.54 million EnergyAustralia customers acquired on 1 March 2011.

While there was an increase in mass market churn in NSW from 11.4% in 2010 to 15.1% in 2011, EnergyAustralia's customer account numbers remained reasonably constant, with 1.54 million mass market accounts at the end of the year, the same as at the 1 March acquisition date. TRUenergy's other major market, Victoria, continued to experience amongst the highest levels of churn in the world, highlighting the continued challenge to maintain both market share and profitability in a fully deregulated environment. The TRUenergy retail business performed well despite increased competitive pressure. At the end of 2011, customer accounts within the TRUenergy brand itself had increased to 1.27 million, compared to 1.24 million at the end of 2010.

Customer service performance is at the heart of TRUenergy's retail business. In 2011, 4.13 million customer enquiries were handled, of which 1.82 million involved TRUenergy and 2.31 million involved EnergyAustralia customers. These included calls handled by consultants and by interactive voice response systems which allow customers to undertake self-service of routine matters.

Australia

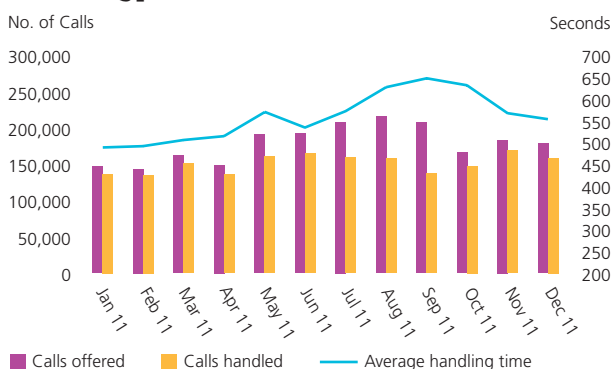
As the table below indicates, there was an increase in the number of calls offered and average handling time for TRUenergy branded customers from May 2011 onwards. This was primarily due to billing system issues caused by industry changes, such as the introduction of interval meters for Victorian customers and system changes being carried out by meter service providers. Large increases in call volumes were also received from customers enquiring about solar products, ahead of regulatory changes at the end of September 2011.

Overdue bills and processing backlogs during the year resulted in increased calls to our call centres and also an increase in issues escalated to the state-based energy ombudsman. In response to these developments, staff levels in call centres and specialist complaint handling teams were reinforced to provide better levels of customer service while billing and backlog issues are resolved. During the year, TRUenergy received 109 ombudsman complaints for every 10,000 mass market customer accounts, a level of performance which is unsatisfactory. As a result of measures taken to resolve the underlying issues, by end of December 2011 the number of customer calls had reduced significantly and the average handling time for each call had also reduced. However, 5.9% of TRUenergy's branded mass market customers had still not received their bills on time by year end of December 2011. A programme of activity with IBM, our customer service partner, has been put in place to address the core billing and delays in dealing with customer enquiries and to make sure that all customer processes are more tightly reviewed and managed. This programme is being supported by the addition of more customer service staff in call centres.

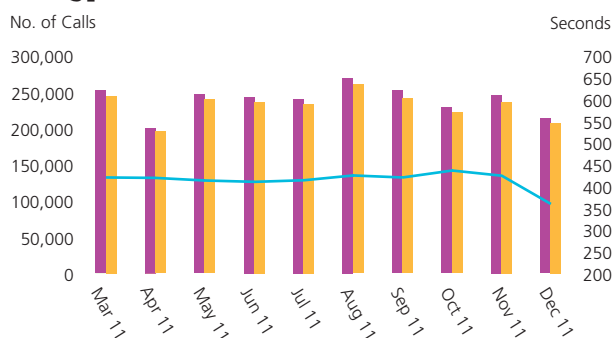
The customer service performance for our EnergyAustralia branded customers has been stronger, as the following table shows. During 2011, there were 15 ombudsman complaints for every 10,000 EnergyAustralia branded mass market customer account. Only 0.3% of EnergyAustralia branded mass market customers had not received their bills on time by year end December 2011.

Customer Interaction Centre – Calls Offered, Handled and Call Control

TRUenergy branded customers



EnergyAustralia branded customers



Note: EnergyAustralia's retail business was acquired by TRUenergy on 1 March 2011; therefore, relevant data for January and February 2011 in respect of EnergyAustralia branded customers is not available.

Environmental Performance

There were some regulatory non-compliances at our Tallawarra Power Station during the first half of 2011. These involved untimely information reporting and submission, not related to any breaches of emissions limits or standards. Looking ahead, TRUenergy will be managing the transition of its business in line with the climate change policy directions set by Federal and State Governments including the Federal Government's recent Clean Energy legislative package. TRUenergy will also be progressing its own Climate Change Strategy launched in 2007. This targets an ambitious one-third reduction in emissions intensity by 2020 and a 60% reduction in emissions intensity by 2050. TRUenergy is also committed to supporting its customers in better managing their own carbon footprints. TRUenergy will be doing more to manage the impact of its activities on biodiversity. A biodiversity register will be developed to identify biodiversity impacts and TRUenergy will continue existing site-based conservation programmes, such as the Latrobe River revegetation project, the Morwell West drain diversion and a fish mortality research project at Tallawarra.

Social Performance

TRUenergy has a strong focus on community engagement. TRUenergy is an active supporter of Conservation Volunteers in its work on revegetation and encourages staff to volunteer for this initiative. TRUenergy also sponsors community groups and activities such as the Wollongong Surf Life Saving Club near Tallawarra, the Learn to Swim programme at the Warrnambool Aquatic Leisure Centre near the Iona Gas Plant and the Moe TRUenergy Dance Eisteddfod in the Latrobe Valley.

TRUenergy established new community liaison groups at potential development sites, including the local community near the proposed Stony Gap Wind Farm site in the Clare Valley near Adelaide in SA, and at Marulan in NSW where TRUenergy owns a site with development approvals for future gas-fired generation. TRUenergy has also continued to hold regular community liaison and environmental review committee meetings at existing operational sites. Throughout the year TRUenergy also engaged with governments, the community and other key stakeholders with a particular focus on the Australian Government's carbon pricing mechanism and related policies, including the Transitional Assistance package available to eligible generators. TRUenergy was a leading party in the ongoing advocacy efforts directly with the Australian Government and with key policy makers in Federal Government departments, as well as more broadly through public advocacy and industry bodies.

Outlook

Clean Energy

One of the key challenges for the business will be in its ability to manage the changes to the energy industry which will result from the Australian Government's "Clean Energy" package, which will come into effect from 1 July 2012. Key elements of this Clean Energy legislation include:

- a default target of 5% abatement on 2000 CO₂ equivalent emissions by 2020 across the Australian energy supply systems;
- a fixed carbon price for the first three years, beginning on 1 July 2012 and starting at A\$23 per tonne for liable entities. The fixed carbon price will rise at 2.5% a year in real terms;
- from 1 July 2015 Australia will move to an emissions trading scheme (ETS) with the carbon price set by the market;
- up to 50% of the annual emission liability under the ETS may be acquitted by the purchase of international units; and
- an Energy Security Fund will be established to administer transitional assistance provided for generators with a carbon emissions intensity between 1 tonne / MWh and 1.3 tonnes / MWh. The total compensation available to the generation sector will be A\$1 billion provided as cash compensation in the first year and 41.7 million permits available annually for four years.



Waterloo Wind Farm

Australia

While the passage of the Clean Energy legislation has led to an impairment of A\$350 million for the Yallourn Power Station, there is now greater carbon policy certainty and our business can focus on delivering returns in the new environment. TRUenergy's balance sheet is prepared for the carbon scheme and remains strong.

The Clean Energy package includes a "contract for closure" programme. This enables generators with high carbon intensity to negotiate payment in exchange for closure of some or all of their generation units by 2020. The Yallourn Power Station is eligible to participate, because its emission intensity is about 1.2 tonnes CO₂/MWh. TRUenergy has, therefore, lodged an expression of interest with the Federal Government under this programme. TRUenergy's submission is non-binding and the Federal Minister for Energy and Resources will determine which applicants progress to the negotiation stage for possible agreement on closure contracts by June 2012.

Another key policy area that will drive significant investment and change to the generation mix in the future is the Federal Government's 2020 renewable energy target. As a major retailer, TRUenergy is a key participant in this scheme, given the obligation placed on the retailers to purchase the renewable energy. Despite challenges in the past, the large scale renewable energy scheme now provides a more certain investment environment and is likely to be the single largest driver of investment in domestic electricity generation in the short to medium term.

TRUenergy will meet its renewable energy obligations through a combination of own build and third party contracting to provide a balance of generation growth and low cost compliance with the renewable energy purchasing targets. TRUenergy is an experienced developer in the renewable space, with a solid pipeline of project opportunities and a strong focus on community engagement. Working with the community to make positive contributions in a transparent and fact-based manner is seen as a critical aspect of successful wind development.

Retail Pricing

In NSW, the Independent Pricing And Regulatory Tribunal (IPART) has recommended a draft, non-binding benchmark range for 2011/12 of A¢8 to A¢10 per kWh for electricity exported to the grid from new customers with solar PV units who are not already eligible for the NSW Government's subsidised solar bonus scheme. EnergyAustralia currently offers A¢6 per kWh. In September 2011, the Victorian Government announced changes to its solar feed-in tariff regime with a substantial reduction in those tariffs with effect from 1 January 2012. The Victorian Competition and Efficiency Commission is reviewing those solar feed-in tariffs and will report in the second half of 2012.

Retail pricing in Victoria is fully deregulated, with prices being set by market competition. This is not yet the case in NSW, where IPART handed down its final price determination on 14 June 2011. This determination allowed an average increase in regulated retail prices of 17.9% for EnergyAustralia's residential and small business customers from 1 July 2011. IPART estimated a further 10% price increase would apply from 1 July 2012 for EnergyAustralia customers. However, this estimate did not include the impact of any carbon price. A draft report with 2012/13 prices is expected to be available in mid-April 2012 and the final determination made by mid-June 2012.

Future Challenges

Beyond clean energy and retail pricing policy, there are a number of emerging challenges in the marketplace. First, the price of gas is changing and is expected to move towards export parity on the back of the construction of LNG export facilities in Gladstone and the ability for coal seam and other gas reserves to access the international export markets in 2014 and beyond. TRUenergy's business is well positioned to manage higher gas prices. As a gas retailer, higher costs can be passed onto customers (given cost-reflective retail price determinations). Gas tends to set the price of wholesale electricity and as gas prices rise, wholesale electricity prices are expected to rise and the value of the output from TRUenergy's power stations will increase. Additionally, in the transition period where gas prices are uncertain, price risk is being managed through the use of TRUenergy's equity gas position in NSW and its Iona gas storage facility in Victoria. Both these assets provide physical gas reserves that can be used as required, allowing the business to maintain its competitive position regardless of movements in the underlying wholesale gas price.

A second market challenge lies in the retail space. Energy prices are rising, predominantly due to upgrades of distribution network infrastructure and the cost of complying with government renewable energy schemes. Rooftop solar and energy efficiency are being aggressively driven by government policy. These trends are pushing customers to reduce their consumption from the stationary energy sector. In this environment, TRUenergy is changing the relationship with its customers. TRUenergy's focus is on being the leading "energy management" provider to Australian customers. To this end, the business has commenced selling rooftop solar and offers energy efficiency advice to its customers. The intention is to grow value-added services which promote energy efficiency and help customers manage their energy costs with the aim of promoting customer loyalty and retaining customers. Higher levels of customer retention will reduce the high levels of churn that the business currently faces, thereby reducing one of the key components of operating expense in the business. TRUenergy's initiative for improving systems and processes to deliver core services more effectively and efficiently will establish stronger levels of service capability and enable the retail business to strengthen customer relations and loyalty.

Its diversified and vertically integrated energy business model provides TRUenergy with access to a variety of profit channels. The overlap between retail customers and generation capacity places the business in a strong position to take advantage of the changes in market conditions and policy direction. TRUenergy's goal of positioning the business as a major and successful energy provider is based on the following strategies:

- continued focus on core operations by driving improvements in the quality and reliability of operating assets and the services offered to customers;
- expansion of a balanced and integrated portfolio of retail and wholesale generation assets to mitigate policy changes and benefit from market and price changes at both a wholesale and retail level; and
- delivering a sustainable future by helping customers manage their energy usage and develop clean and efficient energy alternatives.

With rising energy prices and the need to reduce greenhouse gas emissions, customers and governments will increasingly look for greater levels of energy efficiency. How will TRUenergy continue to add value to the business if the growth in demand for energy services such as energy efficiency outstrips the growth in demand for electricity and gas?

Q

A

Electricity retailers have an important role to play in assisting customers to understand their energy usage. Increasingly we will need to become energy management and service companies rather than simply the sellers of energy.

Energy efficiency advice either in person, over the phone or via internet-based energy efficiency services has been driven to date by state-based regulated targets such as Victoria's Energy Efficiency Target. Differentiating ourselves beyond these compliance obligations will be the next big challenge for retailers. TRUenergy has established a dedicated Energy Smart team and taken other initiatives within our Retail business to help us meet this challenge. We have also sent information to our customers on the specific saving amounts they could achieve by modifying their use of individual appliances, such as air conditioners and clothes dryers. These tips illustrate how a customer could save more than A\$130 each year on his/her electricity charges, which represents 6 to 8% of the typical annual cost of electricity in NSW, which is Australia's largest energy market.

We are also developing the customisation of energy use comparison data based on household type to give individual customers a greater understanding of their energy use.

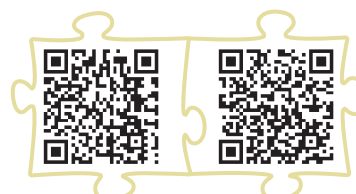


Ms. Clare Savage
Executive General Manager,
Energy Supply Association of Australia



Richard McIndoe
Group Director –
Managing Director Australia

More Q&As



Chinese Mainland



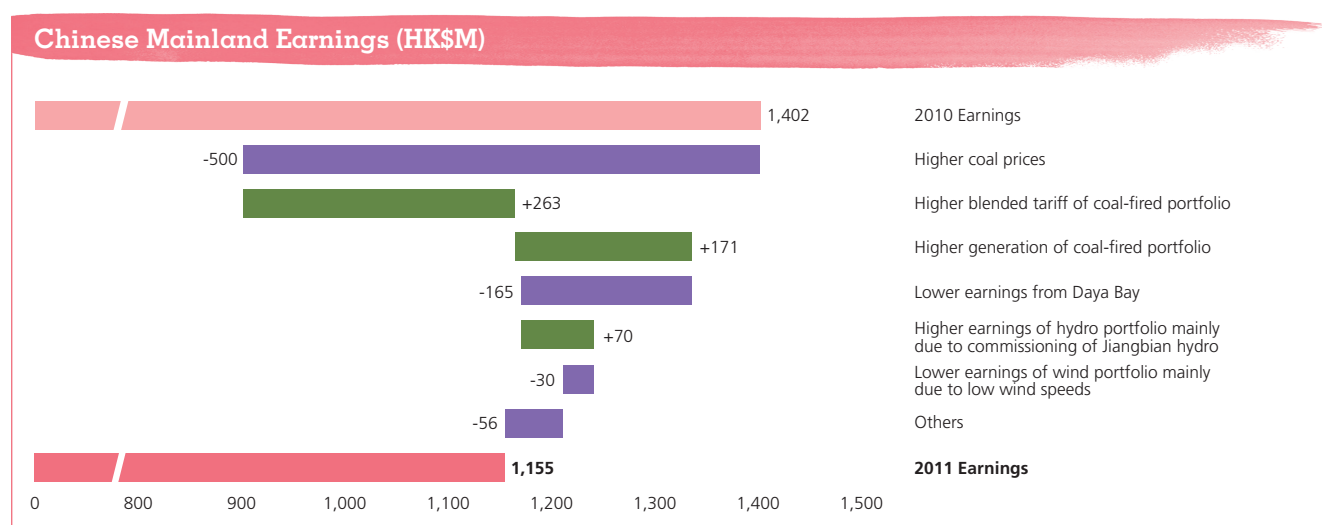
Financial Performance

Earnings from the Chinese mainland (including our 25% stake in the Daya Bay Nuclear Power Station, 70% of its output serves our Hong Kong electricity business) in 2011 totalled HK\$1,155 million, a decrease from HK\$1,402 million in 2010.

Earnings from Fangchenggang and from our investment in the Guohua International joint venture were supported by strong market demand and good operational performance, but all our coal-fired projects were affected by high coal prices. There were modest adjustments to tariffs in April 2011, followed by more substantial nationwide increases in December 2011 together with caps on spot coal prices. We hope these measures can mitigate the impact of high fuel costs in 2012.

The increasing contribution from our renewable energy investments reflected the successful commissioning and smooth operation of Jiangbian hydro. The earnings from our wind energy portfolio in China were below those in 2010, despite new capacity coming into service. This was due to low wind speeds in 2011.

Daya Bay maintained satisfactory operational and safety performance. Its earnings decreased in 2011 mainly because of lower shareholders' funds resulting from a higher dividend pay-out in 2011.



Operational Performance

Coal-fired Power Stations

Overall, our coal-fired power stations maintained a high level of generation, due to strong market demand, supported by effective asset operations and maintenance.

The major contribution to our coal-fired generation activities in the Mainland continues to come from Fangchenggang. Electricity demand in Guangxi has grown as the economy recovers and at the same time, regional hydro electricity generation has been adversely affected by dry weather. Consequently, there have been severe electricity supply shortages and generation from Fangchenggang has made an essential contribution to support the local grid, leading to high dispatch levels. The high demand growth, proven operational performance and the use of imported coal support the construction of two further 660MW units at Fangchenggang. We therefore propose to develop Fangchenggang Stage II. We await approval from the NDRC for this expansion project.

Coal costs have been high at the other power stations in the Mainland in which we hold an interest. Our local partners have been able to obtain lower prices in some cases, but economic performance has still been adversely affected, particularly in Shandong. The coal price-linked tariff adjustment was not fully implemented by the Government for most of the year, with only minor tariff adjustments in several provinces.

Coal-fired Power Stations – Performance

	Rating (MW)	Generation (GWh)		Utilisation (%)		Availability (%)		Operating Hours (Hours)	
		2011	2010	2011	2010	2011	2010	2011	2010
Shiheng I and II	1,260	6,390	6,632	58	63	89	91	5,071	5,526
Heze II	600	3,334	3,357	63	64	95	93	5,556	5,595
Liaocheng I	1,200	6,788	6,665	65	63	94	91	5,657	5,554
Yire	400	2,394	2,417	68	69	95	96	5,985	6,043
Sanhe I and II	1,300	7,660	7,489	67	66	96	93	5,892	5,761
Panshan	1,030	6,225	6,214	69	69	93	94	6,044	6,033
Suizhong I and II [#]	3,600	18,830	15,092	60	55	90	79	5,231	4,858
Zhungeer II and III	1,320	6,960	7,175	60	62	96	91	5,273	5,436
Shenmu	220	1,471	1,371	76	71	98	95	6,686	6,233
Fangchenggang	1,260	7,896	7,055	72	64	87	91	6,266	5,599

Units 3 and 4 of Suizhong II Power Station (2 x 1,000MW) entered commercial operation in February and May 2010 respectively

Renewables – Wind Energy

CLP's investments in wind energy in the Mainland are in three forms:

- minority shareholdings in individual projects (reflecting the limitations in earlier years on non-Mainland companies holding a majority stake in such projects);
- our 32% shareholding in the CGN Wind joint venture; and
- more recently, wholly-owned projects which are also operated and maintained by CLP itself.

In 2011, 20 out of 22 of CLP's minority-owned projects were in commercial operation. Of the remaining two, the 48MW project in Shanghai is under construction with a target completion date in early 2012, whereas construction of the 49.5MW project in Shandong (Haifang Wind) was delayed due to land permitting issues. Future capacity growth from minority-owned projects will be limited to expansions of existing projects which have already performed well.

In March 2010 CLP completed the acquisition of a 32% stake (HK\$1.19 billion) in CGN Wind. However, CLP and our partner, China Guangdong Nuclear Power Holding Company, Limited (CGNPC), have had different views about the speed and scale of the expansion of this joint venture. CGNPC now intends to expand the business more quickly than previously expected, whereas CLP has been concerned that this growth might result in the development of projects that do not match our own investment criteria. Accordingly, we have reached an agreement whereby CLP's equity stake in the joint venture will be diluted from 32% to 15.75% as CGNPC continues to inject additional capital. Implementation of this agreement is pending approval by the relevant PRC authorities.

Our first wholly-owned wind project, Qian'an I, entered commercial service in November 2010 and is operating smoothly. We obtained approval for the construction of phase II at Qian'an, an additional 49.5MW, in early 2011 and all 33 new wind turbines were in commercial operation by October 2011. We are subsequently pursuing the necessary approvals for the development of phases III and IV at Qian'an. Construction of phase I (48MW) of the Penglai wind project, CLP's second wholly-owned wind project, has progressed well with energisation completed in December 2011 and commercial operation achieved in February 2012.

Wind Energy Portfolio – Performance

	Rating (MW)	Generation ⁽¹⁾ (GWh)		Utilisation ⁽¹⁾ (%)	
		2011	2010	2011	2010
Minority-owned					
Shuangliao I	49.3	74.6	83.2	17.3	19.3
Shuangliao II	49.5	89.8	96.4	20.7	22.2
Datong	49.5	81.2	96.3	18.7	22.2
Changling II	49.5	67.7	92.1	15.6	21.2
Qujiagou	49.5	90.6	102.9	20.9	23.7
Mazongshan	49.5	105.5	94.1	24.3	21.7
Changdao	27.2	55.3	59.0	22.8	24.7
Weihai I & II	69.0	143.7	161.6	23.5	26.7
Laizhou	40.5	69.8	86.9	19.7	24.5
Nanao II	45.1	124.2	107.9	31.5	27.3
Nanao III	15.0	36.9	10.5	28.1	n/a
Hekou	49.5	93.9	118.7	21.7	27.4
Lijin I	49.5	81.6	112.1	18.8	25.8
Lijin II	49.5	94.5	39.2	21.8	n/a
Zhanhua I	49.5	92.1	116.3	21.2	26.8
Zhanhua II	49.5	97.8	31.4	22.5	n/a
Rongcheng I	48.8	94.5	108.5	22.1	25.4
Rongcheng II	49.5	108.9	34.8	25.1	n/a
Rongcheng III	49.5	100.0	n/a	n/a	n/a
CGN Wind JV (32%)					
CGN Wind Portfolio ^(2,3)	1,671	2,663	2,110	16.9	21.3
Wholly-owned					
Qian'an I	49.5	92.3	25.2	21.3	n/a
Qian'an II	49.5	36.3	n/a	n/a	n/a

(1) n/a (not applicable) is for projects which had not yet commissioned for a full year's operation.

(2) The total capacity of operational wind farms of CGN Wind Portfolio in 2010 was 1,231MW, of which the utilisation and operating hours are applicable to projects with full-year operation in the portfolio.

(3) CGN Wind is expected to undergo restructuring in the near future whereby its gross capacity under operation and construction will be reduced to 1,794MW. The total capacity of CGN Wind Portfolio under operation stated herein refers to that after such pending restructure.

Renewables – Hydro and Biomass

The Jiangbian Hydro Power Station, comprising 3x110MW units in Sichuan Province is the first wholly-owned greenfield hydro project in China to be developed, constructed and operated by CLP. We completed construction and commissioning of all three units in June 2011, within budget and ahead of schedule. There were many challenges in working at a remote site that is subject to floods, rock bursts, landslides and earthquakes, but the project was managed in compliance with both national and CLP standards on safety, quality, health and environment. Our most significant achievement was zero fatalities during construction, consistent with the value we place on the safety of all those working on our sites. All three units have performed well since the start of commercial operation.

Electricity sales for both Dali Yang_er and Boxing biomass projects improved significantly in 2011. In the case of Dali Yang_er this was due to increased water discharge from the upstream lake; at Boxing this was due to commissioning of an additional 15MW condensing turbine.

Hydro and Biomass Power Stations – Performance

	Rating (MW)	Generation (GWh)		Utilisation (%)		Availability (%)		Operating Hours (Hours)	
		2011	2010	2011	2010	2011	2010	2011	2010
Boxing Biomass	15	93	75	61	62	82	81	5,329	4,271
Huaiji Hydro	125	307	443	28	40	90	92	2,455	3,541
Dali Yang_er Hydro	50	181	176	42	40	90	75	3,638	3,542
Jiangbian Hydro*	330	1,143	n/a	66	n/a	93	n/a	4,002	n/a

* All three units entered commercial operation in June 2011

Nuclear

Daya Bay achieved a utilisation rate of 93% in 2011, compared to 91% in 2010. In January 2011, an enhanced notification mechanism for non-emergency Licensing Operational Events was introduced for the Daya Bay units. There was no such event at Daya Bay in 2011.

Following the Fukushima accident, a comprehensive safety review, requested by the State Council, was conducted by the National Nuclear Safety Administration (NNSA) at all nuclear power stations in China, including Daya Bay. The report of the review is expected to be released by the State Council shortly. Preliminary findings have confirmed that the design and operation of Daya Bay is in full compliance with existing national regulations and standards. Prior to the NNSA's review, Daya Bay also conducted its own internal review and had been formulating improvement initiatives in dealing with natural disasters of extreme severity in order to further enhance its safe operation.

In July 2011, CLP reached an agreement with CGNPC, our longstanding partner in Daya Bay, to acquire a 17% equity share in the Yangjiang Nuclear Power Station project (6 x 1,080MW of the CPR1000 technology) in Guangdong. Regulatory approvals from the relevant Mainland authorities are being sought. Construction of the station commenced in 2008 and has been making good progress. The project is expected to commission in phases between 2013 and 2017 and will supply power to Guangdong.



Jiangbian Hydro Power Station

Environmental Performance

During 2012 CLP intends to enhance and extend its processes for the measurement of emissions from each asset where we have operating control. Emissions to be measured are expected to include carbon intensity, SO₂, NO_x, particulates, recycled or reused water and hazardous waste. We aim to set baseline levels for each asset, establish specific targets to reduce emissions and strengthen the benchmarking of performance against other assets elsewhere in the Group and those of our peers in the Chinese mainland. We also aim to contribute to the Group's efforts to move towards a more sustainable rate of resource use, such as by measuring water use and discharges and developing initiatives to promote a culture of efficient resource use in the offices of our project companies, such as in respect of paper, water, batteries, stationery and the like.

Social Performance

Our colleagues in the Mainland contribute actively to the Group's efforts in community investment. During the past year, four additional staff volunteer teams were set up to provide support and assistance to meet local needs. For example:

- in Fangchenggang CLP donated dictionaries and classroom furniture to primary schools, benefiting 455 students;
- at Boxing our volunteers planted saplings for local farmers and paid caring visits to the elderly and children with special needs;
- in Qian'an our volunteers established a mentoring system and supported promising, but under-privileged, local university students; and
- in Huaiji our volunteers gave electrical and fire safety talks at primary schools, as well as taking care of elderly people.

Throughout the Mainland, CLP has funded 18 schools. These include two in Sichuan as part of relief efforts after the earthquake of 2008. Staff in the Mainland and Hong Kong continued to contribute to our "support-a-student programme". This provides financial assistance to 354 students living in poverty in Guangdong, Guangxi and Sichuan Provinces.

Stakeholder engagement forms part of our commitment to the communities in which we operate. A particular aspect of this in 2011 was the need to respond to the growing concerns of the Hong Kong public on nuclear safety, especially following the Fukushima accident and to their demands for greater transparency regarding the operations of Daya Bay. Although CLP does not operate Daya Bay, we have deployed and enhanced communication channels with media and public on the safe operation of Daya Bay and, more broadly, on the issues related to nuclear power. Daya Bay site visits have been organised for various groups, nuclear experts were invited to Hong Kong for public speaking engagements and nuclear related topics were included in the e-learning kit which forms part of liberal studies curriculum in local secondary schools. A Nuclear Resources Centre to support public education is being established. All these efforts are aimed at facilitating more informed discussion among members of the community about nuclear energy.

Outlook

China's economy remains strong with annual GDP growth running at about 9 to 10%. The Government's macroeconomic controls continue to guide economic development, including growth of the power sector, where both power demand and generating capacity have increased in recent years. We expect that supply and demand will remain generally balanced nationwide in the near term, although there may be local power shortages in some areas, such as parts of Southern China that are affected by a combination of high demand growth, low rainfall and high coal prices.

Approval for new generating projects has become more difficult over the past year. The proposed expansion of Fangchenggang Power Station has been delayed and new wind farm projects now need to be registered with the Central Government before approval can be given by the relevant provincial government. Some of this delay comes from the need for better co-ordination between additional generating capacity and strengthened transmission infrastructure.

The People's Bank of China maintained a tight monetary policy in 2011 through raising the RMB deposit reserve requirement ratio and also the benchmark lending interest rate. The major banks strengthened risk control, making enterprise financing more difficult and financing costs higher. Despite tighter fiscal and macroeconomic policy, there are still opportunities for growth in the Mainland's power sector. CLP has demonstrated the ability to develop, construct and operate new projects using coal, hydro and wind technology, and we have been able to apply our own standards on safety, reliability and technical quality. We are now exploring the possibility of greater control of upstream coal supply to mitigate some of the volatility in coal market prices, which would be particularly beneficial in the Chinese market.

The growth opportunities in the Mainland power sector will reflect the government's policy measures to mitigate and adapt to climate change. The 11th Five-Year Plan (2006-2010) included requirements to achieve defined reductions in energy consumption and greenhouse gas emissions per unit of GDP. Good progress has been made in this respect. For example, in 2010 China installed significantly more wind power than any other country. The outline of the 12th Five-Year Plan released in 2011 further promotes green and low-carbon development. CLP's own climate strategy is consistent with the policy direction in China. We will therefore continue to rationalise the ownership of minority-owned coal-fired assets and to invest in renewable energy projects. We are already one of the largest external investors in wind power in China and we will use ultra-supercritical technology for the Fangchenggang expansion project to maximise thermal efficiency.

Nuclear energy will play a key role in achieving the target set by the PRC Government in its 12th Five-Year Plan to reduce the Mainland's carbon intensity by 40-45% by 2020, as compared to the 2005 level. The Fukushima accident has led to construction and planning of nuclear power stations being placed on hold, pending the NNSA's safety review. Nonetheless we believe China's nuclear generation expansion plan will continue, with additional safety measures being expedited for existing nuclear power stations and more advanced design features being adopted for new stations.

In this context, CLP's priorities for the year ahead include:

- introducing technical improvements at Fangchenggang to maximise availability for high dispatch periods in the local grid and exploring the possibility of a dedicated supply of imported coal to mitigate high and volatile market prices;
- obtaining Central Government approval to proceed with the development of Fangchenggang II;
- maintaining a high operational standard at Jiangbian and exploring new hydro project opportunities to build on the experience gained on that project;
- obtaining approvals and commencing construction of at least two further wind projects and identifying other development opportunities;
- following up with our joint venture partners on any necessary actions that may arise from the NNSA's safety review with regard to Daya Bay and Yangjiang nuclear power stations;
- continuing to improve communication channels with the public on nuclear related matters in Hong Kong, including the launch of the Nuclear Resources Centre and a new nuclear energy website; and
- completing the process for the acquisition by CLP of its minority stake in the Yangjiang project and thereafter monitoring its progress to support completion on time and within budget.

Based on the current international and domestic coal prices and transportation fees and the operating and generation profile in 2011, what will be the financial performance of CLP Guangxi Fangchenggang Power Company Limited in 2012?



Mr. Wei Jiasen
Vice President,
Guangxi Power Grid Corporation

Q

A

Fangchenggang Power Station has performed well since commissioning and remains one of the major profit contributors to CLP's Mainland business. The station generated high output in 2011, reflecting both the strong economic growth in Guangxi Region and also the extended dry season, which depressed the supply of hydro electric power. Fangchenggang is conveniently located on the coast, which enables the use of imported coal. Our fuel costs were controlled by a combination of long-term coal supply and freight agreements, supplemented by spot purchase. Our power station team has also experimented with mixed-firing of environmentally friendly coal with low sulphur content, which manages fuel costs and sulphur dioxide emissions. With continuing equipment improvements and strengthening of management, we expect operational efficiency and performance of the station to improve further. The tariff increase in December 2011 should also help to maintain profitability.



Benjamin Lui
Director – China

Another Q&A



India



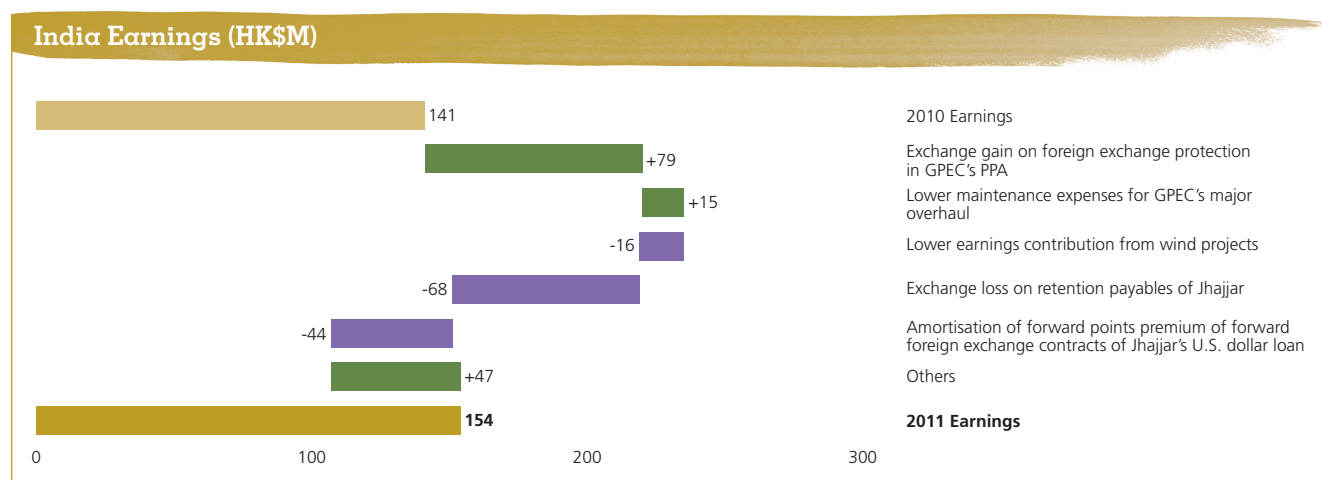
Financial Performance

The operating earnings from India in 2011 were HK\$154 million, compared to HK\$141 million in 2010. The earnings from GPEC increased from HK\$247 million in 2010 to HK\$391 million in 2011 due to the effects of foreign exchange protection under its Power Purchase Agreement (PPA) and to lower maintenance expenses.

Jhajjar suffered a loss of HK\$223 million compared to a loss of HK\$108 million in 2010, largely attributable to start-up costs and the following foreign exchange movements:

- exchange loss on the translation of Euro and U.S. dollar retention payables of construction work at the closing rate; and
- amortisation of forward points premium of forward foreign exchange contracts relating to the U.S. dollar loan.

Our wind energy investments made a profit of HK\$21 million compared to a profit of HK\$10 million in 2010. These also recorded a pre-operating loss of HK\$8 million, unchanged from 2010 and a one-off hedges termination cost of HK\$27 million. Whilst the start of commercial operations at our Samana II and Harapanahalli projects in 2011 contributed to earnings, this was partly offset by the adverse impact of lower than expected wind resources and grid restrictions on the Theni wind farm.



Operational Performance

GPEC, which still represents the primary source of earnings from India, continued to perform well. Availability was maintained at a high level (91.53% compared to 90.1% in 2010). The second of major overhauls to each of the three units was completed in 2011, once again enhancing the operational performance of the unit to near-new levels. We have entered into a long-term maintenance and support contract with the equipment suppliers, Siemens. We expect this will assist in the careful control of the ongoing maintenance costs of this plant. Due to declining production at the relevant gas field, that part of the gas supply to meet GPEC's need which is provided through a gas supply contract with Reliance Industries Limited has been reduced. This means that the coming months may see higher reliance on LNG purchased on the spot market at higher prices, with a potential adverse impact on earnings during 2012. The impact of this may be somewhat mitigated by the possibility of lower generation at neighbouring coal-fired power plants, as a result of problems with coal supply, leading to higher demand for generation at GPEC using gas and naphtha.

There has been a longstanding dispute between CLP India and its off-taker, Gujarat Urja Vikas Nigam Ltd. (GUVNL) regarding CLP India's entitlement to receive payments when availability of the GPEC plant is declared on the basis of naphtha, rather than gas. That dispute remains before the Supreme Court of India. Because spot gas availability was constrained for parts of 2011, GPEC was forced to declare capacity on naphtha. This resulted in an increase of about HK\$3 million in the disputed deemed generation incentive payment. The total amount of the claim, plus interest and tax, with respect to the deemed generation incentive has therefore been revised to HK\$1,245 million. Further details of the claim are set out in Note 34 to the Financial Statements as a contingent liability.

Jhajjar

The Jhajjar project has progressed towards scheduled full commissioning in the first half of 2012. There are currently no major delays in construction and commissioning. Project progress is close to performance schedule, with overall progress at end December 2011 at 96.1% compared to a planned 95.3%. The major challenge for this project has been safety management. During 2011, two separate accidents led to the deaths of three subcontractor workers. Throughout the year the Jhajjar project team continued with its "Sunflower" project to improve safety on site. Amongst other initiatives, this project included strengthened site supervision, additional safety leadership, construction safety and induction training, extra safety reviews, controls and initiatives to motivate the workers to work safely. At Jhajjar we are confronted by a lack of safety awareness which is deeply embedded in construction projects in India. We have worked extremely hard to drive the Jhajjar project towards the safety standards we require, but the results this year fell short of the high standards that we set ourselves. We will continue our efforts.

The availability of coal for the Jhajjar project has been a concern throughout 2011, both in terms of the railway connections to the site and the ability of Coal India to meet its supply obligation. We have been able to complete the railway system, which is now operational, but the quantity of coal supplied so far has only been sufficient to commission unit 1 and demonstrate full load operation for a short time. Coal India has not so far been able to increase its production to meet the expansion of India's coal-fired generating capacity over the past few years and this has caused delay, disruption and shortfalls in supply of domestic coal to numerous projects. In the case of Jhajjar, following intensive efforts with concerned parties such as the Central Electricity Authority, we have now secured sufficient short-term coal supply to restart unit 1 and to commission unit 2. We are also encouraged by intervention from the highest levels of Government, which we believe will lead to the signature of a long-term coal supply agreement with Coal India in the near future and should enable us to put the completed plant into full operation. We also note the recognition by the Government that coal may have to be imported to make up any shortfall, on the understanding that the cost will be passed through under the PPA.



Jhajjar Power Station

Wind Energy

Starting with CLP's first project, at Samana in 2007, CLP India's wind energy portfolio has grown rapidly and to a scale where we are now the largest investor in wind energy in India.

Wind Energy Portfolio – Status and Performance

Project	Rating (MW)	Commissioned / To be Commissioned (MW)	Forecast Full Commissioning Date	Utilisation %	
				2011	2010
Samana I	50.4	50.4	-	21.1	20.9
Samana II	50.4	50.4	-	23.1	n/a
Saundatti	72.0	72.0	-	23.4	n/a
Khandke	50.4	50.4	-	24.4	21.9
Theni I	49.5	49.5	-	26.1	n/a
Theni II	49.5	49.5	-	24.6	n/a
Andhra Lake	106.4	72.0 / 34.4	February 2012	n/a	n/a
Harapanahalli	39.6	39.6	-	31.8	n/a
Sipla	50.4	9.6 / 40.8	March 2012	n/a	n/a
Tejuva	100.8	0 / 100.8	January 2013	n/a	n/a
Total	619.4	443.4 / 176.0			

Note: n/a (not applicable) is for projects which had not yet commissioned for a full year's operation.

The Andhra Lake project, presently the largest in our portfolio, has suffered from construction delays, largely attributable to the unusually difficult terrain at the site. The overall delay on this project will be about 19 months, which affected earnings from our wind portfolio in 2011. However, the project is now moving towards completion. As at the end of December 2011, 90 wind turbines out of a total of 133 at Andhra Lake had been commissioned, with the remainder due to be commissioned shortly.

The wind resources on our earlier projects have fallen short of expectations. We have been exercising greater discipline and carrying out more extensive analysis on the wind resources for new projects. We recently stepped back from a proposed project at Narmada in Andhra Pradesh, when further analysis indicated the wind resource was less than originally estimated. We have also experienced problems in receiving payments due under the PPA for the Theni I and II wind farms in Tamil Nadu. However, in recent months the state off-taker has been making substantial efforts to make good on the delayed payments. The problem is not related specifically to Theni. CLP India will not pursue new wind projects in Tamil Nadu until a more stable and predictable payment regime is firmly in place, even though the state has the best wind resources in India. Notwithstanding the challenges on individual projects, CLP India intends to continue to grow its wind energy business in a steady and disciplined manner. A number of development projects are under consideration, including at Bhakrani in Rajasthan which might both replace the abortive Narmada project and make good a reduction in the capacity of the Sipla project. This came from a recent decision by the Rajasthan Government to forbid the installation of wind turbines on part of the Sipla site, due to the adverse impact of wind turbine visibility on the local tourist industry.

Environmental Performance

CLP India is contributing to the CLP Group's Climate Vision. The carbon emissions intensity of our generating capacity in India is aimed to be maintained at around 0.45 tonnes CO₂/MWh in 2012, with a further move downwards to around 0.4 tonnes CO₂/MWh by 2015. In addition to our growing wind energy portfolio we are exploring the opportunities to deploy solar energy. We are likely to focus on Gujarat and Rajasthan which have the best solar resource in India, and supportive state-level policies.

We meet our responsibility to reduce the environmental impacts of operations through strict adherence to environmental laws and regulations, and adoption of voluntary measures. Our supercritical coal-fired power station at Jhajjar incorporates flue gas desulphurisation equipment, even though this is not required under India's current environmental regulations. With respect to water management, GPEC draws water from the river Narmada which is situated about 25 kilometers away from the power plant. We purify the water and use it as cooling tower make-up, for demineralisation, as drinking water and for other domestic uses. Water used in the condenser cooling water system is recycled to optimise the make-up water requirement.

At the working level, we are implementing initiatives in 2012 for recycling of e-waste at all locations, with a longer term goal of achieving 100% reuse or recycling of e-waste by 2017. In line with the Group's goal of moving toward no net loss on biodiversity, CLP India aims to identify any major impact on local biodiversity for all new major developments from 2012 onwards.

Social Performance

In a vast country with different social needs, CLP contributes to the collective effort required to address some of the communities' more pressing needs through a significant number of community investment programmes. At GPEC, through our Paguthan Power Plant Social Development Trust (Trust), we have made continued efforts to improve the livelihood of the local community through initiatives in public health, education and environment. The following are just a few of the activities we have undertaken:

Nutrition programme – this provides pre and post-natal nutritional food supplements to 17 pre-primary centres for women in 10 villages near our gas-fired power station GPEC. Since its inception in 2003, the nutrition supplement programme has helped remarkably to improve attendance at these centres, and protein energy malnutrition cases have significantly declined.

Women self-help groups – since 2003, the Trust has been running eight self-help women groups in the GPEC neighbourhood. This year, more such groups have been formed so that this initiative now covers over 190 women in 14 self-help groups.

Education initiative programme – in collaboration with renowned NGO Pratham, our team ran the education initiative programme in ten villages and six selected urban slums. The objectives are to improve basic reading and maths, through regular classes and a rotating library. Over 2,700 children benefited from this programme.

Health care support to poor patients – various public health initiatives like diagnostic medical camps and health care support activities in collaboration with local NGO Sewa Yagna Samiti (SYS), have covered around 5,000 needy patients. Patients received support for various health care needs such as free consultation, medicines, surgery, blood transfusion, nutrition support etc. CLP India donated an ambulance to SYS so that they could transport patients to hospitals. Our support also covers the provision of 200 healthy meals on a daily basis to in-house patients at the district hospital.

CLP India intends to extend its commitment to social programmes to our new project at Jhajjar, where we will focus our efforts on making health care accessible to the rural poor. With the Wockhardt Foundation, our health outreach programme has covered 3,000 beneficiaries in four villages. We have provided clean drinking water for Government schools in two of those villages, benefiting around 1,000 schoolchildren. With the support of veterinarians, farmers have been taught to increase milk yield, prevent disease and provide supplementary nutrition to their cattle.

What in your view are the key bottlenecks of operating in India's power sector? How can these be addressed?



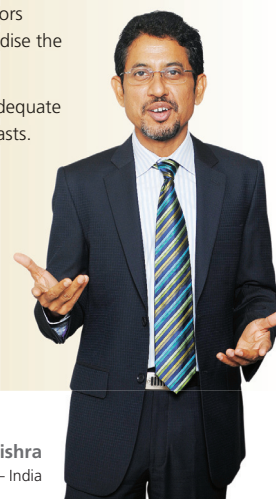
Mr. Rajesh Menon
Deputy Director General,
Confederation of Indian Industry

Q

A

The majority of the current capacity and proposed capacity addition in the country is coal-based. There are significant challenges in the production and transportation of adequate quantity of coal to thermal power plants. The financial health of state-owned distribution companies is the other significant challenge facing the industry. These two critical issues have made investors apprehensive about the viability of several projects and jeopardise the continued growth of the sector.

The Government of India has recognised the importance of adequate power infrastructure to support the strong GDP growth forecasts. Many sections of the Indian Government, including the Prime Minister's Office, have swung into action to address various challenges facing the Power players. Measures are being taken to reduce the coal demand-supply gap and to improve the financial health of the state-owned distribution companies. These efforts are likely to yield positive results in the long term and are welcome initial steps to mitigate the risks for the players in the Indian power sector.



Rajiv Mishra
Managing Director – India

One more Q&A



Outlook

India's GDP growth for the fiscal year 2010-11 has been revised downwards to around 7.6%. Inflation continues to be high, driven by higher food, grain and commodity prices. The Indian rupee depreciated significantly against the U.S. dollar throughout the year, mainly due to uncertainties in the global economy, withdrawal of funds by foreign investors in India, inflation differentials between the U.S. and India and the higher than originally expected budget deficit of the Union Government. In view of the high inflation rate, the Reserve Bank of India has been following a tight monetary policy and has increased benchmark interest rates during the year, with the benchmark repo rate now at 8.5%. Due to this, bank lending rates also increased by 3 to 4% over the year. These difficult market conditions were reflected in the performance in 2011 of the Bombay Stock Exchanges Benchmark Index which stood at 15,454 on 31 December, as compared to 20,500 at the beginning of 2011.

Despite these adverse trends in 2011, the continued growth in the Indian economy provides the need and the opportunity for significant additions to the country's existing generating capacity. Capacity now stands at 186GW, with an additional 75GW expected to be added over the next 5 years. The availability of fuel resources and the need for electricity to remain affordable dictate that a major proportion of this additional capacity should be from coal. India's domestic coal reserves are sufficient to meet this capacity, but problems of land acquisition for coal mines, the need for enhanced operational capability at Coal India and transportation constraints on the Indian railway system, suggest that substantial recourse will be needed to imported coal, even though that may be more expensive.

The Union Government seems likely to continue with its programme of Ultra Mega Power Projects (UMPPs). These are large coal-based power projects, typically around 4,000MW of capacity. The UMPPs are supported by long-term PPAs and in some cases, direct linkage to domestic coal reserves. In those cases, the developer receives a mining license to develop the related mine and use the coal, thereby insulating the developer from coal price movements and the risks of disruption in coal supplies, as well as facilitating competitive tariffs. The financial credibility of some of the power off-takers, which are state distribution companies, has been a major concern for potential investors in UMPPs. This risk is partly mitigated through a diversified off-taker base with PPAs expected to be executed with six to nine state utilities. The UMPPs must be based on supercritical technology. This fits in with CLP's policy of adopting generating capacity with lower carbon intensity and would not put CLP at a disadvantage on technology with competitors in the bidding for UMPPs who might otherwise propose cheaper subcritical technology.

UMPPs are awarded on the basis of competitive tenders. In pursuing further growth in its Indian power business, CLP will consider bidding for UMPPs, in addition to continued expansion of our existing wind energy portfolio.

Against this background, CLP India's priorities for 2012 include:

- management of the construction of the Jhajjar project towards commissioning in the first half of 2012, including achieving stability in future coal supplies;
- completing our wind projects at Andhra Lake, Sipla and Tejuva;
- securing long-term (i.e. five to ten years) gas supply contracts for GPEC;
- further improving our wind resource forecasting and project execution capabilities for new wind projects to provide greater assurance that ultimate returns will match the original investment case;
- pursuing a further large coal-fired power project, likely to be in the form of a UMPP, either on our own or in joint venture; and
- continuing existing efforts to diversify our portfolio by "run of river" hydro and solar projects, although such projects will be considered only on a selected basis having regard to critical issues such as land acquisition, reliable technology and a supportive tariff regime.

In the longer term, we can envisage CLP India's business reaching a point where, in terms of maturity, organisational capability, quality of asset portfolio and size and stability of earnings, the business might be suitable for a local listing, subject to prevailing market conditions. For the time being, this remains a long-term potential goal. Our current focus is sharply on successful completion of the Jhajjar project and steady growth from the strong business platform which we have already established in India.

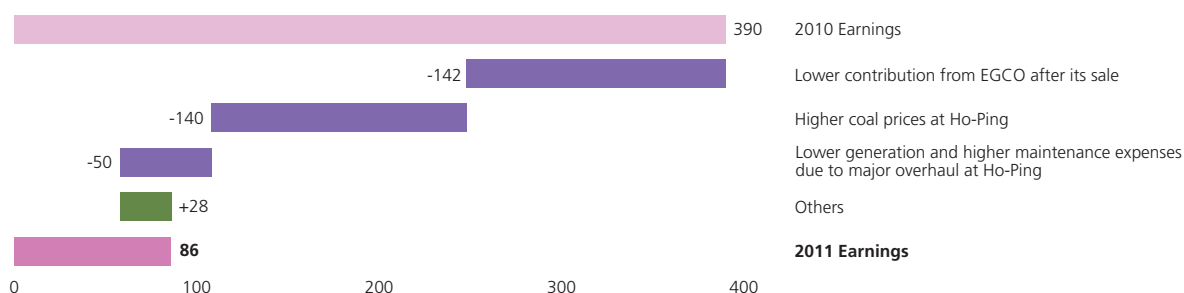
Southeast Asia and Taiwan



Financial Performance

The operating earnings from Southeast Asia and Taiwan in 2011 were HK\$86 million, HK\$304 million below those in 2010. This was mainly due to the absence of earnings contribution from EGCO in Thailand, following the sale of all of our EGCO shares in February 2011. Earnings from CLP's 20% stake in the Ho-Ping power station in Taiwan were also lower than the previous year. This was due to higher coal prices and to a major scheduled plant overhaul in February and March 2011 which meant less generation and higher maintenance expenses.

Southeast Asia and Taiwan Earnings Before One-off Item (HK\$M)



The divestment of CLP's effective interest of 13.36% in EGCO, together with the associated restructuring of our OneEnergy joint venture with Mitsubishi Corporation, was completed in April 2011. The sale price for our EGCO shares was US\$273 million (HK\$2,122 million) and a one-off gain of HK\$876 million was recognised.

Operational Performance

Ho-Ping achieved good operational and safety performance during the year, including the successful completion of the major overhaul of Unit 1. Although earnings in 2011 were impacted by the rise in coal market prices, Ho-Ping will eventually be compensated through the energy tariff adjustment mechanism. This is linked to the coal prices paid by the off-taker, Taipower, but with a one-year delay.

Good progress was made on the 55MW Lopburi solar project in Thailand, which is owned equally by CLP, Mitsubishi Corporation and EGCO. The project site is not located in those areas of Thailand which were subject to severe flooding in late 2011. At end December the project was 95% complete, with the installation of solar panels in its final stage. Commissioning of the initial phases was delayed by the late availability of Electricity Generation Authority of Thailand's 115kV grid connection (unrelated to the effects of flooding). Nonetheless, the first phase of 8MW was commissioned in December 2011. The remaining 47MW will be commissioned in phases by mid-2012 and should meet the original completion schedule. Arrangements for an 8MW expansion at an adjacent site are being finalised.

Southeast Asia and Taiwan

CLP and Mitsubishi Corporation have been developing the 1,320MW Vung Ang II and 1,980MW Vinh Tan III coal-fired projects in Vietnam. We have been negotiating with the Vietnamese Government on the terms of the key project agreements that are necessary to provide a reasonable basis for investment and to enable project financing to be secured. We are also evaluating bids for the power plant equipment supply and construction. We have local partners in both projects, but we have reached a restructuring agreement which would allow the local partners in the Vung Ang II project to transfer their shares in the project company upon completion of a number of conditions. If this occurs, CLP and Mitsubishi Corporation will each hold a 50% interest in this project.

Social Performance

Following some of the worst flooding in Thailand in half a century, CLP supported the flood relief efforts in Loei Province through our joint-venture company NED. In addition, a "Big Cleaning Day" after the flood was organised to celebrate the 84th birthday of His Majesty the King.

Our community programmes have focused on youth and education. We provided scholarships, sponsored lunches, held a sport day for a local school, organised a renewable energy camp and established a kids' soccer team for under-privileged children living near the solar project site. We are developing an education centre at our Loei project that features displays on renewable energy and aims to raise the environmental awareness of the public.

Outlook

Demand for electricity in most Southeast Asia markets, including CLP's incumbent markets of Taiwan, Thailand and Vietnam, continues to grow in line with broader economic development. However, the opportunities for CLP to grow its business in these markets do not match the scale of underlying economic growth. This is for a number of reasons which are specific to each market.

In Taiwan there is the likelihood of new bids for additional generating capacity being sought from independent power producers (IPPs), given the reducing reserve margin in the Taipower grid. However, the capacity requirement available for private sector investment and the preferred fuel types are uncertain.

No new IPP bidding is currently expected in Thailand. The Thai authorities are addressing the low reserve margin expected in the coming years by deferred retirement of old EGAT plant, accelerated development of new EGAT plant, an expanded small power producer programme and further renewable projects. It appears that only the renewable energy sector offers potential opportunities for CLP, as it is open to outside investors and is supported by favourable feed-in tariffs.

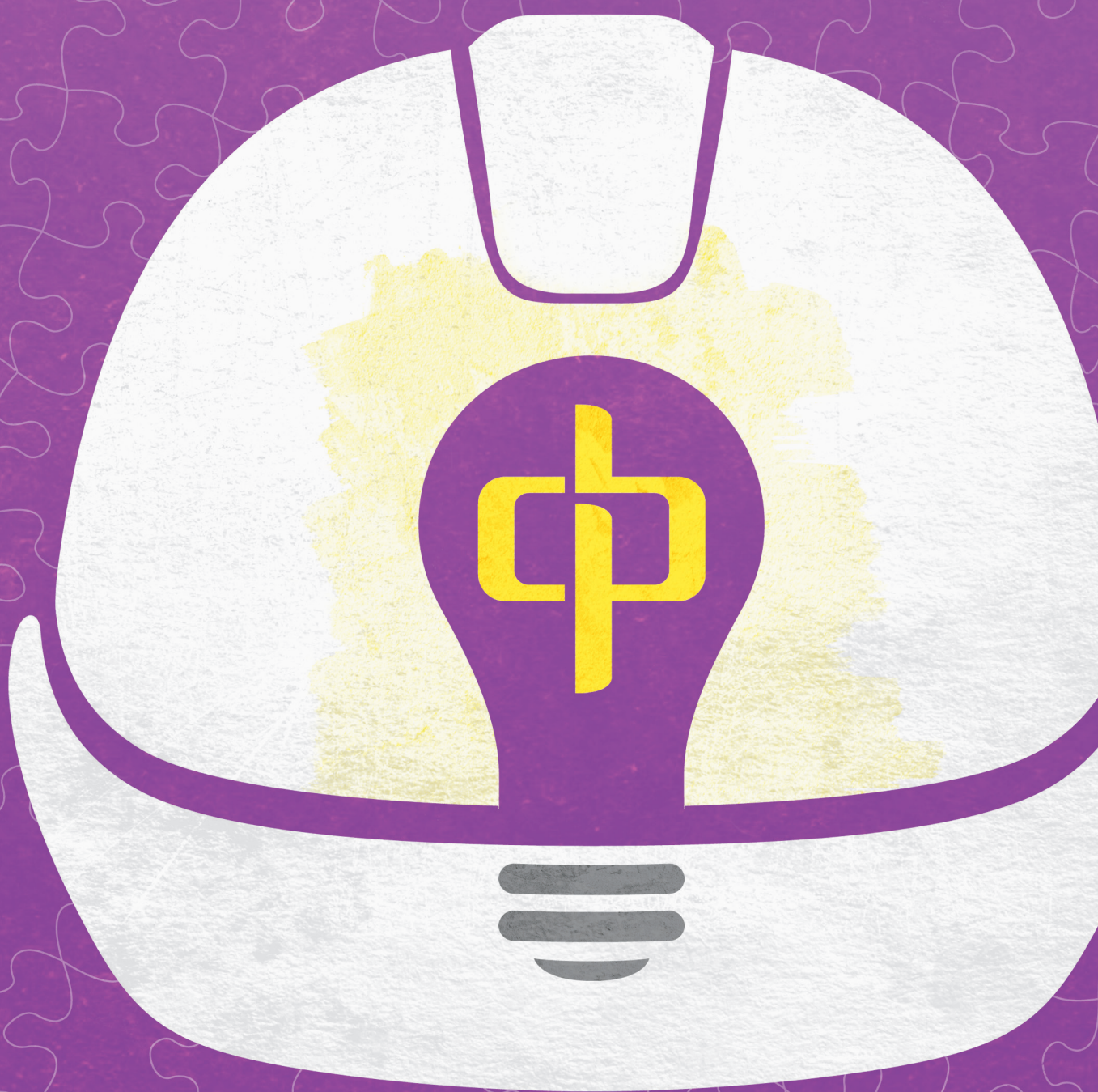
Vietnam has set ambitious new generation capacity goals in its Five-Year Plan in order to support economic growth. However, the development of private sector generating capacity has been slow. The current economic situation in Vietnam is characterised by high inflation, currency depreciation and low foreign currency reserves, and the Government is likely to be cautious in the near term about guaranteeing payment obligations assumed by the state-owned off-taker, Vietnam Electricity. We expect that only a limited number of IPPs with competitive tariffs will ultimately be successful.

All CLP's assets in Southeast Asia and Taiwan are supported by long-term PPAs with state-owned electricity companies and provide stable revenue. However, there is limited opportunity for growth either in the size of the portfolio or underlying earnings in the near-term. Our priorities in this region remain to:

- maintain good operational and safety performance at Ho-Ping;
- complete the construction of the 55MW Loei solar project and the 8MW expansion;
- progress negotiations with the Vietnamese Government on the Vung Ang II and Vinh Tan III projects to determine whether the investment economics and risks are acceptable to CLP, so that one or other of these projects might proceed; and
- explore opportunities that may arise in renewable energy projects in the Indochina region, particularly wind energy where the CLP Group already has considerable expertise.

Resources

We have selected some of the resources and relationships that are critical to CLP and explain how the careful management of these can contribute to the sustainability of our business.



Values



Companies, like people, have values and standards by which they conduct themselves. In CLP's case we have chosen both to express the values we had and those to which we aspire in a formal "Value Framework". This was first published in 2003, then updated in 2009 and January 2012 to reflect developments in our business and feedback from external stakeholders. For example, this year we added further emphasis on the importance of proper management of all the economic, social and environmental aspects of our business.

The Value Framework expresses our vision, mission, core values, commitments, policies and our Code of Conduct. It covers all areas of our operations and applies to everyone in the CLP Group. It is a continuing statement of where and what CLP wants to be, the standards we expect of ourselves and which stakeholders may expect from us.



Vision

CLP's vision is to be the leading responsible energy provider in the Asia-Pacific region, from one generation to the next.

Mission

In a changing world, our mission is to produce and supply energy with minimal environmental impact to create value for shareholders, employees and the wider community.

Values

Our values guide us in fulfilling our mission and turning CLP's vision into reality.

Commitments

Our commitments are the promises that we make to our stakeholders about the way in which we will uphold our values.

Policies & Codes

CLP's policy statements aid in the articulation and incorporation of our values and commitments into our everyday operations and practices.

It may seem strange to think of "values" as a resource, but firm adherence to conducting our business responsibly supports our reputation, enhances our stakeholder relationships, promotes community acceptance of our activities and provides one of the foundations of a sustainable business model.

People



The commitment, experience and expertise of our workforce is a key resource for our shareholders and stakeholders.

Safety

The most important aspect of the relationship between CLP and our staff is safety. Nothing we can do for our staff compares with the importance of our duty to do our utmost to ensure that they go home safely from work every day. This is a responsibility which extends not only to our employees, but to the staff of our contractors and to everyone who legitimately comes into our facilities. CLP's business demands the highest attention to safety – electricity takes no prisoners. Our business would not survive if we disregarded the safety of those who work within it. This is exactly what we said in last year's Annual Report – and we promised we would say exactly the same thing this year. For all of us, safety is an absolute priority – year-in, year-out; day-in, day-out. The following chart shows the number of incidents involving disabling injuries and the rate of such incidents for those assets under construction or in operation, where we have operational control or majority ownership (known as DIIR – Disabling Injury Incidence Rate) which is the number of reportable disabling injuries for every 200,000 employee hours of exposure. It is roughly equivalent to the number of disabling injuries per 100 employees per year.

Safety Performance – DIIR

Location	Employees				Combined Employees and Contractors			
	2011 No.	DIIR	2010 No.	DIIR	2011 No.	DIIR	2010 No.	DIIR
Hong Kong	4	0.09	2	0.05	13	0.14	20	0.17
Australia	6	0.34	6	0.62	11	0.45	11	0.68
India	0	0.00	0	0.00	36	0.44	11	0.19
Chinese Mainland	1	0.09	3	0.37	1	0.03	6	0.14
Southeast Asia and Taiwan	0	0.00	0	0.00	0	0.00	0	0.00
Total	11	0.14	11	0.15	61	0.23	48	0.19

Some businesses, including those in the power sector in our region, might be satisfied with such low incident rates. We are not satisfied. We aim to do better in this aspect of our business in 2012. First, the overall incident rate in 2011 was higher than in 2010. Secondly, zero incident is our goal. In 2011 we continued to exercise safety disciplines and procedures on a Group-wide basis – we make no concessions on safety for different countries or assets. A particular challenge has been to maintain a proper safety culture on our Jhajjar project where there were three fatal accidents to subcontractors. There were also two fatalities involving subcontractors at the Andhra Lake wind farm project, both resulting from vehicle accidents. However, we will not use the particular difficulty of a project or an unfavourable safety culture as an excuse for accidents. This year the Jiangbian hydro project in China was completed without a single fatality to our employees and contractors, notwithstanding the challenges of a complex project in difficult terrain, including extensive tunnelling through extremely demanding geological conditions.

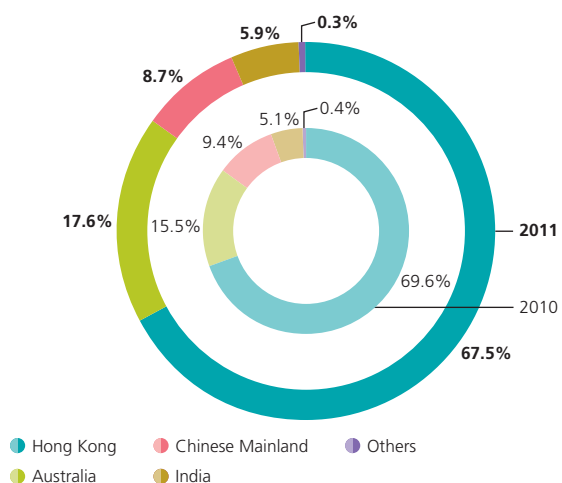
Safety management reviews were conducted at Jhajjar, together with an initiative to increase the engagement of all employees in health and safety efforts. Elsewhere, as at Jhajjar, safety management systems continued to be strengthened and aligned to an enhanced Group standard. Safety leading indicators, including pre-work risk assessment practices have been implemented and have been shown to reduce work safety risks. Our [online Sustainability Report](#) sets out the safety performance of our business in greater detail, including at assets or projects where we have only a minority stake and limited operating influence. 🌱

A Skilled and Experienced Team

CLP continues to bring to its shareholders and other stakeholders a work force which is...

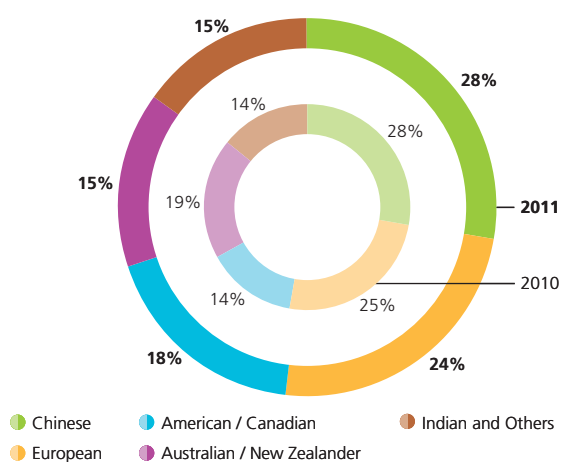
Distributed across the region in line with the demands of our activities

Staff Distribution by Geographical Location as at 31 December 2010 and 31 December 2011



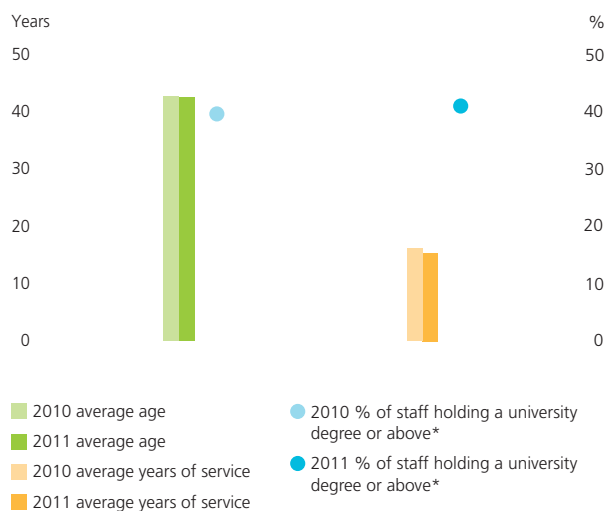
Led by a diverse management team

Breakdown of Senior Executives by Nationality as at 31 December 2010 and 31 December 2011



Experienced and highly educated

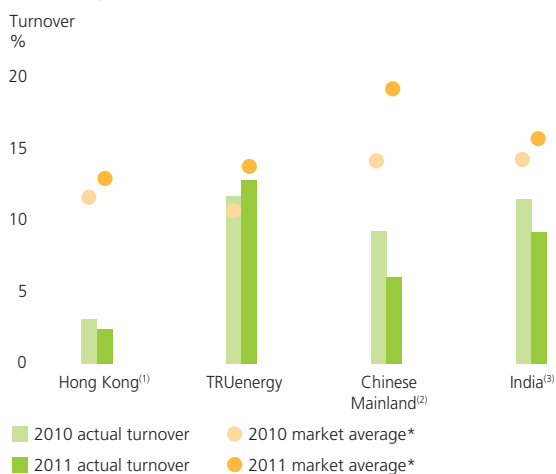
Workforce Characteristics



* Information on TRUenergy employees is not currently available as it was not collected when employees joined the Company.

Loyal

Voluntary Staff Turnover Rate



Notes:
1 Includes CLP Holdings, CLP Power Hong Kong, and other Hong Kong payroll staff.
2 Includes all CLP subsidiaries in China.
3 Includes all CLP subsidiaries in India.

* Source: Aon Hewitt 2009 – 2011 Salary Increase Survey in Asia

Preparing for Retirement

We are conscious that the expertise and experience of our colleagues are, at least in part, the results of considerable length of service within the CLP Group. As is to be expected, one consequence is a significant, but largely constant, percentage of staff approaching retirement within the next five years, as the following table explains:

Staff due to retire within the next five years		
	2011	2010
Hong Kong	13.4%	12.5%
Australia	9.6%	9.5%
India	1.1%	1.3%
Chinese Mainland	9.6%	11.3%

In response to this challenge, and as part of the wider goal of enhancing the value of our people we are taking a wide range of measures to:

- ensure management succession;
- enhance the capabilities of all staff; and
- introduce new talent to CLP.

The following paragraphs explain just a few of the steps we are taking under each of these three headings.

Management

We closely monitor the retirement projection of the senior executive team. The annual Group-wide Management Development and Succession Planning process has enabled CLP to put in place the necessary succession plans. In 2011 internal successors were identified for 100% of senior management positions.

The Group Executive Development Program (GEDP), run in conjunction with the IMD Business School, is one of our key tools for developing management talent. In 2011, 23 participants from across the Group attended two intensive training modules, focusing on strategic issues facing the energy industry. 60% of the participants in this Program have had job moves within the past three years in order to expand their experience and capabilities. In addition to the GEDP, 20 of our high potential staff attended the Richard Ivey Business School Consortium Management Development Programs in Hong Kong.

Enhancing Staff Capabilities

In 2011 each employee in the CLP Group received an average of 5.4 training days (5.5 days in 2010) designed either to enhance their performance in their current roles or to prepare them for further advancement.

How is the company dealing with the problem of ageing employees? As we are facing a retirement peak season in the coming few years, we have to dedicate resources to building up potential young engineers.



Mr. Leung, Leo Ting Pong
Engineer, CLP Power

Q A

It is an unfortunate fact of life that everybody gets older, and there is not very much we can do about this! If a large proportion of employees retire without effective know-how transfer then the organisation's knowledge and experience is depleted. Other problems might be rapidly increasing medical costs and, in physically demanding roles, loss of productivity and increased safety risks.

Across the Group, the business most at risk from these problems is the Hong Kong business. As a result of high average length of service and very low voluntary turnover rates, there is a relatively high average age and skewed age distribution. However these figures are not high when compared with major utilities in Europe and the U.S.

We have been planning ahead for the retirement projection for many years. Apart from annual succession planning and 5-year manpower planning processes, a strategic review on workforce planning was completed in 2011. The review included identifying competencies that meet current and future business needs, facilitating transfer of skills from retiring staff and strengthening the pool of high potential staff.

The retirement projection also has positive consequences. Most importantly it will create a wave of opportunity for younger staff who might otherwise have faced another consequence of a stable organisation with low turnover, which is limited promotion opportunity.



Roy Massey
Director – Group Human Resources

People

Specific initiatives were also undertaken within our different business units. For example, CLP India has been conducting workshops on the “Whole Brain” thinking framework to increase collaborative decision-making in the workplace. The framework helps employees understand their thinking preferences in order to optimise their personal effectiveness and in turn understand and appreciate each other. A presentation on CLP India’s experience with the “Whole Brain” thinking framework and collaborative decision-making was made at the Annual Conference of the American Society for Training & Development in mid-2011 and will feature as a case study in Hermann International’s global portfolio of case studies.

We do not believe that our staff can give their best without proper consideration for their overall well-being and work-life balance. In Hong Kong we organised initiatives such as Work-Life Balance Month, whilst TRUenergy’s employee Wellness Program (Healthy, Wealthy, Fit and Wise) achieved finalist status and a commendation award in the 2011 Australian Human Resources Industry National Awards for Health & Wellbeing.

Introducing New Talent

A number of initiatives have taken place to ensure the ongoing supply of technical talent. For example, in 2011:

- in Hong Kong we continued with our Recruit Trainees / Apprentices programmes and recruited more than 50 students;
- we enhanced the co-opt programme with the Vocational Training Council of Hong Kong and offered placements to their students, which also facilitated the recruitment of Technician Trainees;
- we extended our graduate trainee recruitment to the Mainland for the first time to strengthen the awareness of CLP in the Mainland and to expand the pool of candidates; and
- in Australia, TRUenergy launched a Graduate Program across a range of tertiary institutions to ensure a quality pipeline of graduates for critical business units in 2012.

In recent years, as the CLP Group’s activities have expanded beyond our original Hong Kong base, we have faced the challenge of developing and managing an increasingly diverse workforce across a growing range of assets in widely differing markets. We believe that we are meeting this challenge to the point where the diversity of our workforce, the breadth of opportunities open to them and the varying demands of different markets is now helping to enrich the capability of our staff and to raise their capacity to respond to new developments in our industry and in our business.



CLP trainees and apprentices celebrate graduation

Expertise



Expertise in power generation technology is a critical resource for CLP's business.

We have more choices of technology and fuels today in the power industry than ever before. This is the result of various circumstances, including concern over the security of power supply, the discovery of more sources of natural gas, the growth of the developing world, particularly China and India, and the possible re-emergence of nuclear power. But the single greatest factor has been climate change and the need to generate more energy with less carbon. Use of renewable resources may still only provide a small part of our total energy supply but the growth in investment, improvement in performance and reduction in cost has been unprecedented. At the same time, the efficiency with which we use fossil fuels has improved to levels that would have been thought impossible not so many years ago.

CLP operates in the Asia-Pacific region and we have been able to develop, build and operate most types of power generation and use most of the available fuels. We have been able to achieve low costs and rapid construction, and we have also developed a deep understanding of the risks that are involved, which is essential for intelligent investment decisions in these rapidly evolving markets.

We review here the evolution of a wide range of technology and fuels, and look at the choices we now have for future projects and investments.

Coal – in the past was the natural and often the only choice for power generation in many countries, being cheap and widely available. However, traditional coal-fired technology could only achieve efficiencies of some 35 to 38%, which is no longer acceptable in a carbon-constrained environment. We have subsequently moved from subcritical to supercritical technology and in the future we expect to use ultra-supercritical technology for further coal-fired units. Efficiencies now reach 43 to 45% and we can foresee a continuing increase to 50% or higher. Further reductions in carbon are possible with carbon capture systems, but the economics are currently unfavourable. CLP was a pioneer of coal as a fuel for Hong Kong and we have subsequently developed projects with the improving technology in numerous other countries.

Natural gas – was not considered a viable fuel for power generation until the 1980s. It was sometimes seen as a waste product of oil production but large-scale discoveries in Europe, America, Russia and Australia changed this perception. We now see new reserves emerging in the form of shale gas, coal seam methane and also through increased use of LNG. Availability of gas led to the development of combined cycle technology, which now achieves efficiencies of 60% with a carbon intensity of half that of the best coal-fired units. CLP was the first to use gas from the South China Sea for power generation in Hong Kong and we have subsequently built and / or operated similar units in India and Australia. Gas can be viewed as a transitional fuel towards an even lower carbon energy world.

Nuclear power – was originally seen as an almost limitless source of cheap energy but nuclear accidents in the USA and Russia in the 1970s and 1980s changed public perception dramatically. Many nuclear projects were cancelled and China became the leader in new nuclear power construction, with CLP deeply involved in the pioneering project at Daya Bay. There is now renewed interest in nuclear power in many countries because it is essentially free from carbon in operation. Nevertheless, the accident at Fukushima illustrates the need for the highest standards of engineering. We continue to invest in China's nuclear programme through the Yangjiang project.

Expertise

Hydropower – has been a major resource in some countries for many years since it can be harnessed with relatively simple technology. It becomes even more important now as a form of renewable energy. CLP has developed several hydro projects in China, most recently commissioning the Jiangbian station where we are the sole owner, construction manager and operator. Sites for new hydro projects need to be chosen carefully since construction can be challenging and we are reluctant to develop large-scale projects due to potential social and environmental impact. Nevertheless, we will consider future medium-sized opportunities.

Wind power – is by far the leader of the so-called new renewables. The output of individual wind turbines has increased from a few kW to several MW over the past ten years and costs have reduced significantly. Wind energy is close to being competitive with traditional fossil fuels in some markets and tariff subsidies are gradually reducing elsewhere. CLP has been a leading investor in wind projects in China, India and Australia, and we now have the capability to engineer, build and operate on a wholly-owned basis. A challenge for the future is to exploit the much better winds available offshore.

Solar energy – is the second emerging renewable energy after wind and can be used to produce power directly in photovoltaic cells or indirectly as a heat source for conventional generation. Solar projects still require a significant subsidy to tariffs but the cost of solar cells continues to fall. Grid parity at the retail level is within sight and eventually large-scale utility projects may compete with other fuels, particularly if they earn credits for the carbon emissions which are avoided. CLP has been a pioneer in solar power as a shareholder and constructor in Asia's largest project in Thailand.

So, as we look to the future and evaluate our own capabilities to engineer and build new projects, we see the following as the proven and viable technologies:

- Coal, using ultra-supercritical technology and emissions controls
- Advanced gas-fired combined cycle
- Nuclear, as third generation technology gradually emerges
- Hydropower at a modest scale in specific locations
- Wind power with increasingly wide application
- Solar power as capital costs continue to fall



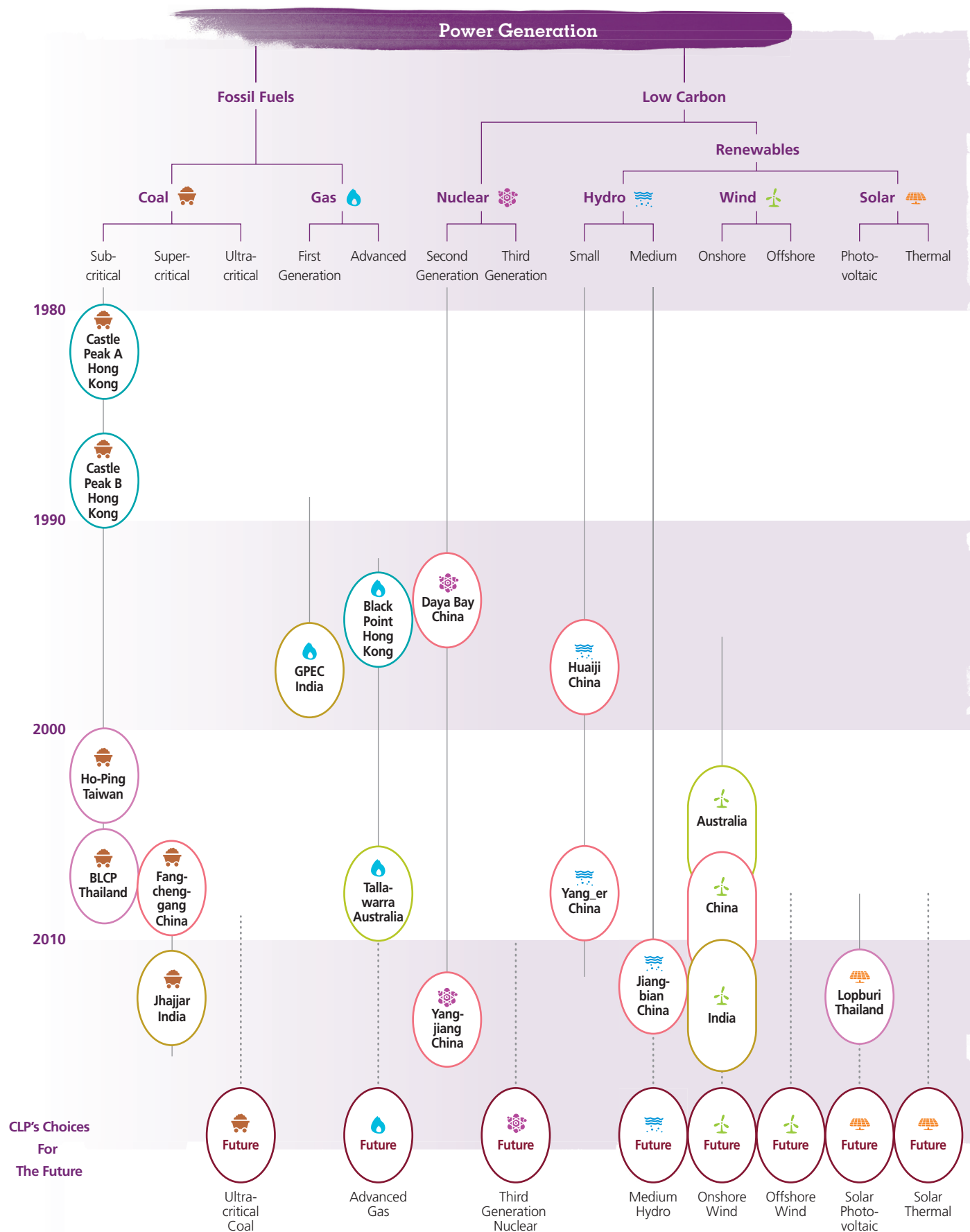
CLP Technology Roadmap

The chart on the next page tells how, over the past 30 years, CLP has deployed new technologies across our business. It also explains our choices of technologies for the future – we have the resources and the expertise to apply these technologies.



Lopburi solar project

CLP's Choices of Technology – Past, Present and Future



Financing



One of the key resources on which CLP relies to sustain its existing business and create future growth is our ability to raise external finance in an extremely capital intensive industry. In 2011 alone, the CLP Group raised an aggregate of about HK\$36 billion to support current operations and future growth. On a typical greenfield generation project, whether based on conventional fuels or renewable energy, up to 75% of the capital cost can be met by borrowing. With each MW of new generating capacity costing around US\$1 million, the ability to raise debt on favourable terms and over long periods is critical to our success. To do so requires understanding and management of a number of factors:

- the status and trends of financial markets;
- an effective funding model;
- a prudent funding strategy;
- supportive credit ratings; and
- disciplined and focused risk management.

Each of these is discussed in this section.

The Financial Markets

This year global financial markets have passed from one extreme to another. Early in 2011 the U.S. Federal Reserve committed to maintain short-term rates at close to zero percent and indicated there would be no scaling back on quantitative easing in the near-term due to the weak economy. Though certain countries had started to tighten credit to fence off inflationary pressure, interest rates were relatively low and liquidity remained strong. Debt capital market activity continued at a strong pace throughout the first quarter.

However, tougher conditions started to emerge in the second quarter. Concerns about lack of political leadership with respect to Greece and the U.S. fiscal situation unsettled global financial markets with a corresponding increase in volatility, reduced liquidity and higher interest rate margins. In April, Standard & Poor's (S&P) changed its outlook on the U.S. sovereign long-term AAA rating from stable to negative, with a perverse effect as investors fled to U.S. Treasury bonds, the world's most liquid financial instrument.

In Hong Kong, the Hong Kong Monetary Authority took steps to slow down loan growth, citing the rapid rise in the loan to deposit ratio from 2010. Concerns about the ongoing European sovereign debt crisis compounded the situation. As investors exercised high levels of caution, the primary equity and debt capital markets effectively shut down from mid-year with only selective and opportunistic issuances. Funding has emerged as a critical issue for many companies as banks, in particular those from Europe, have reduced their lending activities to reduce risk and rebuild their balance sheets. The resulting credit squeeze has, not surprisingly, increased interest rate margins for all borrowers.

CLP understands that we cannot rely on past success and just hope for positive future outcomes, nor can we pretend to be able to forecast market movements. We will remain vigilant to further market developments. Most importantly, we will remain highly disciplined in maintaining prudent financial management of liquidity and risk management (foreign exchange, interest rate, credit, counterparty) so that we can obtain cost-effective funding and maintain a good credit profile. Abrupt changes in market conditions, such as in recent months, both reward earlier prudence and demand proactive management.

CLP's Funding Model

CLP had been careful in using debt gearing to grow our business in accordance with our business strategy. At end-2011, the Group's gearing ratio (net debt to total capital) grew to 43.1%, reflecting our significant capital investment and acquisition activity throughout the year. Besides debt financing, we were able to fund a significant portion of our investments through retained earnings as well as from the proceeds from the disposal of our stake in EGCO. We know that maintaining financial discipline means that there are limits on the amount that we can borrow. We will, therefore, continue to look at self-funding strategies such as disposals or potential listings to fund our growth.

Over the past five years, we have actively diversified our funding sources, maintained strong long-term relationships with lenders and investors and have spread out maturities to reduce refinancing risk. We tend to borrow in the functional currency of the underlying business, and hedge foreign exchange and interest rate exposures to reduce volatility. Our discipline in investment and borrowing is important as it helps maintain a high level of confidence from our stakeholders (investors, lenders, business counterparties) and credit rating agencies, so that we can raise debt and carry out business in a cost and commercially effective manner.

CLP's solid financial position and good track record have enabled our subsidiaries to solicit new business opportunities without recourse to the holding company (such as in the form of guarantees or other support) so we can keep a strong balance sheet in meeting our business objectives. In many cases we have used project finance, often supported by export credit and quasi-government agencies, to attract a balanced mix of lenders with good funding capability and local market knowledge.

CLP's financing programme for 2011 had a number of key characteristics. First, we retained strong business relationships with qualified, financially strong institutions so we were not affected by the tightening of liquidity seen in the market. Over the year, we increased our banking relationships from 57 financial institutions to 59 to further facilitate business growth and spread out concentration risk. Our success in managing these crucial long-term relationships can be demonstrated by the fact that about

CLP balances its need to maintain dividend pay-outs with business growth.

As CLP continues to grow in its focus markets, it may need to take on a greater degree of leverage which could put CLP's credit rating under pressure. How does

CLP view the trade-off between maintaining its credit rating and growing the company?

Q

A

One of CLP's key financial strategies is to maintain a strong investment grade credit rating. A strong credit rating provides CLP with access to capital at competitive rates, an intangible asset in these days of high market volatility and reduced bank liquidity.

At the same time, we recognise that our investors fundamentally value our strong historical dividend, and maintaining our track record in this regard is extremely important.

Notwithstanding a rebasing of our earnings in 2009 following the reduction in the SoC permitted return we maintained our absolute dividend level. This meant a higher dividend pay-out ratio than our historical level. This year we have been able to increase our absolute dividend level to HK\$2.52.

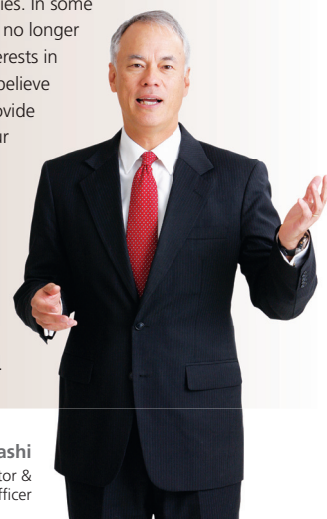
Following TRUenergy's completion of the NSW acquisition last year, CLP's consolidated debt level rose to a higher level. We were able to defend our rating as the agencies concurred that CLP's discipline and historical track record gave them comfort that our gradual approach to expansion and prudent financial management would allow our financial metrics to improve over time.

Moving forward, we realise that there are limits as to how much we can increase our gearing ratio without some consequences to our credit rating. Towards that end, we will continue to proactively identify and implement self-financing strategies. In some cases, that has meant divestiture of certain assets which no longer fit the longer term business strategy. Our sale of our interests in EGCO in 2011 is an example of this. In other cases, we believe that the potential listing of our overseas assets could provide access to growth capital to grow while strengthening our balance sheet. A listing of TRUenergy in the Australian market is one of the possible options which we have under consideration.

In summary, our financial track record of steady dividends and strong credit ratings continues to be our primary objective, with future growth being on a gradual and measured basis in line with our ability to develop self-financing strategies throughout the Group.



Mr. Mark Dowie
Group Head Corporate Finance,
Wholesale Bank, Standard Chartered Bank

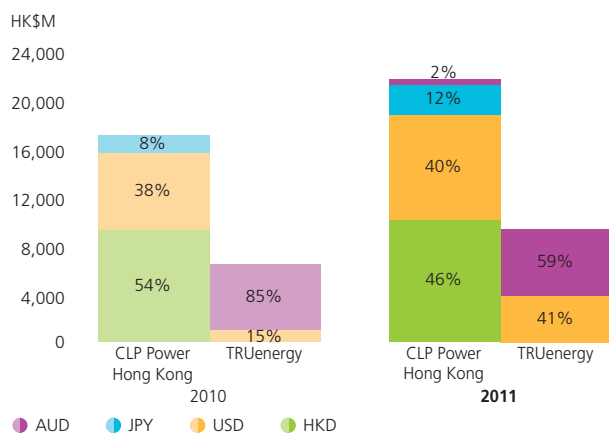


Mark Takahashi
Group Director &
Chief Financial Officer

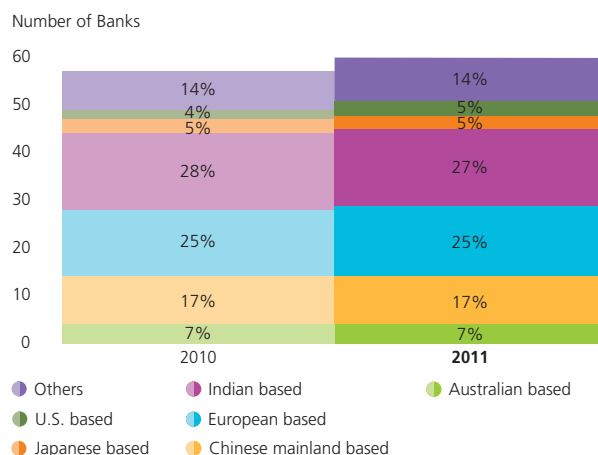
80% of the financial institutions we had relationships with a decade ago are still working in partnership with us. Secondly, the Group (particularly CLP Holdings, CLP Power, TRUenergy and CLP India) completed most of its debt raising in the first half of 2011. This allowed us to benefit from better terms and funding availability than was obtainable in the second half of the year. Thirdly, apart from the conventional U.S. dollar and H.K. dollar markets, CLP Power further diversified funding into regional currency bond markets including Australian dollar and Japanese yen and achieved pricings better than that in the U.S. dollar bond market. Finally, CLP Power lengthened maturity with debt tenor up to 30 years in bond issuance, so that we could lock in attractive fixed interest rates for extended periods.

Major achievements in financing activities	
CLP Holdings	HK\$5.2 billion 5-year revolving bank loan facility - Financed by a consortium of 16 international and regional banks - Terms were identical to the HK\$6 billion revolving facility the Company arranged in 2010 when the financial market was more liquid HK\$2.4 billion bilateral bank facilities - Attractive pricing
CLP Power Hong Kong	US\$300 million (HK\$2.3 billion) 10-year bond - Received an order book of US\$2.7 billion (nine times coverage) - All the U.S. dollar proceeds were swapped back to Hong Kong dollars to mitigate foreign currency risk and lock in attractive rates JPY10 billion (HK\$1 billion) 10 and 15-year fixed rate bonds - Long tenor with Japanese yen converted into favourable Hong Kong dollars long-term fixed rates A\$55 million (HK\$443 million) 10-year bonds - Long tenor with Australian dollars converted into favourable Hong Kong dollars long-term fixed rates HK\$815 million 15, 20 and 30-year fixed rate bonds - Further lengthened the maturity profile at favourable fixed interest rates HK\$2.2 billion 2 to 7-year bank loan facilities - Medium term loan with favourable interest rate and terms
TRUenergy	A\$2.05 billion (HK\$16.2 billion) debt with 14 multinational banks - Refinanced the NSW acquisition with a balanced mix of 3-year (A\$1.15 billion), 4-year (A\$450 million) and 5-year (A\$450 million) facilities - Strong support in the banking sector was evidenced by 2 times oversubscription and completion at terms better than the maturing debt US\$360 million (HK\$2.8 billion) 8, 12 and 15 years bonds - Private placement of long tenor bonds issued at attractive fixed interest rate - All U.S. dollar proceeds were swapped back to Australian dollars to mitigate foreign exchange rate risk
CLP India	US\$125 million (HK\$971 million) and Rs.2.2 billion (HK\$324 million) 10 to 13.5-year project loans - Long-term project loans to fund construction of Andhra Lake and Sipla wind projects at competitive rates - Refinanced the project loan for Samana II on more favourable terms and conditions - All U.S. dollar proceeds were swapped back to Indian rupee to mitigate foreign exchange rate risk Rs.3.5 billion (HK\$510 million) bank facilities - Working capital facilities for Jhajjar project at competitive terms
CLP China	RMB300 million (HK\$370 million) 15-year project loan Long-term project level financing to fund construction of Qian'an Phase II wind project at a competitive rate amidst credit tightening in Chinese mainland

Diversification of Bond Funding



CLP Banking Relationships – Balanced Mix of Lending Financial Institutions



The quality and durability of the relationships we have established with lenders gives us confidence that, even in challenging times, CLP will retain access to capital to take its business forward in each of our markets. We retain sufficient undrawn debt capacity to capitalise on acquisitions and development opportunities which may emerge. In Hong Kong, CLP Power can tap into Hong Kong dollar and foreign currency debt capital markets under its Medium Term Note (MTN) Programme for an aggregated amount of up to US\$3.5 billion, increased from US\$2.5 billion. As at 31 December 2011, bonds with a nominal value of about HK\$21.6 billion were issued under the MTN Programme.

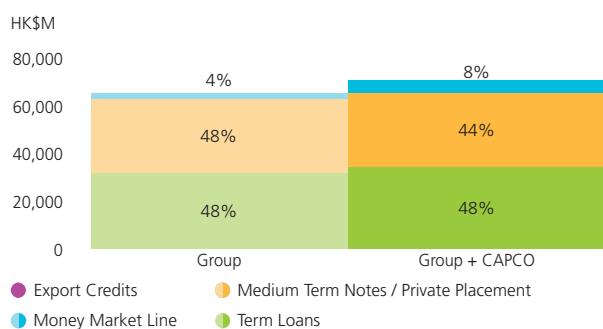
Debt Profile as at 31 December 2011

	CLP Holdings HK\$M	CLP Power Hong Kong HK\$M	Other Subsidiaries ¹ HK\$M	Group HK\$M	Group + CAPCO HK\$M
Available Facility ²	15,750	33,481	40,667	89,898	96,175
Loan Balance	7,678	27,391	30,452	65,521	70,835
Undrawn Facility	8,072	6,090	10,215	24,377	25,340

Notes:

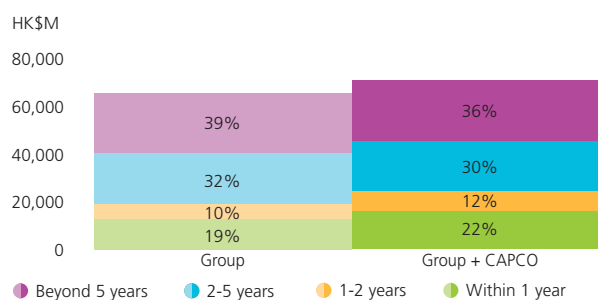
- 1 Mainly relates to TRUenergy and subsidiaries in India.
- 2 For the MTN Programme, only the amount of the bonds issued as at 31 December 2011 was included in the total amount of Available Facility. The Available Facility in TRUenergy excludes a facility set aside for guarantees.

Loan Balance – Type



Note: Export credits accounted for less than 0.1% of the total loan balance of the Group and CAPCO combined (nil for the Group) and are not reflected in the chart above.

Loan Balance – Maturity by Ageing



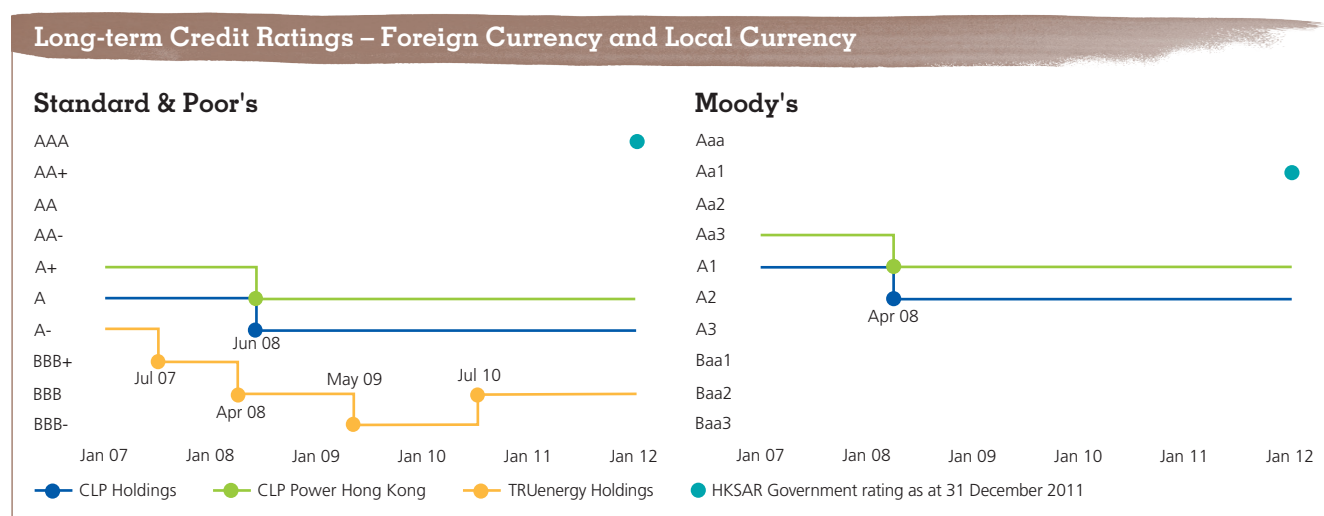
Note: Loan balance between two to five years includes loan drawdown with current tenor less than one year under revolving facility with maturity falling beyond one year.

In 2011, interest cover (which equals profit before income tax and interest divided by the sum of interest charges and capitalised interest) was 4 times (2010: 7 times). The financial obligations of the Group, CAPCO and PSDC, and the Group's share of the financial obligations of jointly controlled entities and associated companies as at 31 December 2011 are shown on page 23.

Credit Ratings

Maintaining credit ratings was a fairly challenging exercise in 2011. In December 2010 S&P and Moody's placed CLP Holdings and CLP Power under ratings watch with negative implication following our announcement of TRUenergy's successful acquisition of certain power assets in NSW, Australia. Even though credit ratings are not the sole driver of our investment decisions and funding policies, they remain an important benchmark as to how external parties regard CLP, so we were keen to explain to rating agencies the strong reasons to maintain the original credit ratings.

The subsequent affirmation of CLP Holdings' and CLP Power's strong credit ratings by S&P and Moody's in March 2011 illustrated their confidence in CLP's strong track record and commitment to prudent financial policies. This facilitated CLP's continued success in obtaining market competitive terms.



CLP Holdings

Moody's Rating

In March 2011, Moody's re-affirmed the A2 credit rating of CLP Holdings with stable outlook.

Positives	Negatives
- Cash flow predictability supported by a well-established regulatory regime in Hong Kong - Sound liquidity profile and good operating track record - Management's prudent and gradual approach in pursuing overseas expansion - No material impact on CLP Holdings' business and financial profiles due to the NSW acquisition - The NSW acquisition can: (1) provide strategic benefits to TRUenergy and be immediately earnings-accretive; (2) significantly increase TRUenergy's customer base and improve geographical diversification and economies of scale; (3) help TRUenergy become the second-largest player in Australia's retail electricity market; (4) provide TRUenergy with a long-term supply of electricity to match growing demand and maintain a balanced hedging profile; and (5) help counteract TRUenergy's exposure to uncertainties related to future carbon emission regulations in Australia	- Weakened financial profile due to debt-funded overseas expansion, albeit still appropriate for the rating - Expansion in riskier, non-regulated merchant energy and retail businesses in the region has raised the overall business risk - CLP Holdings' financial metrics weakened temporarily in 2011 after the NSW acquisition, but should improve in 2012 and afterwards as a result of the full-year contributions from the NSW business and the commissioning of the Jhajjar project in India

S&P Rating

In March and September 2011, S&P re-affirmed the A- credit rating of CLP Holdings with stable outlook.

Positives	Negatives
- Financial strength is likely to improve from 2013 due to: (1) higher returns from Hong Kong operations from further capital expenditure and stable local electricity demand; (2) higher earnings from its enlarged Australian operations after integration of the NSW assets in 2013; and (3) full commissioning of Jhajjar project in India in 2012 - Strong business risk profile due to the stable and regulatory SoC operations in Hong Kong - Management's strong commitment to deleveraging the balance sheet by 2012 - Liquidity remains adequate	- Increased operating and financial risk from international power investments - Expansion into unregulated power generating assets in Asia-Pacific with riskier profiles and less stable cash flows - Increase in debt to finance the acquisition of energy assets in NSW has weakened the Group's financial health

CLP Power Hong Kong

Moody's Rating

In March 2011, Moody's re-affirmed the A1 credit rating of CLP Power with stable outlook.

Positives	Negatives
- Strong financial profile supported by regulated stable cash flow - Strong and highly predictable cash flow generated from SoC operations - Regulatory framework continues to offer a transparent tariff system, allowing 100% cost pass-through - Good track record in accessing domestic and international bank and capital markets - Well managed debt maturity profile - Comfort was drawn from CLP Holdings' good corporate governance practice, as well as its sound track record for high transparency and disclosure	- Liquidity profile may be pressured to a certain extent by its dividend payments to CLP Holdings - Long-term capital expenditure plan - Ratings of CLP Power and CLP Holdings are closely linked, and a material deterioration in one could mean rating pressure for the other - Rating constrained by CLP Holdings' continuous expansion into the more risky non-regulated energy and retail businesses in the region

S&P Rating

In March and September 2011, S&P re-affirmed the A credit rating of CLP Power with stable outlook. This reflected a stable and favourable regulatory environment, monopoly in its service area, satisfactory operating record, modest financial risk profile and strong liquidity position.

TRUenergy Holdings

S&P Rating

In July 2011, S&P re-affirmed the BBB credit rating of TRUenergy Holdings with stable outlook.

Positives	Negatives
- Support from a strongly rated owner, CLP Holdings - Vertically integrated electricity generation and retailing components of the business, with market diversity - Operational flexibility provided by a diverse portfolio of generation fired by brown coal, black coal, and gas - Strong liquidity following the refinancing of maturing debt	- Integration risks from the acquisition of assets in NSW in early 2011 - Potential exposure to higher competitive pressures - Over the longer term, a need to manage its asset portfolio to mitigate the impact of the government's carbon policy

Financial Risk Management

The Group's investments and operations have resulted in exposure to a variety of financial risks. Our commitment to the careful management of our financial exposures is longstanding. The purpose is straightforward – we prefer a healthy capital structure, high level of certainty in earnings and cash flows so that we can enhance shareholder value by delivering business performance, planning for the long-term and withstanding unforeseen contingencies. The Group has developed comprehensive, but easy-to-understand, policies and guidelines for all CLP subsidiaries and majority-owned entities. Our risk management approach was also well-tested throughout the global financial market turmoil of 2008. We review our policies from time to time to ensure they are robust. Key components such as conservative capital reserve and debt gearing level, minimum risk and return threshold profiles continue to safeguard shareholders' return, within an overall context of a disciplined investment and financing strategy.

Key Risk Elements

Liquidity

In order to provide us with a sufficient buffer against liquidity risks, over the past several years we have actively diversified our funding sources to include the public capital markets and private placement markets in a range of countries (Hong Kong, United States, Japan, Australia). Besides diversification, this has lengthened our maturity profile and has reduced our dependence on commercial banks. Our bank liquidity position remains strong, reflecting our strong relationships with domestic and international banks as well as the decision to arrange significant new revolver facilities in Hong Kong and Australia in the first half of 2011.

Foreign Exchange and Interest Rate

We generally hedge a high percentage of our committed exposure and a reasonable portion of high probability exposure with vanilla type of derivatives that are hedge effective from an accounting perspective. The hedging is carried out with approved financial institutions which are quality entities with strong financial standing (credit rating, balance sheet) so they will be able to perform their obligations in the years to come. In addition, treasury policies and guidelines are reviewed periodically to ensure they are able to progress with the changing business and financial market situations.

We also take further steps to safeguard the interest of other stakeholders, such as mitigating tariff increases for customers which might result from adverse currency movements, whenever it makes commercial sense to do so. For instance, we took the initiative to hedge the foreign exchange risk in the Hong Kong tariff component even though the costs of adverse foreign currency movements against the Hong Kong dollar could be passed through to customers, because we believe it is in the best interest of customers to do so.

Each of the financial risks and the associated mitigation measures are discussed in detail under "Financial Risk Management" in the Financial Statements at page 202.

Connection to Shareholder Value

The prudent management of foreign exchange and interest rate risks has led to a sizeable hedging portfolio on CLP's balance sheet. This requires us to maintain a strong credit profile so that we can obtain increased credit limits from qualified financial institutions to support our business and transact hedging in cost-effective ways. Without such prudent risk management strategy, CLP might have a higher business risk profile. This would translate to lower credit ratings, higher borrowing costs and less value for our shareholders.

Process

We explain CLP's governance structure and how this supports our strategic objectives and promotes the sustainability of our Company and our business model.



Board of Directors



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Non-executive Directors

- 1 The Honourable Sir Michael Kadoorie**
GBS, LLD (Hon.), DSc (Hon.), aged 70,
Chairman, **N** (Appointed on 19 January 1967*)

The Hon. Sir Michael Kadoorie is an Officier de la Légion d'Honneur, Commandeur de l'Ordre de Léopold II and Commandeur de l'Ordre des Arts et des Lettres. He is the Chairman of The Hongkong and Shanghai Hotels, Ltd. and Heliservices (Hong Kong) Ltd., a Director of Sir Elly Kadoorie & Sons Ltd. and Hutchison Whampoa Ltd. as well as an Alternate Director of Hong Kong Aircraft Engineering Company Ltd. He is the brother-in-law of a fellow Director, Mr. R. J. McAulay.

- 2 William Elkin Mocatta**
FCA, aged 58, Vice Chairman, **F&G, H, P**
(Appointed on 16 January 1993*)

Mr. Mocatta is a Fellow of The Institute of Chartered Accountants in England and Wales. He is an Executive Director of Sir Elly Kadoorie & Sons Ltd. He is the Chairman of CLP Power Hong Kong Ltd., CLP Properties Ltd., Kar Ho Development Co. Ltd. and Hong Kong Pumped Storage Development Co., Ltd.; an Alternate Director of Hutchison Whampoa Ltd., as well as a Director of The Hongkong and Shanghai Hotels, Ltd. and other companies in Hong Kong.

- 3 Ronald James McAulay**
MA, CA, aged 76
(Appointed on 1 January 1968*)

Mr. McAulay holds an MA degree from the University of Glasgow and is a Member of The Institute of Chartered Accountants in Scotland. He is the brother-in-law of the Chairman. Mr. McAulay is a Director of Sir Elly Kadoorie & Sons Ltd. and a Director of The Hongkong and Shanghai Hotels, Ltd. He is also a trustee or council member of a number of commercial, artistic or charitable organisations, in Hong Kong and elsewhere.

- 4 John Andrew Harry Leigh**
aged 58 (Appointed on 10 February 1997*)

Prior to joining the CLP Group in 1986, Mr. Leigh was in private practice as a solicitor in Hong Kong and the U.K. He was the Senior Legal Advisor, Company Secretary and General Manager – Corporate Affairs in the CLP Group between 1986 and 1996. Mr. Leigh is a Director of The Hongkong and Shanghai Hotels, Ltd. and also a Director of Sir Elly Kadoorie & Sons Ltd.

- 5 Ian Duncan Boyce**
FCA, aged 67, **F&G**
(Appointed on 19 November 1999)

A chartered accountant from the U.K., Mr. Boyce spent 18 years with the Warburg group, six years of which were as Managing Director of East Asia Warburg in Hong Kong. Mr. Boyce was Managing Director (Vice Chairman from April 1998) of Schroders Asia before joining Sir Elly Kadoorie & Sons Ltd. in 1999, of which he became Chairman in 2006. Mr. Boyce is also the Deputy Chairman of The Hongkong and Shanghai Hotels, Ltd. and a Director of Tai Ping Carpets International Ltd.

- 6 Lee Yui Bor**
BSc, MSc, PhD, DIC, C.Eng., MIET, FHKIE,
aged 65 (Appointed on 4 August 2003)

Dr. Lee holds a BSc degree in Electrical Engineering from the University of Hong Kong, an MSc degree from Imperial College, University of London and a PhD from the University of Bath, U.K. He is a Chartered Engineer, a Fellow of the Hong Kong Institution of Engineers and an Honorary Professor of the University of Hong Kong. Dr. Lee is the Chairman of Longmen Group Ltd. and UPS Consultancy Ltd., and a Director of Metrojet Ltd. and Heliservices (Hong Kong) Ltd. He first joined the CLP Group in 1976 and retired as an Executive Director in 2007.

- 7 Paul Arthur Theys**
aged 54 (Appointed on 1 January 2008)

Mr. Theys is Lead Country Manager for ExxonMobil's business in the Chinese mainland and Hong Kong. He is the Chairman of ExxonMobil (China) Investment Co., Ltd. and ExxonMobil Hong Kong Ltd.; and ExxonMobil's representative on the boards of the Fujian joint venture companies – Fujian Refining & Petrochemical Co. Ltd. and Sinopec SenMei (Fujian) Petroleum Company Limited. Mr. Theys graduated from the University of Leuven, Belgium in 1980 with a Master Degree in Chemical Engineering (greatest distinction).

Independent Non-executive Directors

- 8 Vernon Francis Moore**
BBS, FCA, FCPA, aged 65, **A, F&G, H**
(Appointed on 7 March 1997*)

Mr. Moore is an Executive Director of CITIC Pacific Ltd., and until November 2009 a Non-executive Director of Cathay Pacific Airways Limited. He is also the Chairman of both the New Hong Kong Tunnel Company Ltd. and the Western Harbour Tunnel Company Ltd., and Deputy Chairman of the Community Chest of Hong Kong.

- 9 Loh Chung Hon Hansen**
aged 74, **A, N** (Appointed on 5 May 2000)

Mr. Loh is the Managing Director of Wyler Textiles Ltd. He was a Non-executive Director of CITIC Pacific Ltd., of which he was also a member of the Audit Committee, until 12 May 2011.

- 10 Tsui Lam Sin Lai Judy**
PhD, MSc, BCom, FCPA, FCPA(Aust.), CA,
aged 57, **A, S** (Appointed on 10 May 2005)

Professor Judy Tsui is currently Vice President (International and Executive Education) of The Hong Kong Polytechnic University (PolyU) and Chair Professor of Accounting at PolyU. She holds a Bachelor of Commerce in Accounting and Management Information Systems from the University of British Columbia, a Master of Science in Accounting and Finance from the London School of Economics and Political Science and a PhD in Accounting from The Chinese University of Hong Kong. Professor Tsui served as an Independent Non-executive Director of China Vanke Company Limited, a listed company on the Shenzhen Stock Exchange, from April 2005 to March 2011.





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11 Sir Roderick Ian Eddington

AO, aged 62, F&G, H (Appointed on 1 January 2006)

Sir Rod Eddington was the 1974 Rhodes Scholar at the University of Western Australia. He completed a D Phil in the Department of Engineering Science at Oxford University. He is a Non-executive Director of News Corporation, John Swire & Sons Pty Ltd. and Rio Tinto plc. He is the Non-executive Chairman (Australia and New Zealand) of JP Morgan Chase Bank N.A. Sir Rod Eddington was the Chief Executive of British Airways plc from 2000 until he retired in 2005. He has close connections with Hong Kong through his previous directorships with Cathay Pacific Airways Limited, Swire Pacific Limited and Hong Kong Aircraft Engineering Company Limited during the period from 1988 to 1996.

12 Nicholas Charles Allen

aged 56, A, F&G, H, N, S (Appointed on 12 May 2009)

Mr. Allen holds a Bachelor of Arts degree in Economics / Social Studies from Manchester University, United Kingdom. He is a Fellow of the Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Institute of Certified Public Accountants. He is also an Independent Non-executive Director of Lenovo Group Ltd., Hysan Development Co. Ltd. and Vinaland Ltd. Mr. Allen joined Coopers & Lybrand (C&L) in London in 1977 and transferred to C&L Hong Kong in 1983. He was admitted to partnership in C&L Hong Kong in 1988, which was subsequently merged with Price Waterhouse into PricewaterhouseCoopers (PwC) in 1998. Mr. Allen retired from PwC in 2007.

13 Cheng Hoi Chuen Vincent

GBS, OBE, JP, aged 63, F&G, H (Appointed on 17 August 2011)

Mr. Cheng holds a Bachelor of Social Science degree in Economics from The Chinese University of Hong Kong and a Master of Philosophy degree in Economics from The University of Auckland. Mr. Cheng is the Adviser to the Group Chief Executive of HSBC Holdings plc since 28 June 2011. He is former Chairman of The Hongkong and Shanghai Banking Corporation Limited, HSBC Bank (China) Company Limited and HSBC Bank (Taiwan) Limited between May 2005 to May 2011. He was an Executive Director of HSBC Holdings plc (February 2008 to May 2011) and a Non-executive Director of HSBC Bank (Vietnam) Limited (November 2008 to November 2010). He is currently an Independent Non-executive Director of MTR Corporation Limited, Great Eagle Holdings Limited and Swire Properties Limited. He is also an Independent Non-executive Director of Hui Xian Asset Management Limited.

14 Law Fan Chiu Fun Fanny

GBS, JP, aged 59, A, S (Appointed on 17 August 2011)

Mrs. Law graduated from the University of Hong Kong with an Honours degree in Science. She received a Master degree in Public Administration from Harvard University and was named a Littauer Fellow. She also has a Master degree in Education from the Chinese University of Hong Kong. Prior to her retirement from the civil service in 2007, Mrs. Law was the Commissioner of the Hong Kong

Independent Commission Against Corruption. During her 30 years in the civil service, Mrs. Law has worked in many fields, including medical and health, economic services, housing, land and planning, home affairs, social welfare, education and anti-corruption. Mrs. Law is currently a Hong Kong SAR Deputy to the 11th National People's Congress of the People's Republic of China and a Director of the Fan Family Trust Fund.

Executive Directors

15 Andrew Clifford Winawer Brandler

MA, MBA, ACA, aged 55, F&G, S (Appointed on 6 May 2000)

Mr. Brandler holds an MA degree from Cambridge University, MBA degree from Harvard Business School, and is a Member of The Institute of Chartered Accountants in England and Wales. He joined the CLP Group as the Group Managing Director and Chief Executive Officer in 2000. Immediately prior to joining CLP, Mr. Brandler was Head of Asia-Pacific Corporate Finance at Schroders, the U.K. investment bank, based in Hong Kong. Mr. Brandler was the Chairman of The Hong Kong General Chamber of Commerce from 2008 to 2010.

16 Tse Pak Wing Peter

BSc(Eng.), MSc, FCA, FCPA, aged 60, F&G (Appointed on 17 February 2000)

Mr. Tse holds a BSc degree in Mechanical Engineering from the University of Hong Kong and an MSc degree from the University of Stirling in Scotland. He is a Fellow of The Institute of Chartered Accountants in England and Wales and a Fellow of The Hong Kong Institute of Certified Public Accountants. Mr. Tse was the Chief Financial Officer of the Group until 2009. As a Group Executive Director, Mr. Tse has an active role in the monitoring of all of the Group's activities, working closely with the Group Chief Executive Officer. Before joining the CLP Group in 1981, he worked with Deloitte & Co. in London and Hong Kong, and the Swire Group. Mr. Tse is currently a member of the Mainland Business Advisory Committee of Hong Kong Trade Development Council.

17 Peter William Greenwood

MA, FCS, FCIS, aged 55, F&G, S (Appointed on 7 September 2001 and reappointed on 1 March 2007)

Mr. Greenwood holds an MA degree in law from the University of Cambridge. In 2006, he completed full-time study for an MA degree in War Studies from King's College, London University (with distinction). He is a Fellow of The Institute of Chartered Secretaries in England and of The Hong Kong Institute of Chartered Secretaries. He is a solicitor in England and Wales and in Hong Kong, as well as being qualified as an avocat in France. Mr. Greenwood is the Group Executive Director – Strategy. His principal focus is to work on matters impacting the overall direction of the CLP Group. He is also responsible for the oversight of corporate secretarial and legal affairs.

- A Audit Committee
- F&G Finance & General Committee
- H Human Resources & Remuneration Committee
- N Nomination Committee
- P Provident & Retirement Fund Committee
- S Sustainability Committee

▲ The date given is that of appointment to the Board of China Light & Power Co., Ltd., the holding company of the CLP Group prior to the Group Reorganisation in 1998. All of these Directors were appointed to the Board of CLP Holdings Ltd. on 31 October 1997.

Senior Management



From left to right: Richard Lancaster, Richard McIndoe, Betty Yuen, Mark Takahashi, Andrew Brandler, Peter Greenwood, Peter Tse, Peter Littlewood, Rajiv Mishra

Richard Kendall Lancaster

Group Director – Managing Director Hong Kong, BE, aged 50

Mr. Lancaster was appointed as Managing Director of CLP Power Hong Kong Limited in 2010 and has overall responsibility for the operations of the Hong Kong business. Mr. Lancaster has over 25 years' experience in the power industry and in other industrial operations in Australia, U.K. and Hong Kong. He holds a Bachelor's degree in Electrical Engineering from the University of New South Wales.

Richard Iain James McIndoe

Group Director – Managing Director Australia, MA, MBA, aged 47, F&G

Mr. McIndoe became Managing Director of TRUenergy in 2006. He joined CLP in 2002 and has an extensive background in business development and commercial asset management in the regional electricity industry. He holds an MA degree from the University of Cambridge and an MBA degree from INSEAD Business School in France.

Yuen So Siu Mai Betty

Vice Chairman – CLP Power Hong Kong Limited, B.Comm., CPA, CA (Canada), aged 54, F&G

Mrs. Yuen was appointed as the Vice Chairman of CLP Power Hong Kong Limited in 2010, with a primary focus on the strategic direction of the Group's Hong Kong electricity business, supporting the relationships with senior government officials and key business partners in the Chinese mainland. She is also responsible for CLP's investments in Guangdong Daya Bay Nuclear Power Station as well as further development of CLP's nuclear business on the Mainland. She worked for ExxonMobil for 13 years before joining CLP in 1999.

Mark Takahashi

Group Director & Chief Financial Officer, BSc (Eng.), MBA, aged 53, F&G, P

Since his appointment in June 2009 Mr. Takahashi is responsible for group finance, treasury and investor relations. He joined CLP in 2003 and has over 20 years' experience in the power industry in the U.S. and in Asia. He holds an MBA degree from Wharton School, University of Pennsylvania and a BSc degree in Civil Engineering from the University of Colorado.

Andrew Clifford Winawer Brandler

Chief Executive Officer

Mr. Brandler's biography is on page 83.

Peter William Greenwood

Group Executive Director – Strategy

Mr. Greenwood's biography is on page 83.

Tse Pak Wing Peter

Group Executive Director

Mr. Tse's biography is on page 83.

Peter Albert Littlewood

Group Director – Operations, MA, aged 60

Mr. Littlewood is responsible for engineering, construction, operations; fuel procurement; CLP's China and Southeast Asia businesses; and CLP new energy activities. He joined the CLP Group in 1977 and has over 39 years of experience in the power industry. He holds an MA degree in Engineering (first class honours) from Cambridge University and has completed the Harvard Business School Advanced Management Programme.

Rajiv Ranjan Mishra

Managing Director – India, MBA, aged 46

Mr. Mishra is responsible for the management and development of CLP's business in India. He joined CLP in 2002 and has 17 years' experience in the Indian and regional power industry, mostly in project financing, investment appraisal, finance and accounting and general management. He holds a Bachelor's degree in Chemical Engineering (first class distinction) and an MBA degree from the Indian Institute of Management, Lucknow.

F&G Finance & General Committee P Provident & Retirement Fund Committee

Full particulars of [Senior Management](#), including their directorships in the subsidiary companies of CLP Holdings are available on our website. 

Corporate Governance Report

CLP's Corporate Governance Framework

Good governance enhances credibility and promotes and safeguards the interests of shareholders and other stakeholders. Maintaining a good, solid and sensible framework of corporate governance has been and remains one of CLP's top priorities.

CLP's Corporate Governance Framework rests on two important commitments:

- We disclose our corporate governance principles and practices openly and fully; and
- We recognise the need to adapt and improve our principles and practices in light of our experience, regulatory requirements, international developments and investor expectations.



We use the framework to identify the key players involved in ensuring the application of good governance practices and policies within the CLP Group and to give structure to our explanation of those practices and policies.

Through this Corporate Governance Report, the ["CLP Code on Corporate Governance"](#) (the CLP Code) and the [Corporate Governance section](#) on our website, we keep shareholders abreast of all our policies and practices so that they can judge whether these are of a standard which meets their expectations and properly serves their interests. 🌐

"The CLP Code on Corporate Governance"

The Hong Kong Stock Exchange's Code on Corporate Governance Practices (the Stock Exchange Code), Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong (the Listing Rules), took effect for accounting periods commencing from 1 January 2005 onwards. It sets out principles of good corporate governance and two levels of recommendation:

- Code Provisions, with which issuers are expected to comply or to give considered reasons for any deviation; and
- Recommended Best Practices, for guidance only, save that issuers are encouraged to comply or give reasons for deviation.

Amendments to the Stock Exchange Code were announced in October 2011. The revised Appendix 14, Corporate Governance Code and Corporate Governance Report (the revised Stock Exchange Code) will become effective on 1 April 2012.

The Stock Exchange allows issuers to devise their own codes on corporate governance practices on such terms as they may consider appropriate, provided reasons are given for any deviation from the Stock Exchange Code or the revised Stock Exchange Code. In February 2005, the Board approved the CLP Code with immediate effect. The CLP Code was most recently updated in February 2012 to reflect the new requirements under the revised Stock Exchange Code. Shareholders may download a printable copy of the [CLP Code](#) from our website, obtain a hard copy from the Company Secretary on request at any time, or by completing and returning the form enclosed with this Annual Report. 🌐

The decision to adopt the CLP Code, as opposed to the Stock Exchange Code, reflected our wish to express our corporate governance practices, which in a number of respects went beyond the terms of the Stock Exchange Code, in our own words and with a structure which corresponded to our existing framework. The CLP Code incorporates all of the Code Provisions and Recommended Best Practices in the revised Stock Exchange Code, save for the single exception specified and explained below. It exceeds the requirements of the revised Stock Exchange Code in many aspects. CLP has also applied all of the principles in the revised Stock Exchange Code. The manner in which this has been done is set out in the CLP Code and this Corporate Governance Report. The following are the major respects in which the CLP Code exceeds or meets the Code Provisions and Recommended Best Practices of the Stock Exchange Code as well as the revised Stock Exchange Code.

Exceeds	Meets
✓✓	CLP has established a Corporate Governance Framework which covers all of the relationships and responsibilities of the external and internal corporate governance stakeholders in a comprehensive and structured way.
✓✓	CLP published a formal Value Framework in 2003, most recently updated in January 2012, which sets out the business principles and ethics underpinning CLP's activities.
✓✓	CLP acknowledges shareholders' rights as set out in the Organisation for Economic Cooperation and Development's "Principles of Corporate Governance".
✓✓	CLP has adopted its own Code for Securities Transactions by Directors , which is on terms no less exacting than the required standard as set out in the Model Code under Appendix 10 of the Listing Rules. This Code also applies to other "Specified Individuals" such as members of the CLP Group's Senior Management. A copy of this Code is available on the CLP website. 
✓✓	In addition to the disclosure of interests of Directors and their confirmation of compliance with the Model Code and CLP Code for Securities Transactions, we disclose Senior Management's interests in CLP Holdings' securities and their confirmation of compliance with the Model Code and CLP Code for Securities Transactions.
✓✓	We issue a formal letter of appointment for Non-executive Directors, modelled on the letter of appointment in the "Higgs Report" in the U.K. on the "Review of the Role and Effectiveness of Non-executive Directors". The model letter is on our website and deals with a range of matters regarding a Director's appointment and responsibilities. 
✓✓	We publish the terms of reference and membership of all Board Committees on the websites of CLP and Stock Exchange. 
✓✓	The Audit Committee comprises only Independent Non-executive Directors. Three of the five members have appropriate professional qualifications, accounting and related financial management expertise.
✓✓	We issue an Audit Committee Report which sets out the primary responsibilities of the Audit Committee and the work performed by it during the period under review.
✓✓	CLP publishes its annual performance on environmental issues. Our online Sustainability Report provides comprehensive information on CLP's environmental performance. 
✓✓	We announce our financial results within two months after the end of the financial year. We publish our full Annual Report on our website within the following fortnight and send this to shareholders about two weeks after that. 
✓✓	We provide enhanced disclosure of financial information about the CLP Group's jointly controlled entities and associated companies.
✓✓	The Chief Executive Officer (CEO) and Chief Financial Officer (CFO) submit an annual "General Representation Letter" to the Audit Committee, in which they give a personal certification of compliance by themselves and their subordinates with a range of key internal control systems, disciplines and procedures.
✓✓	We issue a Sustainability Committee Report which sets out our sustainability framework.
✓✓	Our Anti-Fraud Policy states the Company's commitment to preventing, detecting and reporting fraud.
✓✓	We adopt a Fair Disclosure Policy which sets out the principles for the broad and non-exclusionary distribution of information to the public.
✓✓	We publish a set of Continuous Disclosure Obligation Procedures which formalise the current practices in monitoring developments in our businesses for potentially price-sensitive information and communicating such information to our shareholders, the media and analysts.
✓	All Code Provisions of the Stock Exchange Code and the revised Stock Exchange Code.
✓	All Recommended Best Practices of the Stock Exchange Code and the revised Stock Exchange Code, except the single one explained on the next page.

CLP deviates from only one Recommended Best Practice in the Stock Exchange Code – that an issuer should announce and publish quarterly financial results. Instead, CLP issues quarterly statements which set out key financial and business information such as revenue, electricity sales, dividends and progress in major activities. CLP does not issue quarterly financial results. The reason is a judgment that, as a matter of principle and practice, quarterly reporting does not bring significant benefits to shareholders. Quarterly reporting encourages a short-term view of a company's business performance. CLP's activities do not run and should not fall to be disclosed and judged on a three-month cycle. Preparation of quarterly reports also costs money, including the opportunity cost of board and management time spent on quarterly reporting. [CLP's position](#) is set out on our website as an update of the views that we expressed in 2002 and which were accompanied by a standing invitation to shareholders to let us know if their views differed. Up to the date of this Report, we have received no such feedback from shareholders. We would review our position if and when there was a clear demand from shareholders for quarterly reporting. CLP's focus remains on enhancing the quality of its reporting to shareholders through existing channels such as the Annual Report, [online Sustainability Report](#) and its website – all of which far exceed regulatory requirements in the extent of disclosure made.  

Our website includes an [annotated version of the CLP Code](#), with cross-references from the CLP Code to the corresponding Code Provisions and Recommended Best Practices of the revised Stock Exchange Code. 

Throughout the year, the Company met the Code Provisions as set out in the Stock Exchange Code contained in Appendix 14 of the Listing Rules.

Evolution of CLP's Corporate Governance in 2011

In 2011, we made further progress in the evolution of our corporate governance practices, in line with the CLP Code and emerging developments in global corporate governance practices:

- Early adopted the revised Stock Exchange Code
- Updated the CLP Code on Corporate Governance in light of the recent changes in the Listing Rules and the revised Stock Exchange Code
- Engaged an external consultant to evaluate the performance of the Board and Board Committees
- Included a separate Sustainability Committee Report in this Annual Report
- Updated the CLP Value Framework
- Published a Responsible Procurement Policy Statement which summarises our expectations of the suppliers whom we select through our procurement process
- Updated and aligned the Code of Conduct across the CLP Group of companies – every single manager and employee attended one of the 384 communication sessions on the Code which were held across the Group
- Developed a Group Risk Management Framework to enhance integration of current risk management practices across the Group
- Formalised the [Whistleblowing Policy and Shareholders' Communication Policy](#); these two Policies are published on the CLP website 
- Appointed two additional Independent Non-executive Directors following the retirement of The Hon. Sir S. Y. Chung as an Independent Non-executive Director
- Contributed our 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 Paper issued by the Exchange
- Continued to carry out shareholders' identification exercise pursuant to Section 329 of the Securities and Futures Ordinance with [summary results](#) published on the CLP website 
- Continued to roll-out the development programme for Directors, including visits to CLP's businesses in the Chinese mainland, Australia and India, attending expert presentations and participation in the Shareholders' Visit Programme in Hong Kong – records of Directors' participation in the development programme are kept by the Company Secretary and disclosed in this Report

Shareholders

The Board and Senior Management recognise their responsibilities to represent the interests of all shareholders and to maximise shareholder value. The "Shareholder Value" section of this Annual Report details our policies and actions in this respect. In addition, the CLP Code highlights key rights enjoyed by shareholders.

The Company is incorporated in Hong Kong. We have chosen to be subject to the company law of the jurisdiction in which a major part of our business is based, where our shares are listed and where the vast majority of our shareholders are resident.

At the end of 2011, CLP had over 20,000 registered shareholders. The actual number of investors in CLP shares will be much greater, taking into account all those people and organisations that have an indirect interest in our shares through intermediaries such as nominees, investment funds and the Central Clearing and Settlement System (CCASS) of Hong Kong.

Our largest single shareholder is the Kadoorie Family (and interests associated with the Family) who have a combined shareholding of 34.87%. Even so, CLP is not a family-controlled company. The remaining 65.13% of our shares are held by a wide range of institutional investors, including those based in North America, Europe and Asia, as well as a considerable number of retail investors, who are mostly resident in Hong Kong.

Shareholdings as at 31 December 2011

Size of Registered Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares	% of Issued Share Capital	Shareholding by Category
500 or below	2,171	10.54	649,276	0.03	30.21% 34.87% 34.92% ● Interests associated with the Kadoorie Family ● Institutional investors ● Retail investors
501 – 1,000	3,666	17.79	2,853,340	0.12	
1,001 – 10,000	9,766	47.40	41,902,734	1.74	
10,001 – 100,000	4,453	21.61	129,850,370	5.39	
100,001 – 500,000	444	2.15	89,684,465	3.73	
Above 500,000	105 ¹	0.51	2,141,203,215	88.99	
Total	20,605	100.00	2,406,143,400²	100.00	

Notes:

- Information on the [ten largest registered shareholders](#) in the Company is set out on our website.
- 48.45% of all our issued shares were held through CCASS.

From publicly available information and as far as our Directors are aware, CLP Holdings has maintained a sufficient public float of its share capital in the Hong Kong stock market throughout the financial year ended 31 December 2011 and has continued to maintain such a float as at 27 February 2012.

Pursuant to the Hong Kong Companies Ordinance and our Articles of Association, an Extraordinary General Meeting (EGM) can be convened by a written request signed by shareholders holding not less than one-twentieth of the paid-up share capital of CLP, stating the objects of the meeting, and deposited at our registered office in Hong Kong at 147 Argyle Street, Kowloon.

The procedures for shareholders to put forward proposals at an Annual General Meeting (AGM) or EGM include a written notice of those proposals being submitted by shareholders, addressed to the Company Secretary at the registered office. The detailed procedures vary according to whether the proposal constitutes an ordinary resolution or a special resolution, or whether the proposal relates to the election of a person other than a Director of the Company as a director. The relevant procedures are set out in the Notice of AGM which accompanies the despatch of this Annual Report to shareholders and will be included with the notice to shareholders of any future AGM. [The procedures for shareholders to convene and put forward proposals at an AGM or EGM](#) (including election of a person other than a Director of the Company as a director) are available on our website or on request to the Company Secretary.

The most recent shareholders' meeting was the AGM held on 12 May 2011 at the Hong Kong Polytechnic University, Kowloon, Hong Kong. The major items discussed and the percentage of votes cast in favour of the resolutions relating to those items are set out below:

- Endorsement of the practice to pay four interim dividends each year as decided by the Board of Directors, instead of three interim dividends and a final dividend (97.6375%);
- Re-election of Mr. J. A. H. Leigh, Professor Judy Tsui, Sir Rod Eddington, Mr. R. J. McAulay and Mr. I. D. Boyce as Directors of the Company (96.1713% to 98.3890% in respect of each individual resolution);
- General mandate to Directors to issue additional shares in the Company, not exceeding five per cent of the issued share capital (82.0588%); and
- General mandate to Directors to purchase shares in the Company, not exceeding ten per cent of the issued share capital (99.9823%).

All resolutions put to shareholders were passed at the 2011 AGM. The results of the voting by poll have been published on CLP's website and the website of the Hong Kong Stock Exchange. The [full proceedings of the AGM](#) can be viewed on the "Corporate Governance" section of the Company's website. Minutes of the AGM were sent to shareholders along with the Company's first quarterly statement for 2011. 

CLP uses a number of formal channels to account to shareholders for the performance and operations of the Company, particularly our annual and interim reports and quarterly statements. The AGM provides an opportunity for communication between the Board and the Company's shareholders. The Company regards the AGM as an important event in the corporate year and all Directors and Senior Management make an effort to attend. The Chairmen of all Board Committees attend the AGM and will take shareholders' questions. A representative (usually the engagement partner) of the external auditor also attends the AGM and will take questions from shareholders relating to their audit of the Company's Financial Statements. Our policy is to involve shareholders in the Company's affairs and to communicate with them about our activities and prospects face-to-face at the AGM and during visits to CLP.

We have collected and answered the most frequently asked questions by shareholders regarding their rights as CLP shareholders and the ways in which they can best exercise and enjoy those rights in a ["Shareholders' Guide"](#). This Guide and its updates are available on the CLP website. 

Enquiries may be put to the Board by contacting either the Company Secretary through our shareholders' hotline (852) 2678 8228, e-mail at cosec@clp.com.hk or directly by questions at an AGM or EGM. Questions on the procedures for convening or putting forward proposals at an AGM or EGM may also be put to the Company Secretary by the same means.

The Board

The Board is charged with promoting the success of the Company by directing and supervising its affairs in a responsible and effective manner. Each Director has a duty to act in good faith in the best interests of the Company. The Directors are aware of their collective and individual responsibilities to all shareholders for the manner in which the affairs of the Company are managed, controlled and operated.

The types of decisions which are to be taken by the Board include those relating to:

- setting the Group's values and standards;
- the strategic direction of the Group;
- the objectives of the Group;
- overseeing the management of CLP's relationships with stakeholders, such as Government, customers, the community and others who have a legitimate interest in the responsible conduct of the Group's business;
- monitoring the performance of management; and
- ensuring that a framework of prudent and effective controls is in place to enable risks to be assessed and managed.

The Board discharges the following responsibilities through delegation to the Nomination Committee, Audit Committee and Human Resources & Remuneration Committee:

- (a) to develop and review the Company's policies and practices on corporate governance;
- (b) to review the contribution required from Directors and whether they are spending sufficient time performing their responsibilities to the Company;
- (c) to review and monitor the training and continuous professional development of Directors and Senior Management;
- (d) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (e) to develop, review and monitor the Code of Conduct applicable to employees; and
- (f) to review the Company's compliance with the CLP Code on Corporate Governance and disclosure in the Corporate Governance Report.

The Board is provided with CLP Group Monthly Management Reports which contain year-to-date financials with summaries of key events, outlook, safety and environmental matters of the Group. The Management Report gives a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail.

The Directors are responsible for the preparation of the financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing these financial statements for the year ended 31 December 2011, the Directors have selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group.

As at the date of this Report, the Board comprises 17 Directors. All Directors (with the exception of the CEO, Group Executive Director and Group Executive Director – Strategy) are non-executive and independent of management, thereby promoting critical review and control of the management process. The Board includes seven influential and active Independent Non-executive Directors to whom shareholder concerns can be conveyed. The non-executive members of the Board also bring a wide range of business and financial experience to the Board, which contributes to the effective direction of the Group.

Details of all Directors are given on pages 82 and 83 of this Annual Report. The relationships (including financial, business, family or other material or relevant relationships) among Members of the Board are also disclosed. There is no such relationship as between the Chairman and the CEO. Six Non-executive Directors (see page 82) are not considered as independent, due to their association with the Kadoorie Family, who have a substantial interest (34.87%) in CLP. In common with all Directors, they are aware of their responsibilities to all shareholders.

Directors are requested to declare their direct or indirect interests, if any, in any proposals or transactions to be considered by the Board at Board meetings and withdraw from the meetings as appropriate. In 2011, there were three occasions when a Non-executive Director declared his indirect interests and withdrew from the relevant discussion at the Board meeting. The Company follows [guidelines](#) (available at the "Corporate Governance" section of our website) at each financial reporting period to seek confirmation from Directors in respect of any transactions of the Company or its subsidiaries which are related to Directors or their associates. The identified significant related party transactions are disclosed in the Notes to the Financial Statements of the Annual Report. 

Throughout the year ended 31 December 2011, the Board exceeded the minimum requirements of the Listing Rules as to the appointment of at least three Independent Non-executive Directors (CLP has seven), and that there should be one director with appropriate professional qualifications or accounting or related financial management expertise on the Audit Committee (there are three such directors on CLP's Audit Committee).

Pursuant to the requirement in the Listing Rules, the Company has received a written confirmation from each Independent Non-executive Director of his/her independence to the Company. The Company considers all of the Independent Non-executive Directors to be independent.

Board and Committee Attendance

The Board meets in person at least five times per annum and on other occasions when a Board decision is required on major issues. Details of Directors' attendance at the AGM, Board and Board Committee meetings held in 2011 are set out in the following table. The overall attendance rate of Directors at Board meetings was 91.7% (2010: 85.7%).

Directors	Meetings Attended / Held							
	Board ^(a)	Audit Committee ^(b)	Finance & General Committee	Human Resources & Remuneration Committee	Nomination Committee	Provident & Retirement Fund Committee	Sustainability Committee	AGM
Non-executive Directors								
The Hon. Sir Michael Kadoorie	5 / 7				(c)			1
Mr. William Mocatta	6 / 7		7 / 7	1 / 1		2 / 2		1
Mr. R. J. McAulay	7 / 7							1
Mr. J. A. H. Leigh	4 / 7							1
Mr. I. D. Boyce	7 / 7		7 / 7					1
Dr. Y. B. Lee	7 / 7							1
Mr. Paul A. Theys	6 / 7							1
Independent Non-executive Directors								
The Hon. Sir S. Y. Chung ^(d)	2 / 2				(c)			0
Mr. V. F. Moore	7 / 7	6 / 6	6 / 7	1 / 1				0
Mr. Hansen C. H. Loh	7 / 7	6 / 6			(c)			1
Professor Judy Tsui	6 / 7	6 / 6					2 / 2	1
Sir Rod Eddington	6 / 7		5 / 7	0 / 1				0
Mr. Nicholas C. Allen ^(e)	7 / 7	6 / 6	7 / 7	1 / 1	(c)		2 / 2	1
Mr. Vincent Cheng ^(f)	2 / 2		1 / 1	N/A				N/A
Mrs. Fanny Law ^(g)	2 / 2	2 / 2					1 / 1	N/A
Executive Directors								
Mr. Andrew Brandler	6 / 6		7 / 7				2 / 2	1
Mr. Peter P. W. Tse	6 / 6		6 / 7					1
Mr. Peter W. Greenwood	6 / 6		5 / 7				2 / 2	1

(a) Included a Board meeting where the Chairman met Non-executive Directors (including Independent Non-executive Directors) without the Executive Directors and management present.

(b) Representatives of the external auditor participated in every Audit Committee meeting held throughout the year.

(c) Review and approval of nomination of Directors' appointment is by circular to all the members of the Nomination Committee. In 2011, Directors reviewed by circular the independence of Independent Non-executive Directors who stood for re-election at the 2011 AGM and considered the nominations of Directors for appointment on two separate occasions.

(d) The Hon. Sir S. Y. Chung retired as an Independent Non-executive Director and a member of the Nomination Committee after the conclusion of the 2011 AGM held on 12 May 2011.

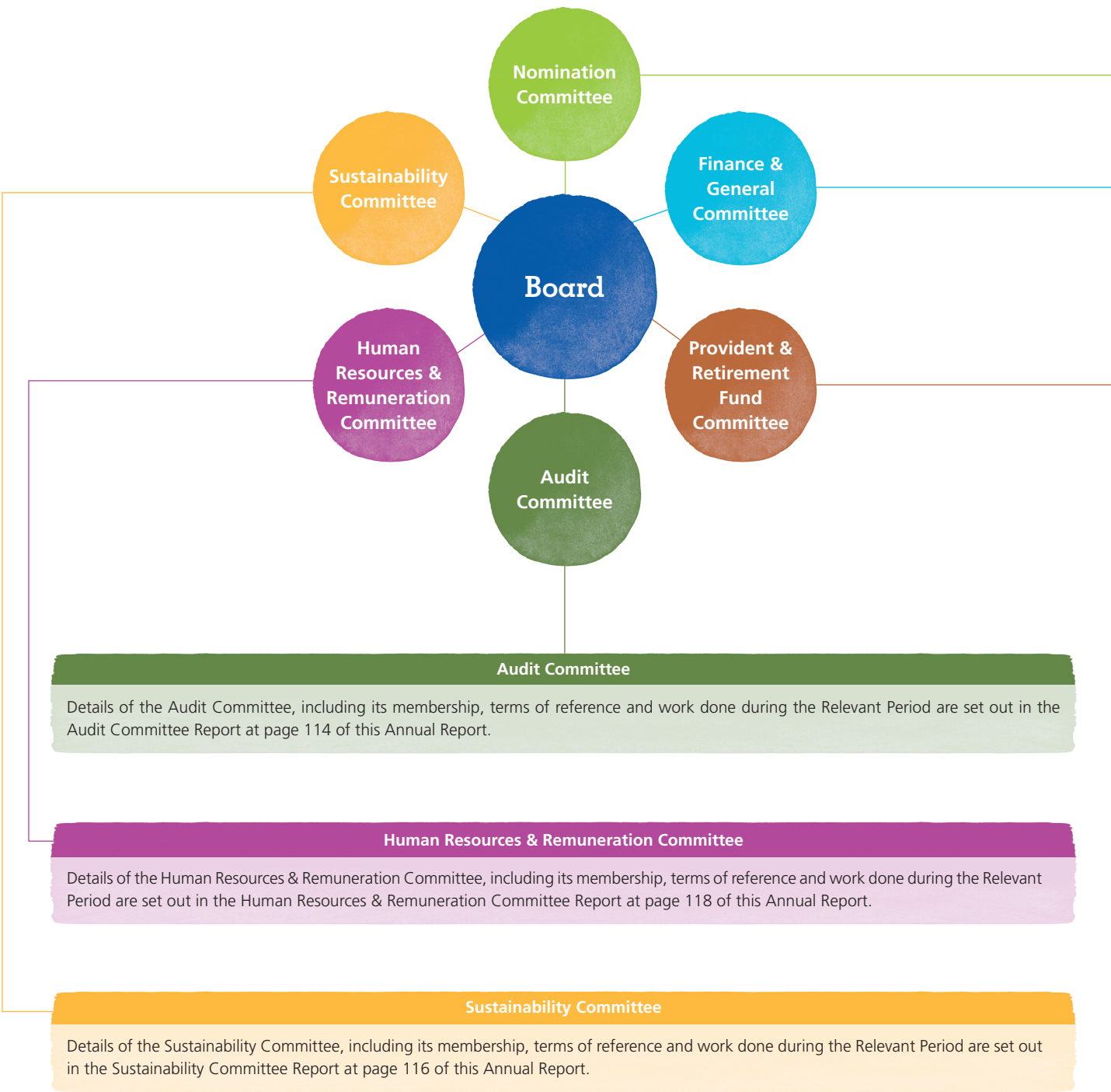
(e) Mr. Nicholas C. Allen was appointed a member of the Nomination Committee with effect from 13 May 2011.

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

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

Board Committees

The following chart explains the responsibilities and the work that each Board Committee undertook on behalf of the Board during 2011 and in 2012 up to the date of this Report (the “Relevant Period”). The [terms of reference and membership of all Board Committees](#) are disclosed in full on the websites of CLP and Stock Exchange. They are also available in writing upon request to the Company Secretary. The terms of reference of the Audit Committee, Human Resources & Remuneration Committee and Nomination Committee have been amended to reflect changes arising from the revised Stock Exchange Code. 



Membership of Nomination Committee

A majority of the members are Independent Non-executive Directors. This Committee is chaired by the Chairman of the Board, The Hon. Sir Michael Kadoorie, with Mr. Hansen Loh and Mr. Nicholas C. Allen as members.

Responsibilities and Work Done

This Committee is responsible for identification and recommendation to the Board of possible appointees as Directors, making recommendations to the Board on matters relating to appointment or reappointment of Directors, succession planning for Directors, assessing the independence of the Independent Non-executive Directors and, as delegated by the Board, reviewing whether Directors are spending sufficient time performing their responsibilities. The work performed by the Committee during the Relevant Period included:

- nomination of Professor Judy Tsui and Sir Rod Eddington for re-election as Independent Non-executive Directors at the 2011 AGM; and
- nomination of Mrs. Fanny Law and Mr. Vincent Cheng as Independent Non-executive Directors with effect from 17 August 2011.

At the 2012 AGM, three Independent Non-executive Directors namely; Mrs. Fanny Law, Mr. Vincent Cheng and Mr. Vernon Moore will retire and present themselves for election/re-election by shareholders. The independence of Mrs. Law, Mr. Cheng and Mr. Moore has been reviewed by the Nomination Committee.

Membership of Finance & General Committee

Mr. William Mocatta (Chairman), Mr. V. F. Moore, Sir Rod Eddington, Mr. I. D. Boyce, Mr. Nicholas C. Allen, Mr. Vincent Cheng, Mr. Andrew Brandler, Mr. Peter P. W. Tse, Mr. Peter Greenwood, Mrs. Betty Yuen, Mr. Richard McIndoe and Mr. Mark Takahashi.

Responsibilities and Work Done

This Committee meets as and when required to review the financial operations of the Company. Such reviews include Group-wide financial, accounting, treasury and risk management policies, major financing transactions, corporate plans and budgets. The Committee also reviews major acquisitions or investments and their funding requirements. The work performed by the Committee during the Relevant Period included the review of

- the Company's interim and annual results and the amounts of dividends payable to shareholders for the financial years ended 31 December 2010 and 2011;
- the CLP Group business plan and budget 2012-2016 and capital allocation reviews;
- CLP Group cost of capital study;
- CLP's foreign exchange translation risk and counterparty exposures;
- the Company's funding requirement, undertakings, guarantees and indemnities;
- sale of CLP's stake in EGCO;
- the split of Australian assets in Roaring 40s;
- the co-investment opportunity with Santos in Eastern Star Gas;
- bids for wind power projects in India;
- CLP Group's interest in development projects in China, India and Thailand; and
- the implications of carbon policy in Australia and the provision of Yallourn asset impairment.

Membership of Provident & Retirement Fund Committee

Mr. William Mocatta (Chairman), Mr. Mark Takahashi and a Trustee.

Responsibilities and Work Done

This Committee advises the Trustees on investment policy and objectives for the Group's retirement funds, namely the CLP Group Provident Fund Scheme and CLP Group Top-Up Scheme. During the Relevant Period, the Committee reviewed the position of the funds, monitored the performance of the investment managers and considered and made recommendations to the Trustees on the appointment and removal of investment managers.

Directors' Commitments

The Company has received confirmation from each Director that he/she has given sufficient time and attention to the affairs of the Company for the year. Directors have disclosed to the Company the number and nature of offices held in Hong Kong or overseas listed public companies or organisations and other significant commitments, with the identity of the public companies or organisations and an indication of the time involved. During the year ended 31 December 2011, no current Director held directorships in more than four public companies including the Company. No Executive Directors hold any directorship in any other public companies, but they are encouraged to participate in professional, public and community organisations. Directors are also reminded to notify the Company Secretary in a timely manner and bi-annually confirm to the Company Secretary any change of such information. In respect of those Directors who stand for re-election at the 2012 AGM, all their directorships held in listed public companies in the past three years are set out in the Notice of AGM. [Other details](#) of Directors' appointments are set out under "Board of Directors" at page 82 of this Annual Report and on CLP's website. 

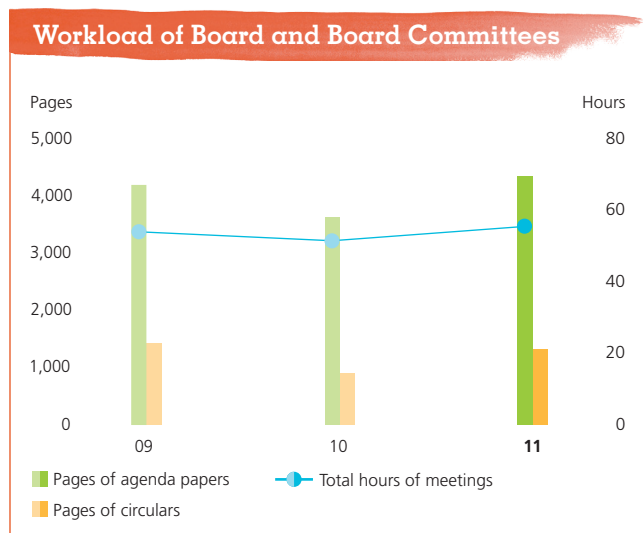
As part of the continuous professional development programme, Directors participated in the Shareholders' Visit Programme, various briefings and visits to local management and CLP's facilities, as arranged and funded by the Company with appropriate emphasis on the roles, functions and duties of the Directors. This is in addition to Directors' attendance at meetings and review of papers and circulars sent by Management. The participation by individual Directors and the Company Secretary in the programme in 2011 is recorded in the table below.

Participation in Continuous Professional Development Programme in 2011				
	Reading Regulatory Updates	Paying Visits to local management & CLP's facilities	Hosting Shareholders' Visits	Attending expert briefings / seminars / conferences relevant to the business or Directors' duties
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	✓	✓		✓
Mr. Paul A. Theys	✓			
Independent Non-executive Directors				
Mr. V. F. Moore	✓	✓	✓	✓
Mr. Hansen C. H. Loh	✓			✓
Professor Judy Tsui	✓	✓	✓	✓
Sir Rod Eddington	✓	✓		
Mr. Nicholas C. Allen	✓	✓	✓	✓
Mr. Vincent Cheng ^(a)	✓			✓
Mrs. Fanny Law ^(a)	✓	✓	✓	✓
Executive Directors				
Mr. Andrew Brandler	✓	✓	✓	✓
Mr. Peter P. W. Tse	✓	✓		✓
Mr. Peter W. Greenwood	✓	✓	✓	✓
Company Secretary				
Mrs. April Chan ^(b)	✓	✓	✓	✓

(a) An induction was conducted for Mr. Vincent Cheng and Mrs. Fanny Law who were newly appointed to the Board in August 2011.

(b) During 2011, Mrs. Chan served as the President of The Hong Kong Institute of Chartered Secretaries and of Corporate Secretaries International Association and exceeded the 15 hours of professional training requirement of the Listing Rules.

To further indicate the attention given by our Board to the oversight of CLP's affairs, the following chart summarises the duration of those meetings and the volume of papers reviewed by Directors during 2011.



Directors' Interests

The interests in CLP's securities held by Directors as at 31 December 2011 are disclosed in the Directors' Report of this Annual Report at page 126. Particular attention is given to dealings by Directors in shares in CLP. Since 1989, the Company has adopted its own Code for Securities Transactions by Directors, largely based on the Model Code set out in Appendix 10 of the Listing Rules. Our Code is periodically updated to reflect new regulatory requirements, as well as our strengthened regime of disclosure of interests in our securities. This Code is on terms no less exacting than the required standard set out in the Model Code. All Directors have confirmed, following specific enquiry by the Company, that throughout the year ended 31 December 2011 they complied with the required standard set out in the Model Code and our own Code for Securities Transactions.

Appointment of Directors

CLP follows a formal, considered and transparent procedure for the appointment of new directors. Appointments are first considered by the Nomination Committee. The recommendations of the Committee are then put to the full Board for decision. Thereafter, all Directors are subject to election by shareholders at the AGM in their first year of appointment.

As approved by shareholders at the AGM in 2005, all Non-executive Directors are appointed for a term of not more than four years. This term is subject to curtailment upon that Director's retirement by rotation and re-election by shareholders. One-third of the Directors, including both Executive and Non-executive Directors, are required to retire from office at the AGM in each year. A retiring Director is eligible for re-election.

All Non-executive Directors have a formal letter of appointment, modelled on the letter of appointment in the "Higgs Report" in the U.K. on the "Review of the Role and Effectiveness of Non-Executive Directors". Non-executive Directors are paid fees for their services on Board and Board Committees, based on a formal independent review undertaken no less frequently than every three years. A review was undertaken at the beginning of 2010. The remuneration policy and fees paid to each Non-executive Director in 2011 are set out in the Human Resources & Remuneration Committee Report at page 118 of this Annual Report.

Chairman and Chief Executive Officer

The posts of Chairman and CEO are held separately by The Hon. Sir Michael Kadoorie and Mr. Andrew Brandler respectively. This segregation ensures a clear distinction between the Chairman's responsibility to manage the Board and the CEO's responsibility to manage the Company's business. The respective responsibilities of the Chairman and CEO are more fully set out in the CLP Code.

Board Evaluation

The Board has decided to undertake a performance evaluation of the CLP Holdings Board and Board Committees, including the Audit Committee. An independent consulting firm specialising in this area has been engaged to undertake the evaluation exercise. The results of the evaluation are expected to be disclosed in the 2012 Interim Report.

Company Secretary

The Company Secretary supports the Chairman, Board and Board Committees by ensuring good information flow and that Board policy and procedures are followed. She advises the Board on governance matters and facilitates the induction and professional development of Directors. The Company Secretary is an employee of the Company and is appointed by the Board. Although the Company Secretary reports to the Chairman and CEO, all Directors may call upon her for advice and assistance at any time in respect to their duties and the effective operation of the Board and Board Committees. The Company Secretary also plays an essential role in the relationship between the Company and its shareholders, including to assist the Board in discharging its obligations to shareholders pursuant to the Listing Rules.

Management and Staff

The task of CLP's management and staff is the successful implementation of strategy and direction as determined by the Board. In doing so, they must apply business principles and ethics which are consistent with those expected by the Board and CLP's shareholders and other stakeholders.

The division of responsibilities as between the Board, Board Committees, CEO and management is aligned with the provisions of the CLP Code. The written procedures documenting the delegation by the Board of specific authorities, including those to management, are expressed in the form of a "Company Management Authority Manual" (CMAM). Revisions to the CMAM which amend the approved authority delegated from the Board to Board Committees and the CEO require the approval of the Board. Revisions to delegation to management and staff below the level of the CEO can be approved by the CEO.

All management and staff are subject to a formal Code of Conduct which places them under specific obligations as to the ethics and principles by which our business is conducted. This [Code of Conduct](#), which has been aligned across the CLP Group, is set out in full on our website. Management and staff receive training on the Code and its implications. Management and staff above a designated level or in certain functions are required to sign annual statements confirming compliance with the Code. 

We have formalised the procedures for reporting actual or potential violations of the Code and other suspected irregularities into a Whistleblowing Policy to encourage employees and related third parties (such as customers and suppliers) who deal with the Company to raise concerns in confidence about misconducts, malpractices or irregularities in any matters related to the Company.

Non-compliance with the Code of Conduct results in disciplinary action. Disciplinary measures are decided by the relevant line management. These measures are then subject to review and endorsement by a Code of Conduct Committee, which comprises the Group Executive Director, Director – Group Legal Affairs and Director – Group Human Resources, in order to ensure the consistency and fairness of treatment. During 2011, there were six breaches of the Code. Sanctions applied ranged from reprimands to dismissal. No breaches of the Code involved senior managers or were material to the Group's financial statements or overall operations. No waivers of any of the requirements of the Code of Conduct were granted to any senior manager or any other employee.

We have voluntarily extended the CLP Code for Securities Transactions to cover Senior Management (comprising the nine managers, whose biographies are set out on page 84) 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 year ended 31 December 2011 they complied with the required standard set out in the Model Code and CLP Code for Securities Transactions.

Save for the interests disclosed by the three Executive Directors in the Directors' Report at page 126 of this Annual Report, the interest in 10,600 shares disclosed by the Group Director – Operations and the interest in 600 shares disclosed by the Group Director – Managing Director Hong Kong, the other members of the Senior Management did not have any interests in CLP Holdings' securities as at 31 December 2011.

Members of Senior Management are paid remuneration in line with market practice and with regard to their performance. The principles and details of remuneration paid to individual members of Senior Management are set out in the Human Resources & Remuneration Committee Report at page 118 of this Annual Report.

Internal Auditors

CLP's Group Internal Audit department plays a major role in monitoring the internal governance of the CLP Group. The department is led by the Director – Group Internal Audit and includes 24 other staff with professional qualifications (including for example, from the Hong Kong Institute of Certified Public Accountants). The tasks of the department are set out in the CLP Code and include:

- unrestricted access to review all aspects of the CLP Group's activities and internal controls;
- comprehensive audits of the practices, procedures, expenditure and internal controls of all business and support units and subsidiaries on a regular basis; and
- special reviews of areas of concern identified by management or the Audit Committee.

The Director – Group Internal Audit reports directly to the Audit Committee and the CEO and has direct access to the Board through the Chairman of the Audit Committee. The Director – Group Internal Audit has the right to consult the Committee without reference to management.

During 2011, the Group Internal Audit department issued reports to Senior Management covering various operational and financial units of the Group, including joint venture activities outside Hong Kong. Group Internal Audit also conducted reviews of major projects and contracts as well as areas of concern identified by management.

The annual audit plan, which is approved by the Audit Committee, is based on a risk assessment methodology, which assists in determining business risks and establishing audit frequencies. Concerns which have been reported by Group Internal Audit are monitored regularly by management and by the Audit Committee until corrective measures have been implemented.

External Auditor

The Group's external auditor is PricewaterhouseCoopers (PwC). PwC has written to the Audit Committee confirming that they are independent with respect to the Company and that there is no relationship between PwC and the Company which may reasonably be thought to bear on their independence. In order to maintain their independence, PwC will not be employed for non-audit work unless the non-audit work meets the criteria suggested in the Listing Rules and has been pre-approved by the Audit Committee. In addition, there must be clear efficiencies and value-added benefits to CLP from that work being undertaken by the external auditor, with no adverse effect on the independence of their audit work, or the perception of such independence.

During the year, the external auditor (which for these purposes includes any entity under common control,

ownership or management with the external auditor or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally) provided the following audit and permissible non-audit services to the Group:

	2011 HK\$M	2010 HK\$M
Audit	42	32
Permissible non-audit services		
Due diligence and accounting / tax advisory services relating to business developments	2	6
Other services	4	4
Total	48	42

Other Stakeholders

Good governance requires due regard to the impact of business decisions (including environmental impact), both on shareholders and on other key stakeholders. This Annual Report and our [online Sustainability Report](#) explain how we discharge our responsibilities to employees, customers, lenders, the environment and the communities in which we operate. 

Internal Control

The Company has had in place for many years an integrated framework of internal controls which is consistent with the COSO (the Committee of Sponsoring Organisations of the Treadway Commission) framework as illustrated below:



Under our framework, management (which includes qualified accountants) is primarily responsible for the design, implementation, and maintenance of internal controls, while the Board of Directors and its Audit Committee oversee the actions of management and monitor the effectiveness of the controls that have been put in place.

Control Standards, Checks and Balances

The Company's expectations regarding duty and integrity are clearly spelt out in formal policy manuals, which include the Company's Code of Conduct and Management Control Standards Manual. Overseas subsidiaries are required to implement similar controls.

Our Management Control Standards form the backbone of all our major policies and procedures. They set out the basic control standards required for the formulation and administration of Group policies and for the planning, organising, and functioning of business entities. The standards cover those required for administrative and operating activities such as delegation of authority, personnel administration, planning, budgeting, performance monitoring, contracting, computer systems and facilities, safeguarding information and derivative instruments. They also cover those standards established to ensure the integrity and objectivity of accounting and financial records and that the objectives of authorisation, accounting and safeguarding of assets are met.

In CLP, our internal control system covers every activity and transaction of our Group. Our system is based on clear stewardship responsibilities, authorities and accountability. We emphasise to our employees that everyone, no matter where he or she stands in the corporate hierarchy, is an important part of our internal control system and we expect them to contribute to that system.

Built into our system are checks and balances such that no one party can "monopolise" a transaction, activity or process to conceal irregularities. As an integral part of our internal control system, well defined policies and procedures are properly documented and communicated.

In addition to setting out guidelines, principles and values, we recognise that an environment where employees feel free to bring problems to management is also necessary to make our internal control system successful. Our Code of Conduct and Whistleblowing Policy make it clear that all reports to management will be handled confidentially to the extent possible under the circumstances and, most importantly, that everyone in Senior Management will fully support those who in good faith report potential or actual breaches of the Code of Conduct and any possible improprieties in any matters related to the Company.

No matter how well an internal control system is designed and maintained, it can only provide reasonable, but not absolute, assurance. No system of control can totally eliminate the possibility of human error or deliberate attempts to defraud the Company. Recognising this, we maintain an effective Internal Audit function, whose main features include:

- independence from operational management;
- fully empowered auditors with access to all data and every operation of the Group;
- adequate resources and well qualified and capable staff; and
- risk-based auditing, concentrating on areas with significant risks or where significant changes have been made.

Control Processes

Upon the redemption of its "Yankee" bonds on 17 April 2006, the compliance obligations of CLP Power with the U.S. Sarbanes-Oxley Act were suspended. As a foreign private issuer, CLP Holdings remained subject to the Sarbanes-Oxley Act until 29 January 2008, whereupon CLP's deregistration from the U.S. Securities and Exchange Act reporting system took effect.

CLP's action to deregister and to no longer be subject to the Sarbanes-Oxley Act does not imply any weakening in our internal control disciplines or in our commitment to timely, honest and accurate financial reporting to our shareholders. Our aim is to maintain compliance with the substance of the Sarbanes-Oxley Act's requirements without being bound by the form.

Since early 2004, management and employees, assisted by external consultants with particular experience in the design and implementation of internal control systems, have evaluated our control environment and conducted risk assessments of businesses and processes, both at the entity level and the various processes / transactions levels. We have documented those processes which are critical to the Group's performance.

Within this exercise, key risks have been identified, along with the controls required to mitigate those risks. High-risk key controls are tested annually by our management and internal auditors. Based on the results of those tests, process owners are able to represent to Senior Management that their internal controls are working as intended or that necessary corrections have been made where control weaknesses have been found. Internal auditors report to Senior Management that controls have been working properly or that changes have been made to ensure the integrity of financial statements. The external auditor also test the key controls to the extent that they will be relied on for the audit.

The CEO and CFO have a personal obligation to maintain the effectiveness of the disclosure controls and internal controls over financial reporting, and to report to the Audit Committee and the Group's external auditor any significant changes, deficiencies and material weaknesses in, and fraud related to, such controls.

The CEO and CFO submit an annual "General Representation Letter" to the Audit Committee, in which they give a personal certification of compliance by themselves and their subordinates with a range of key internal control systems, disciplines and procedures. These letters rest on similar letters of representation issued by individual managers across the CLP Group, which certify compliance with internal controls as to their particular businesses, departments and activities. These General Representation Letters reinforce personal responsibility for good governance and controls at all levels within the Group.

In order to ensure that the risk management framework of TRUenergy is adequate and effective, a Risk Management Committee of TRUenergy reviews and considers risk related issues affecting, or potentially affecting, the TRUenergy business such as policies relating to energy trading, derivatives and credit risk management.

In keeping with best practices, CLP Holdings has developed and implemented an anti-fraud policy that states the Company's commitment to preventing, detecting and reporting fraud. The policy clearly defines the roles and responsibilities of directors, officers, employees and auditors in developing and carrying out specific programmes to eliminate fraud.

Individual managers are required to make annual representations related to the prevention, identification and detection of fraud in their respective areas. A checklist providing examples of fraud schemes and potential fraud risks has been developed to assist each business unit to conduct a fraud risk assessment and to identify appropriate anti-fraud controls.

To further strengthen the monitoring of the Group's overall risk management approach and strategy, a Group Risk Management framework has been developed to improve communication of identified risks within Management, measure the impact of the identified risks and facilitate implementation of coordinated mitigation measures. The way we manage risk is set out in the Risk Management Report at page 103. The Audit Committee oversees the development and implementation of the Group Risk Management framework.

Control Effectiveness

The Board is responsible for the Company's internal control system and for reviewing its effectiveness. Group Internal Audit and Management conduct reviews of the effectiveness of the Company's internal control system, including those of its subsidiaries. The Audit Committee reviews the findings and opinion of Group Internal Audit and management on the effectiveness of the Company's internal control system four times a year, and reports annually to the Board on such reviews. In respect of the year ended 31 December 2011, the Board considered the internal control system effective and adequate. No significant areas of concern which might affect shareholders were identified.

The effectiveness of the Audit Committee itself is reviewed annually through a formal process which involves the Company Secretary preparing an evaluation of its effectiveness. This is examined by the internal and external auditors before endorsement by the Board. In future this will form part of the Board evaluation process.

Price-Sensitive Information

With respect to procedures and internal controls for the handling and dissemination of price-sensitive information, the Company

- is aware of its obligations under the Listing Rules and the overriding principle that information which is expected to be price-sensitive should be announced immediately it is the subject of a decision;
- conducts its affairs with close regard to the "Guide on Disclosure of Price-sensitive Information" and "Recent Economic Developments and the Disclosure Obligations of Listed Issuers" issued by the Hong Kong Stock Exchange in 2002 and 2008 respectively;
- has implemented and disclosed its own policy on fair disclosure (set out in Section V of the CLP Code);
- has included in its Code of Conduct a strict prohibition on the unauthorised use of confidential or insider information; and
- has established and implemented procedures for responding to external enquiries about the Group's affairs. Senior managers of the Group are identified and authorised to act as the Company's spokespersons and respond to enquiries in allocated areas of issues.

The Company has published [Continuous Disclosure Obligation Procedures](#) which formalised the current practices for monitoring developments in our businesses for potentially price-sensitive information and communicating such information to our shareholders, the media and analysts. These are on the CLP website. 

Communication

CLP has a policy of open communication and fair disclosure. Disclosure is a key means to enhance our corporate governance standards, in that it provides our shareholders and other stakeholders with the information necessary for them to form their own judgment and to provide feedback to us. We understand that more disclosure does not necessarily result in increased transparency. The integrity of the information provided is essential for building market confidence.

Integrated Reporting

CLP aims to present a clear and balanced assessment of its financial position and prospects. Financial results are announced as early as possible, and audited financial statements are published within three months after the end of the financial year. Quarterly statements are issued to keep shareholders informed of the performance and operations of the Group.

CLP's 2011 [online Sustainability Report](#), published at the same time as this Annual Report, describes in detail our delivery of social and environmental value in 2011 and contributes to integrated reporting about all aspects of our activities. The Report discloses our achievements and shortcomings in managing the social and environmental aspects of our business in a comprehensive, honest and accessible way. It also includes an independent assurance report from PwC. We welcome feedback on both the Annual and Sustainability Reports. 

Ongoing Dialogue with Shareholders

We are aware that to maintain the trust and confidence of our shareholders we must do our best to ensure that our shareholders are properly informed of the performance of CLP, that there is clarity about CLP's future direction and confidence about the stewardship of CLP's assets on behalf of its shareholders. The Board has established a Shareholders' Communication Policy to ensure effective ongoing dialogue with Shareholders. It has also delegated to the Audit Committee the responsibility to review the Shareholders' Communication Policy on a regular basis to ensure its effectiveness.

This Annual Report itself is one of our major channels of communication to our shareholders. There are many others. Some of those we used in 2011 are listed below.

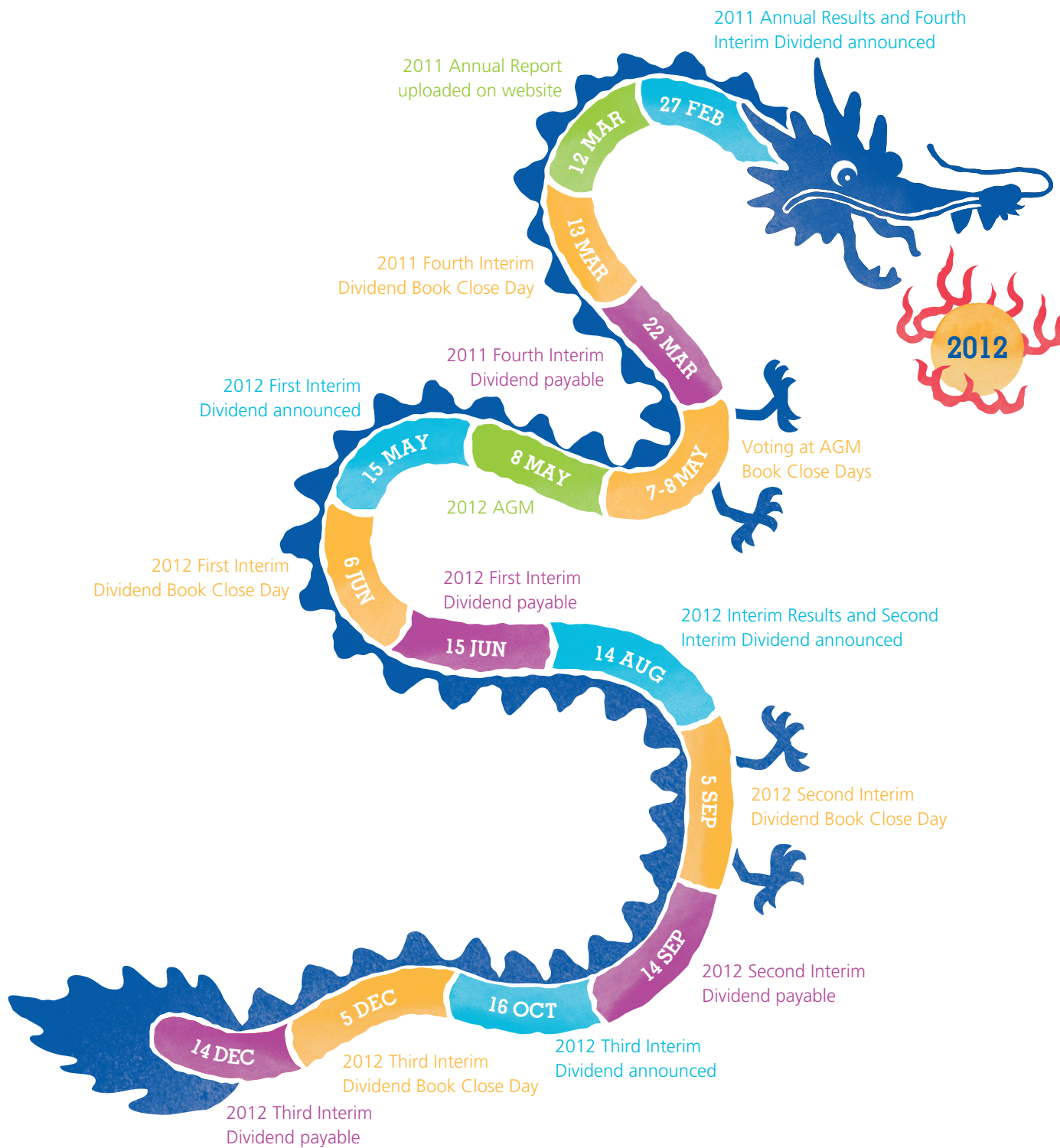
Providing information to our shareholders through means such as

- Our Annual Report, [online Sustainability Report](#) and Quarterly Statements - all of which provide information far in excess of legal and regulatory requirements. 
- Our AGM, attended by Directors and Senior Managers. In the past 5 years, the attendance of shareholders at our AGMs has averaged about 850 (815 in 2011). This is an unusually high number for a Hong Kong company, including by comparison with other companies with a much higher number of registered shareholders.
- During the year, Management attended over 230 investor meetings, including participation in 11 investor conferences, and 13 non-deal roadshows to the North America, Europe and Asia.
- [Analysts briefings](#) on the Company's interim and annual results, as well as overseas business. These are on our website. 
- The CLP [website](#), which includes information on the Company's corporate governance principles and practices, updates on the Group's affairs and other information for shareholders. 

Encouraging feedback from our shareholders through means such as

- Face to face dialogue, including the "Shareholders' Corner" at our AGM.
- Feedback forms sent out with our Annual Report to obtain shareholders' views on the Report and on additional information that they would like to receive in the following year's Annual Report, together with questions that they would like to have answered in the ["Frequently Asked Questions"](#) section of our website. We consider the feedback received and post answers on the website. We also send direct replies to shareholders in response to the specific questions that they raise. 
- Comments, queries and reports from market analysts.
- Shareholders' hotline and e-mail contacts.
- Shareholder correspondence - our aim is to provide a substantive reply within seven days to written shareholder queries. If those queries raise a matter of more general interest to shareholders, we will take this into account and seek to address this in subsequent corporate communications to all our shareholders.
- Shareholders' visits to our facilities. Our Shareholders' Visit Programme initiated in 2003 has been a notable success. Between November 2011 and May 2012 we expect to welcome about 3,000 shareholders and their guests, during 70 tours to our facilities at Castle Peak Power Station, Eco Home and Smart Grid Centre. On these occasions, we seek views on the performance of CLP. About 60 CLP colleagues, including Directors, have volunteered to participate as lunch hosts of the programme.

Important dates for shareholders in 2012 are set out below.



Any changes to these dates will be published on our [website](#).

Reporting via Internet

The CLP website provides our shareholders and other stakeholders with information on the Company's corporate governance structure, policies and systems. The "[Corporate Governance](#)" section of our website includes 



We recognise that not all shareholders and stakeholders have ready access to the internet. For those who do not, hard copies of the [CLP Group website information](#) listed above are available free of charge upon request to the Company Secretary. 

Corporate Governance – Continuing Evolution

We make an active contribution to the ongoing debate on the future shape of corporate governance in Hong Kong. 2011 was a busy year for proposed governance and regulatory reforms. During the year we responded to the Consultation Paper issued by the Hong Kong Exchanges and Clearing Limited on the review of The Code on Corporate Governance Practices and Associated Listing Rules. Our [response](#) is on our website, so that our shareholders can judge whether we are properly reflecting their views and respecting their interests. 

We will continue to review and, where appropriate, improve on our corporate governance practices in light of evolving experience, regulatory requirements and international developments.

By Order of the Board



April Chan

Company Secretary

Hong Kong, 27 February 2012

Risk Management Report

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

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

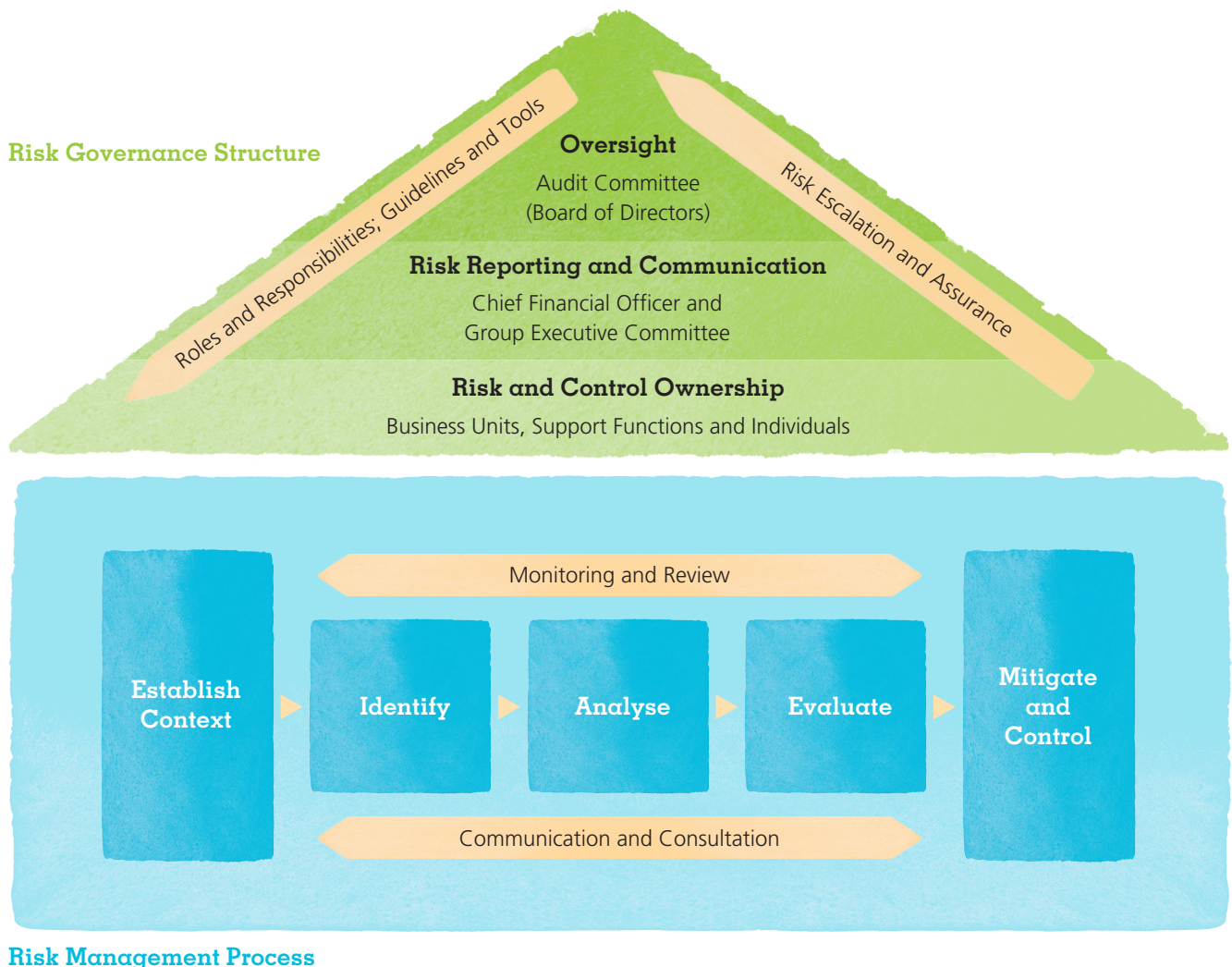
At an operational level, we aim to identify, assess, evaluate and mitigate operational hazards and risks in order to create a safe, healthy, efficient and environmentally-friendly workplace for our employees and contractors.

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

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

Our Risk Management Framework

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



Our Risk Governance Structure

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

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



Our Risk Management Process

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

Our Quarterly Risk Review Process at Group Level

- Every quarter, our business and functional units are required to submit their top tier risks identified through their risk management process to Group Risk Management in a prescribed reporting format.
- Group Risk Management, through aggregation, filtering and prioritising processes, compile a Quarterly Group Risk Management Report for discussion at the Group Executive Committee chaired by the CEO. The Committee reviews and scrutinises the top tier risks and ensures the appropriate controls and mitigation measures are in place or in progress. Emerging risks, which may have a material impact on the Group, are monitored and discussed at the Committee.
- Following review by the Group Executive Committee, the Quarterly Group Risk Management Report is submitted to the Audit Committee. A summary of the top tier risks is circulated to the Board. "Deep dive" presentations on selected risks are presented to the Audit Committee for more detailed review.

Our Risk Review Process for Investment Decisions

- All new investments must be endorsed by the Investment Committee chaired by the CEO before seeking approval from the Board or Finance & General Committee.
- We require independent functional review and sign-off of any investment proposal before going to the Investment Committee. Risk Management sign-off is part of the investment review process.
- Group Risk Management requires that the project owner conduct a risk assessment with proper documentation. Detailed checklists and worksheets are adopted for identifying risks / mitigations and assessing risk level. Material risks and associated mitigations are highlighted and discussed at the Investment Committee.

Our Risk Management in the Business Planning Process

- In our annual business planning process, business units are required to identify all material risks that may impact their achievement of business objectives. Identified risks are assessed and evaluated based on the same set of criteria as the quarterly risk review process. Strategies and action plans to mitigate the identified risks are developed for implementation and budget allocation purposes.



Evolution of Risk Management

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

Major Initiatives in 2011

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

Outlook and Major Initiatives for 2012

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

Top Tier Risks of the Group

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

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

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

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

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

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

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

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

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

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



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

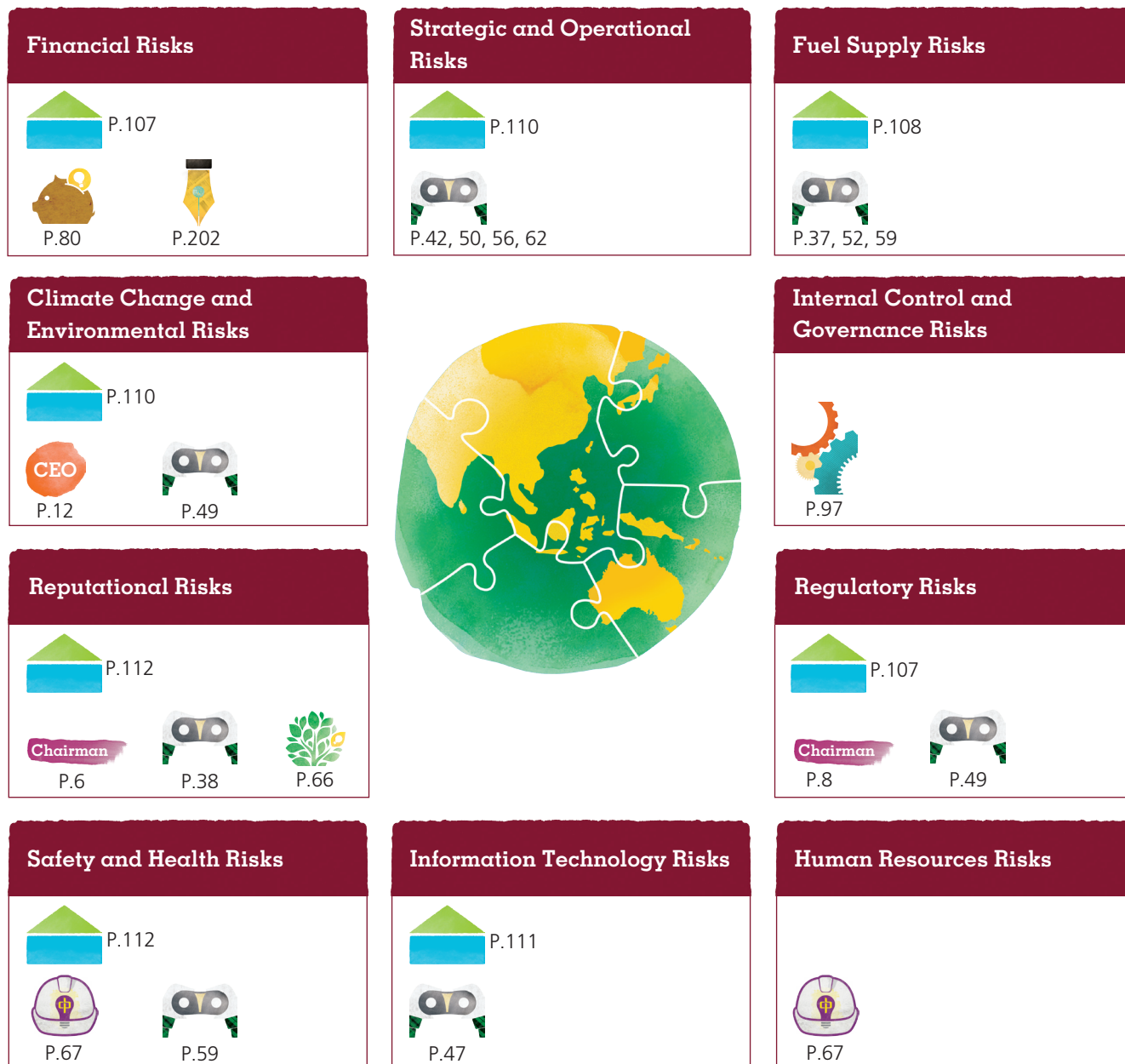
Deteriorating financial health of India distribution companies – The Indian electric utility sector is in poor financial health overall with distribution companies generally propped up by State government subsidies and faced with significant transmission losses. Whilst our portfolio has experienced some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

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

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

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

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



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



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

Audit Committee Report

The Audit Committee is appointed by CLP Holdings' Board of Directors and has five members, all of whom are Independent Non-executive Directors. The Chairman, Mr. Vernon Moore, Professor Judy Tsui and Mr. Nicholas Allen have appropriate professional qualifications, including membership of the Hong Kong Institute of Certified Public Accountants (HKICPA), and experience in financial matters. Mr. Hansen C. H. Loh has wide business experience and Mrs. Fanny Law has extensive experience in public administration. The Board has given the Committee written terms of reference prepared by reference to the HKICPA's "Guide for Effective Audit Committees", and updated by reference to the Hong Kong Stock Exchange's revised Appendix 14 to the Listing Rules "Corporate Governance Code and Corporate Governance Report". Its [terms of reference](#) are set out in the CLP Code on Corporate Governance (CLP Code) and on CLP's and the Exchange's websites. 

The Committee meets regularly, at least five times per annum, so that full attention can be given to the matters submitted. Special meetings may be called by its Chairman or at the request of the CEO or Director – Group Internal Audit to review significant control or financial issues. The Committee is accountable to the Board, to whom minutes of all meetings are sent. The Chairman gives an annual report to the Board covering the Committee's activities for the year, highlighting any significant issues. The primary responsibilities of the Audit Committee are to

- assure that adequate internal controls are in place and followed;
- assure that appropriate accounting principles and reporting practices are followed;
- satisfy itself as to the adequacy of the scope and direction of external and internal auditing;
- satisfy itself that good accounting, audit and compliance principles, internal controls and ethical practices are applied on a consistent basis throughout the CLP Group; and
- fulfill the functions conferred on the Committee pursuant to the CLP Code.

Summary of Work Done

Between 1 January 2011 and the date of this Report (the "Relevant Period"), the Audit Committee discharged its responsibilities in its review of the half-yearly and annual results and system of internal control and its other duties as set out in the CLP Code on Corporate Governance. The Committee reviewed the Financial Statements for the year ended 31 December 2011, including the CLP Group's adopted accounting principles and practices, in conjunction with the internal and external auditors. The Committee also reviewed the compliance by the Company with the Stock Exchange Code throughout the year ended 31 December 2011. Individual attendance of members at the six meetings held in 2011 is set out in the Corporate Governance Report at page 85. The work performed by the Committee in 2011 included reviews of

- the 2010 Annual Report including the Corporate Governance Report, the Directors' Report and Financial Statements for the year ended 31 December 2010 and the annual results announcement, with a recommendation to the Board for approval;
- the 2011 Interim Report including the CLP Group Interim Financial Statements for the six months ended 30 June 2011 and the interim results announcement, with a recommendation to the Board for approval;
- compliance by the Company with the Stock Exchange Code throughout the year ended 31 December 2010 and throughout the six months ended 30 June 2011. CLP complies with all the Code Provisions, with one deviation from Recommended Best Practices, which is explained on page 87 of this Annual Report*;
- the Company's compliance with the Listing Rules, Companies Ordinance and Securities and Futures Ordinance throughout the year ended 31 December 2010. No breaches were identified*;
- legal cases in which CLP Holdings or any member of the CLP Group was a named defendant. None of these cases was material, save as disclosed under Note 34 Contingent Liabilities to the Financial Statements*;
- a General Representation Letter signed jointly by the CEO and the CFO regarding compliance with internal control systems, disciplines and procedures for the year ended 31 December 2010*;
- the report and management letter submitted by external auditor, which summarised matters arising from their audit on the CLP Group for the year ended 31 December 2010, such as in respect of auditing and accounting matters, taxation issues and internal controls, together with the manner in which they had been addressed*;
- the audit fees payable to external auditor for the year ended 31 December 2010 for approval by the Board, with a recommendation for their reappointment for the financial year 2011, subject to final approval by shareholders* (given on 12 May 2011);
- the audit strategy submitted by external auditor, PricewaterhouseCoopers (PwC) for the year ended 31 December 2011;

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

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

Internal Control

Based on the information received from management, external auditor and Group Internal Audit, the Committee believes that overall financial and operating controls for the Group during 2011 continue to be effective and adequate. Issues which have been raised by external or internal auditors during 2011 have been or are being satisfactorily addressed by management. Further information about the control standards, checks and balances and control processes are set out in the Corporate Governance Report on pages 98 and 99. The Audit Committee confirms that it is discharging its responsibilities in accordance with the requirements of the CLP Code on Corporate Governance and is satisfied that the Group has complied with all the Code Provisions of the Stock Exchange Code with respect to internal controls.

External Auditor

PwC were reappointed independent auditor of the Company at the 2011 AGM. PwC audit all companies in the CLP Group which require statutory audit opinions. Having reviewed PwC's performance during 2011 and satisfied itself of their continuing independence and objectivity within the context of applicable regulatory requirements and professional standards, the Committee has recommended to the Board the reappointment of PwC as independent auditor at the forthcoming AGM. A resolution to that effect has been included in the Notice of AGM.



Vernon Moore

Chairman, Audit Committee
Hong Kong, 27 February 2012

Sustainability Committee Report

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

Summary of Work Done

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

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

CLP's Sustainability Framework

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

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

The Sustainability Framework comprises 15 Sustainability Goals:

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

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

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

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

Andrew Brandler

Andrew Brandler

Chairman, Sustainability Committee

Hong Kong, 27 February 2012



Human Resources & Remuneration Committee Report

1. Introduction

On behalf of the Board, the Human Resources & Remuneration Committee (HR&RC) closely scrutinises the remuneration policies applied within the CLP Group, including the remuneration of Non-executive and Executive Directors and of Senior Management. Our objective is to ensure that CLP applies properly structured and fair remuneration policies which align the interests of Directors and Senior Management with those of the Company and its shareholders. This Report explains the policies applied to determining remuneration levels and sets out the remuneration paid to Non-executive Directors, Executive Directors and Senior Management. This HR&RC Report has been reviewed and endorsed by the Committee.

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

2. Membership

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

3. Responsibilities and Work Done

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

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

4. Remuneration Policies

The main elements of CLP’s remuneration policy have been in place for a number of years and are incorporated in the CLP Code on Corporate Governance (CLP Code).

- No individual should determine his or her own remuneration;
- Remuneration should be broadly aligned with companies with whom CLP competes for human resources; and
- Remuneration should reflect performance, complexity and responsibility with a view to attracting, motivating and retaining high performing individuals and promoting the enhancement of the value of the Company to its shareholders.

5. Non-executive Directors – Principles of Remuneration

The above policies apply to the remuneration of the Non-executive Directors, with appropriate adjustments to reflect good corporate governance practices, the particular nature of their duties and that they are not Company employees.

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

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

In light of these considerations, CLP's Non-executive Directors are paid fees in line with market practice, based on a formal independent review undertaken no less frequently than every three years. Those fees were most recently reviewed at the beginning of 2010 (the 2010 Review). The methodology adopted in the 2010 Review is the same as that explained to shareholders in the CLP Code. This methodology is aligned with the recommendations of the Higgs Report and includes

- the application of an hourly rate of HK\$4,500 as an average of the partner rates charged by legal and financial advisors and accounting and consulting firms in providing professional services to CLP;
- the calculation of the time spent by Non-executive Directors on CLP's affairs (including attendance at Board and Board Committee meetings, reading papers, etc.); and
- an additional fee of about 40% and 10% per annum for the Chairmen of the Board/Board Committees and the Vice Chairman of the Board respectively (reflecting the additional workload and responsibility which these offices involve).

The resulting fees were then benchmarked against those paid by leading listed companies in Hong Kong and major utility companies listed on the London Stock Exchange. The methodology and resulting fees were independently reviewed by Stephenson Harwood (SH), Solicitors. Further to CLP's commitment to the adoption of a transparent methodology for determining Non-executive Directors' remuneration, the [2010 Review and the opinion of SH on that Review](#) are placed on CLP's website. 

In line with our policy that no individual should determine his or her own remuneration, the levels of fees set out in the table on page 120 of this Report were proposed by Management, reviewed by SH and approved by our shareholders at the AGM on 27 April 2010. In this respect, CLP's approach goes beyond that required by law or regulation in Hong Kong or the provisions of the Hong Kong Stock Exchange's Corporate Governance Code.

6. Total Directors' Remuneration in 2011

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

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

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

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

7. Non-executive Directors - Remuneration in 2011

The fees paid to each of our Non-executive Directors in 2011 for their service on the CLP Holdings Board and, where applicable, on its Board Committees are set out below. The increase in total Directors' fees, compared to 2010, was primarily due to the full year effect in 2011 of an increase in the levels of Non-executive Directors' fees which took effect on 28 April 2010.

Higher levels of fees were paid to Chairmen of the Board and Board Committees and the Vice Chairman of the Board as indicated by "C" and "VC" respectively. Executive Directors and Management serving on the Board and Board Committees are not entitled to any Directors' fees.

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

Notes:

- (1) Mr. William Mocatta also received HK\$303,000 as fees for his service on the boards of CLP Power Hong Kong Limited, Castle Peak Power Company Limited and Hong Kong Pumped Storage Development Company, Limited. In 2010, he received HK\$322,000 as fees for his service on the boards of these companies.
- (2) The fees paid to Mr. R. Bischof, Mr. Jason Whittle and Mr. Paul M. L. Kan (former Directors) are included in the table, solely for the purpose of comparing the total fees paid to Non-executive Directors in 2010 with those in 2011.
- (3) The Hon. Sir S. Y. Chung retired as a Director and a member of the Nomination Committee after the conclusion of the 2011 AGM held on 12 May 2011.
- (4) Mr. Nicholas C. Allen was appointed a member of the Nomination Committee with effect from 13 May 2011.
- (5) Mr. Vincent Cheng was appointed an Independent Non-executive Director on 17 August 2011. He was also appointed a member of the Finance & General Committee and the HR&RC on 1 September 2011.
- (6) Mrs. Fanny Law was appointed an Independent Non-executive Director on 17 August 2011. She was also appointed a member of the Audit Committee and the Sustainability Committee on 1 September 2011.

8. Executive Directors - Remuneration in 2011

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

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

Note A:

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

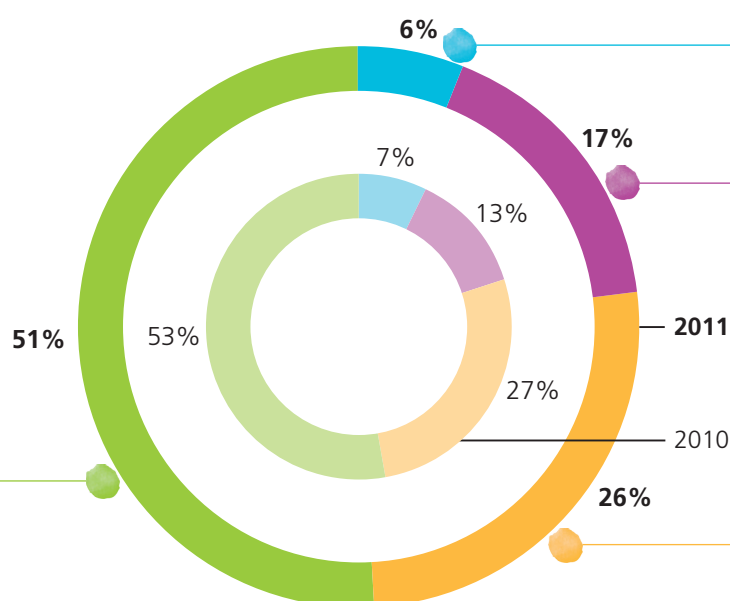
- (a) The annual incentive for the Executive Directors and the members of Senior Management for 2011 was reviewed and approved by the HR&RC after 31 December 2011. Accordingly, the total amount of annual incentive includes: i) the accruals that have been made in the performance bonus for the Executive Directors and members of Senior Management at the target level of performance; and ii) the actual bonus paid in 2011 for the last year in excess of the previous accruals made.
- (b) The long-term incentive is the incentive for 2008, paid in 2011 when the vesting conditions had been satisfied (the comparative figures are the incentive for 2007 paid in 2010). About 26% of the amount of 2008 long-term incentive payments results from the appreciation of CLP Holdings' share price between 2008 and 2010, with dividends reinvested.
- (c) Payment of the annual incentive and granting of the long-term incentive awards relating to 2011 performance will be made in March 2012. These payments and awards are subject to the prior approval of the HR&RC. [Details](#) of these will be published on the CLP Group website at the time that the 2011 Annual Report is published.

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

The Group does not have, and has never had, a share option scheme. No Executive Director has a service contract with the Company or any of its subsidiaries with a notice period in excess of six months or with provisions for predetermined compensation on termination which exceeds one year's salary and benefits in kind.

9. Senior Management - Principles of Remuneration

For the purposes of this Section, Senior Management means the managers whose details are set out on page 84. In determining the remuneration of members of Senior Management, the remuneration data of comparable positions in the market, including local and regional companies of comparable size, complexity and business scope, are referenced. This is consistent with our remuneration policy to align with companies with whom CLP competes for human resources. Achievement of performance plays a significant part in individual rewards as part of our policy to attract, motivate and retain high performing individuals. The remuneration policies applied to Senior Management, including the levels of performance bonus, are subject to the approval of the HR&RC. No members of Senior Management serve on the Committee. The four components of remuneration of members of Senior Management are explained below, including the proportion of target total remuneration which each component represented in both 2010 and 2011.



Base Compensation

Base Compensation is reviewed annually taking into consideration the competitive market position, market practice and the individual performance of members of Senior Management.

Annual Incentive

The annual incentive payout depends upon the performance of the CLP Group and the individuals concerned. Key measures include achievement of financial goals, operational and other performance targets, and individual objectives such as the demonstration of key leadership competencies.

Each of the Senior Management members is assigned a "target" annual incentive, which accounts for 26% of his/her total remuneration in 2011. Only individuals who attain at least a satisfactory performance rating are awarded any annual incentive. The amount of annual incentive is capped at twice the "target" annual incentive (although this cap may be exceeded in exceptional cases where a discretionary additional annual incentive is awarded by the Committee), with the actual amount being determined by organisational and individual performance.

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

Pension Arrangements

The members of the Senior Management are eligible to join the defined contribution section of the Group's retirement fund. The Group's contribution to the retirement fund amounts to a maximum of 12.5% of base compensation, subject to a 5% contribution by the employee. This accounts for 6% of his/her target total remuneration in 2011.

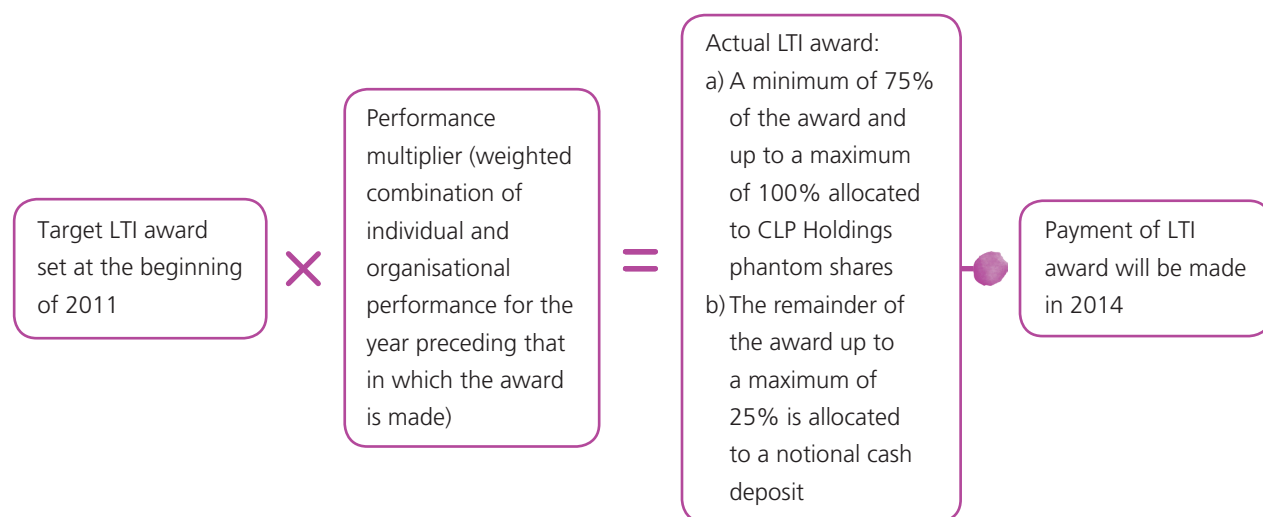
Long-term Incentive

Awards under the Long-term Incentive (LTI) plan are based on organisational and individual performance and support the retention of Senior Management.

The HR&RC has approved an increase in the target LTI award from 25% of base salary in 2010 to 33.3% in 2011. Consequently, LTI as a percentage of target total remuneration increased from 13% in 2010 to 17% in 2011. The rationale for this change is to align this LTI element of senior executive remuneration more closely with international market practice, and ensure that our total remuneration package remains competitive.

The whole of the increase in LTI is allocated to the phantom share element of the scheme. Consequently, the cash deposit option will reduce from a maximum of 33.3% of the award in 2010 to 25% in 2011.

The following diagram illustrates the composition of the LTI award:



Consequently, the final value of the award, at the vesting date, is based on the initial choices made and the subsequent impact of changes in share price, dividend reinvestment, exchange rate movements, and interest earned during the three years.

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

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

10. Senior Management – Remuneration in 2011

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

	Base Compensation, Allowances & Benefits HK\$M	Performance Bonus*		Provident Fund Contribution HK\$M	Final Payment** HK\$M	Other Payments HK\$M	Total HK\$M
	Annual Incentive HK\$M	Long-term Incentive HK\$M					
2011							
Group Director & Chief Financial Officer (Mr. Mark Takahashi)	4.4	4.2	1.4	0.5	—	—	10.5
Vice Chairman – CLP Power Hong Kong (Mrs. Betty Yuen)	3.1	3.9 ^(a)	4.2 ^(b)	0.4	—	—	11.6 [#]
Group Director – Managing Director Hong Kong (Mr. Richard Lancaster)	4.4	4.2	0.8	0.6	—	—	10.0 ^{##}
Group Director – Managing Director Australia (Mr. Richard McIndoe)	5.6	5.0	2.1	0.6	—	8.5 ^(c)	21.8
Group Director – Operations (Mr. Peter Littlewood)	3.7	3.6	1.2	0.5	—	—	9.0
Managing Director – India (Mr. Rajiv Mishra)	3.3	3.1	2.0 ^(b)	0.4	—	—	8.8
Managing Director – China (Dr. Ko Yu Ming) ^(d)	2.1	2.9	5.3	0.3	7.4	—	18.0
Managing Director – Southeast Asia (Mr. Mark Jobling) ^(e)	1.6	2.9	5.3	0.2	10.0	—	20.0
Director – Group Corporate Finance and Development (Mr. Stefan Robertsson) ^(f)	2.1	2.3	1.0	0.2	—	—	5.6
	30.3	32.1	23.3	3.7	17.4	8.5	115.3
2010							
Group Director & Chief Financial Officer	4.0	4.2	1.1	0.5	—	—	9.8
Vice Chairman – CLP Power Hong Kong ^(g)	3.2	3.9	1.6	0.4	—	—	9.1 [#]
Group Director – Managing Director Hong Kong ^(g)	4.1	3.1	0.7	0.5	—	—	8.4 ^{##}
Group Director – Managing Director Australia	4.8	4.8	1.8	0.6	—	8.0 ^(c)	20.0
Group Director – Operations	3.6	3.5	1.0	0.5	—	—	8.6
Managing Director – India	3.1	3.0	0.7	0.4	—	—	7.2
Managing Director – China	2.6	2.2	0.6	0.3	—	—	5.7
Managing Director – Southeast Asia	2.8	2.6	0.7	0.4	—	—	6.5
Group Director – Corporate Finance and Development (Mr. Stefan Robertsson)	2.7	2.1	0.9	0.3	—	—	6.0
Group Director – Carbon Ventures (Mr. Giuseppe Jacobelli) ^(h)	2.8	2.7	2.3	0.3	3.2	—	11.3
	33.7	32.1	11.4	4.2	3.2	8.0	92.6

Notes:

- This figure includes an additional discretionary 2010 annual incentive of HK\$1 million paid to Mrs. Betty Yuen in March 2011.
- These figures include additional discretionary 2008 long-term incentives of HK\$2 million and HK\$0.8 million paid to Mrs. Betty Yuen and Mr. Rajiv Mishra respectively in January 2011.
- Payment for tax equalisation, housing allowance and children's education allowances, if any, for secondment to offices outside Hong Kong. Out of this payment, HK\$7.0 million (83%) (2010: HK\$6.7 million (83%)) was the tax payment to the tax authority of the country where the executive was based during secondment.
- Dr. Ko left the Company with effect from 1 October 2011. The annual incentive of HK\$2.9 million included the incentive payment for 2011 for the period he served as Director. The long-term incentive of HK\$5.3 million was for 2008, 2009, 2010 and 2011. The long-term incentive for 2009, 2010 and 2011 was paid upon leaving the Company. Final payment of HK\$7.4 million included payment in lieu of notice and compensation for loss of office.
- Mr. Jobling left the Company with effect from 1 July 2011. The annual incentive of HK\$2.9 million included the incentive payment for 2011 for the period he served as Director. The long-term incentive of HK\$5.3 million was for 2008, 2009, 2010 and 2011. The long-term incentive for 2009, 2010 and 2011 was paid upon leaving the Company. Final payment of HK\$10 million included payment in lieu of notice, discretionary performance bonus, ex-gratia payment and compensation for loss of office.

- (f) Mr. Stefan Robertsson served as a member of the Senior Management as the Group Director – Corporate Finance and Development for the period from 1 January 2011 to 30 September 2011 and the remuneration shown is for such period. He became Director – Group Corporate Finance and Development on 1 October 2011.
- (g) Mrs. Betty Yuen was appointed as the Vice Chairman of CLP Power Hong Kong Limited on 4 January 2010. Mr. Richard Lancaster was appointed as Group Director – Managing Director Hong Kong on 4 January 2010.
- (h) Mr. Jacobelli left the Company with effect from 1 January 2011. The annual incentive of HK\$2.7 million included the incentive payment for 2010 for the period he served as Director. The long-term incentive for 2008, 2009 and 2010 was paid upon his leaving the Company. Final payment of HK\$3.2 million included payment in lieu of notice, ex-gratia payment and compensation for loss of office.
- * Refer to Note A on performance bonus on page 121.
- ** The final payment is not part of the remuneration arrangement of the Group, but may be payable, on approval by the HR&RC Chairman or CEO where appropriate.
- # HK\$1 million (2010: HK\$1 million) has been charged to the Non-SoC operation.
- ## HK\$1 million (2010: HK\$1 million) has been charged to the Non-SoC operation.

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

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

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

† Refer to Notes (d), (e), (h) and ** above on final payment.

@ Refer to Note (c) above on other payments.

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

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

11. Continued Scrutiny and Disclosure

The HR&RC remains committed to the careful oversight of remuneration policies and levels in the interests of the Company and its shareholders, and to honest and open disclosure on these matters.

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



Vincent Cheng

Chairman, Human Resources & Remuneration Committee

Hong Kong, 27 February 2012

Directors' Report

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

Principal Activities

The principal activity of the Company is investment holding and those of its subsidiaries are the generation and supply of electricity. The Company's principal subsidiary companies are listed under Note 15 to the Financial Statements.

Consolidated Financial Statements

The consolidated Financial Statements incorporate the Financial Statements of the Company and its subsidiaries (collectively referred to as the Group) together with the Group's interests in jointly controlled entities, jointly controlled assets and associated companies. Details of the jointly controlled entities and associated companies are provided under Notes 16 and 17 to the Financial Statements and a description of the jointly controlled assets is under Note 2(D).

Earnings and Dividends

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

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

Performance

A discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position are provided on pages 36 to 64 of this Annual Report.

Share Capital

There was no movement in the share capital of the Company during the year. There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed shares during the year.

Reserves

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

Fixed Assets

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

Bank Loans and Other Borrowings

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

Financial Assistance and Guarantees to Affiliated Companies

The financial assistance given to affiliated companies and the guarantees given for facilities granted to affiliated companies aggregated to 4.5% of the Group's total assets as at 31 December 2011.

Finance Costs Capitalised

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

Donations

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

Five-year Summary

A summary of the results for the year and of the assets and liabilities of the Group as at 31 December 2011 and for the previous four financial years are on pages 214 and 215 of this Annual Report. A [ten-year summary](#) is on the CLP website. 

Senior Management

The biographical details of the Senior Management as at the date of this Report are set out on page 84 of this Annual Report. Details of their remuneration are set out in the Human Resources & Remuneration Committee Report at page 118 of this Annual Report.

Major Customers and Suppliers

Sales to the Group's five largest customers together represented less than 30% of the Group's total turnover during the year. Purchases from the Group's five largest suppliers together accounted for 53.49% of the Group's total purchases during the year. The five largest suppliers are set out below in descending order:

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

As at 31 December 2011, Bermuda Trust Company Limited, Bermuda Trust (Cayman) Limited, Guardian Limited, Harneys Trustees Limited (formerly known as HWR Trustees Limited), Lawrencium Holdings Limited, Lawrencium Mikado Holdings Limited, The Magna Foundation, Mikado Investments (PTC) Limited (formerly known as Mikado Investments Limited), The Mikado Private Trust Company Limited, New Mikado Holding Inc. (formerly known as Mikado Holding Inc.), Oak CLP Limited, Oak (Unit Trust) Holdings Limited, The Hon. Sir Michael Kadoorie, Lady Kadoorie, Mr. R. J. McAulay, Mr. J. A. H. Leigh and Mr. R. Parsons who are substantial shareholders of the Company, had indirect interests in CAPCO, which interests arose from the Company's interests in CAPCO.

Directors

With the exception of Mr. Vincent Cheng and Mrs. Fanny Law, the Directors of the Company, whose names appear on pages 82 and 83 of this Annual Report, were Directors for the whole year. Their biographical details as at the date of this Report are set out on the same pages. Details of Directors' remuneration are set out in the Human Resources & Remuneration Committee Report at page 118 of this Annual Report.

Directors' Report

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

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

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

Under the existing Articles of Association of the Company, all the Directors are subject to retirement by rotation and re-election at the AGM. In accordance with Article 103 of the Company's Articles of Association, Mr. William Mocatta, Dr. Y. B. Lee, Mr. Peter W. Greenwood, Mr. V. F. Moore and Mr. Hansen C. H. Loh retire by rotation. After having served on the Board of the Company for over 11 years, Mr. Hansen C. H. Loh has decided not to stand for re-election at the AGM. All the other retiring Directors, being eligible, offer themselves for re-election. None of the Directors offering themselves for re-election at the AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation.

No contracts of significance in relation to the Group's business to which the Company or any of its fellow subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the financial year.

Alternate Directors

The Alternate Directors in office during the year ended 31 December 2011 were as follows:

Mr. I. D. Boyce, alternate to Mr. R. J. McAulay and Mr. William Mocatta	}	(for the year)
Mr. Neo Kim Teck, alternate to Mr. Paul A. Theys.	}	

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

Interests of Directors and Chief Executive Officer

The interests/short positions of each of the Directors and Chief Executive Officer in the shares, underlying shares and debentures of the Company or any of the Company's associated corporations (within the meaning of the Securities and Futures Ordinance) as at 31 December 2011, as recorded in the register required to be kept under Section 352 of Part XV of the Securities and Futures Ordinance, are set out in the table and explanatory notes below:

1. Aggregate long position in the shares, underlying shares and debentures of the Company and its associated corporations

The interests of Directors and Chief Executive Officer in the shares of the Company (other than pursuant to equity derivatives such as share options, warrants to subscribe or convertible bonds) as at 31 December 2011 were as follows:

Directors	Capacity	Total Interests in Number of Ordinary Shares of the Company	% of the Issued Share Capital of the Company
The Hon. Sir Michael Kadoorie	Note (a)	457,172,780	19.00023
Mr. William Mocatta	Note (b)	400,000	0.01662
Mr. R. J. McAulay	Note (c)	273,611,649	11.37138
Mr. J. A. H. Leigh	Note (d)	209,114,077	8.69084
Mr. Andrew Brandler (Chief Executive Officer)	Note (e)	10,600	0.00044
Mr. Peter P. W. Tse	Note (f)	20,600	0.00086
Dr. Y. B. Lee	Note (g)	15,806	0.00066
Mr. Peter W. Greenwood	Beneficial owner	600	0.00002
Mrs. Fanny Law	Personal	16,800	0.00070

Notes:

- (a) The Hon. Sir Michael Kadoorie was deemed (by virtue of the Securities and Futures Ordinance) to be interested in 457,172,780 shares in the Company. These shares were held in the following capacity:
- i) 1,243 shares were held by his spouse, Lady Kadoorie in a personal capacity.
 - ii) 70,146,655 shares were ultimately held by discretionary trusts, of which The Hon. Sir Michael Kadoorie is one of the discretionary objects.
 - iii) 237,044,212 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and the founder.
 - iv) 147,980,670 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and the founder.
 - v) 1,000,000 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and the founder.
 - vi) 1,000,000 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and the founder.
- For the purpose of the Securities and Futures Ordinance, the spouse of The Hon. Sir Michael Kadoorie was taken to have a discloseable duty in Hong Kong in relation to the shares referred to in (ii) to (vi) above. The spouse of The Hon. Sir Michael Kadoorie was therefore deemed to be interested in 457,172,780 shares in the Company representing approximately 19.00% of the issued share capital of the Company, of which 1,243 shares were held by her in a personal capacity and an aggregate of 457,171,537 shares were attributed to her pursuant to the Securities and Futures Ordinance for disclosure purposes. Nevertheless, she has no interest, legal or beneficial, in these 457,171,537 shares attributed to her for disclosure purposes.
- (b) Mr. William Mocatta was deemed (by virtue of the Securities and Futures Ordinance) to be interested in 400,000 shares in the Company. These shares were held in the following capacity:
- i) 250,000 shares were held in the capacity as the founder of a discretionary trust.
 - ii) 150,000 shares were held by a trust of which Mr. William Mocatta is one of the beneficiaries.
- (c) Mr. R. J. McAulay was deemed (by virtue of the Securities and Futures Ordinance) to be interested in 273,611,649 shares in the Company. These shares were held in the following capacity:
- i) 13,141 shares were held in a personal capacity.
 - ii) 70,146,655 shares were ultimately held by discretionary trusts, of which Mr. R. J. McAulay is one of the discretionary objects.
 - iii) 203,451,853 shares were ultimately held by a discretionary trust, of which the late Muriel, Lady Kadoorie, mother-in-law of Mr. R. J. McAulay, was the founder and a beneficiary and Mr. R. J. McAulay, his wife and members of his family are discretionary objects.
- (d) Mr. J. A. H. Leigh was deemed (by virtue of the Securities and Futures Ordinance) to be interested in 209,114,077 shares in the Company. These shares were held in the following capacity:
- i) 100,000 shares were held in a beneficial owner capacity.
 - ii) 5,562,224 shares were ultimately held by a discretionary trust. Mr. J. A. H. Leigh was deemed to be interested in such 5,562,224 shares in his capacity as one of the trustees of a trust which was deemed to be interested in such 5,562,224 shares.
 - iii) 203,451,853 shares were ultimately held by a discretionary trust. Mr. J. A. H. Leigh was deemed to be interested in such 203,451,853 shares in his capacity as one of the trustees of a trust which was deemed to be interested in such 203,451,853 shares.
- (e) 600 shares were held in a personal capacity and 10,000 shares were held in a beneficial owner capacity.
- (f) 600 shares were held in a personal capacity and 20,000 shares were held in a beneficial owner capacity.
- (g) 600 shares were held in a personal capacity and 15,206 shares were held jointly with spouse.

Messrs. I. D. Boyce, V. F. Moore, Hansen C. H. Loh, Paul A. Theys, Nicholas C. Allen, Vincent Cheng, Professor Judy Tsui and Sir Rod Eddington who are Directors of the Company, and Mr. Neo Kim Teck who was an Alternate Director, have each confirmed that they had no interests in the shares of the Company or any of its associated corporations as at 31 December 2011. None of the Directors or the Chief Executive Officer had interests in debentures, under equity derivatives or in underlying shares of the Company and its associated corporations as at 31 December 2011.

2. Aggregate short position in the shares, underlying shares and debentures of the Company and its associated corporations

None of the Directors or the Chief Executive Officer had short positions in respect of shares, debentures, under equity derivatives or interests in underlying shares of the Company and its associated corporations as at 31 December 2011.

At no time during the year was the Company, its subsidiaries or its associated companies a party to any arrangement to enable the Directors and the Chief Executive Officer of the Company (including their spouse and children under 18 years of age) to acquire benefits by an acquisition of shares or underlying shares in, or debentures of, the Company or its associated corporations.

Interests of Substantial Shareholders

The interests/short positions of substantial shareholders in the shares and underlying shares of the Company as at 31 December 2011, as recorded in the register required to be kept under Section 336 of Part XV of the Securities and Futures Ordinance, are set out in the following table and explanatory notes.

1. Aggregate long position in the shares and underlying shares of the Company

The Company had been notified of the following substantial shareholders' interests in the shares (other than pursuant to equity derivatives such as share options, warrants to subscribe or convertible bonds) as at 31 December 2011:

Substantial Shareholders		Capacity	Total Interests in Number of Ordinary Shares of the Company		% of the Issued Share Capital of the Company
Bermuda Trust Company Limited	Trustee/ Interests of controlled corporations		518,278,544	Note (a)	21.54
Bermuda Trust (Cayman) Limited	Trustee/ Interests of controlled corporations		218,171,475	Note (d)	9.07
Guardian Limited	Beneficiary/ Interests of controlled corporations		209,014,077	Note (h)	8.69
Harneys Trustees Limited (formerly known as HWR Trustees Limited)	Interests of controlled corporations		394,660,706	Note (c)	16.40
Lawrencium Holdings Limited	Beneficiary		147,980,670	Note (b)	6.15
Lawrencium Mikado Holdings Limited	Beneficiary		239,044,212	Note (b)	9.93
The Magna Foundation	Beneficiary		239,044,212	Note (b)	9.93
Mikado Investments (PTC) Limited (formerly known as Mikado Investments Limited)	Interest of controlled corporation / Beneficiary of trusts		239,044,212	Note (a)	9.93
The Mikado Private Trust Company Limited	Trustee/ Interests of controlled corporations		387,024,882	Note (b)	16.08
Muriel, Lady Kadoorie*	Founder and Beneficiary		203,451,853	Note (d)	8.46
New Mikado Holding Inc. (formerly known as Mikado Holding Inc.)	Trustee		239,044,212	Note (a)	9.93
Oak CLP Limited	Beneficiary		196,554,172	Note (d)	8.17
Oak (Unit Trust) Holdings Limited	Trustee		196,554,172	Note (a)	8.17
The Hon. Sir Michael Kadoorie	Note (e)		457,172,780	Note (e)	19.00
Mr. R. J. McAulay	Note (f)		273,611,649	Note (f)	11.37
Mr. J. A. H. Leigh	Notes (g) & (h)		209,114,077	Notes (g) & (h)	8.69
Mr. R. Parsons	Trustee		209,014,077	Note (h)	8.69

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

Notes:

- Bermuda Trust Company Limited was deemed to be interested in the shares in which New Mikado Holding Inc. (formerly known as Mikado Holding Inc.), Mikado Investments (PTC) Limited (formerly known as Mikado Investments Limited), Oak (Unit Trust) Holdings Limited and other companies were deemed to be interested, either in the capacity as trustee of various discretionary trusts and/or by virtue of having direct or indirect control over such companies. The interests of Bermuda Trust Company Limited in the shares of the Company include the shares held by discretionary trusts of which The Hon. Sir Michael Kadoorie and/or Mr. R. J. McAulay are among the discretionary objects as disclosed in "Interests of Directors and Chief Executive Officer".
In addition, the Company was notified by Oak (Unit Trust) Holdings Limited that it was interested in 196,554,172 shares as at 26 August 2003. However, Bermuda Trust Company Limited indicated in its latest disclosure form that as at 8 October 2009, it was interested in, inter alia, 203,451,853 shares through its wholly-owned subsidiary, Oak (Unit Trust) Holdings Limited. Therefore, Oak (Unit Trust) Holdings Limited was interested in the same 203,451,853 shares as at 8 October 2009 but was not itself under a duty to notify the Company of the change under the Securities and Futures Ordinance.
- The Mikado Private Trust Company Limited was deemed to be interested in the shares in which Lawrencium Holdings Limited, Lawrencium Mikado Holdings Limited and other companies were deemed to be interested, either in the capacity as trustee of various discretionary trusts and/or by virtue of having direct or indirect control over such companies. The Magna Foundation was also deemed to be interested in the shares in which Lawrencium Mikado Holdings Limited was deemed to be interested. The interests of The Mikado Private Trust Company Limited in the shares of the Company include the shares held by discretionary trusts of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and a founder as disclosed in "Interests of Directors and Chief Executive Officer".
- Harneys Trustees Limited (formerly known as HWR Trustees Limited) controlled The Mikado Private Trust Company Limited and another company and was therefore deemed to be interested in the shares in which such companies were deemed to be interested.

- (d) Bermuda Trust (Cayman) Limited was deemed to be interested in the shares in which Oak CLP Limited and other companies were deemed to be interested, either in the capacity as trustee of various discretionary trusts and/or by virtue of having direct or indirect control over such companies. The interests of Bermuda Trust (Cayman) Limited in the shares of the Company include the shares held by a discretionary trust of which the late Muriel, Lady Kadoorie was a founder and a beneficiary and of which Mr. R. J. McAulay is one of the discretionary objects as disclosed in "Interests of Directors and Chief Executive Officer".

In addition, the Company was notified by Oak CLP Limited that it was interested in 196,554,172 shares as at 26 August 2003. However, Bermuda Trust (Cayman) Limited indicated in its disclosure form that as at 5 February 2004, it was interested in 203,451,853 shares through its wholly-owned subsidiary, Oak CLP Limited. Therefore, Oak CLP Limited was interested in the same 203,451,853 shares as at 5 February 2004 but was not itself under a duty to notify the Company of the change under the Securities and Futures Ordinance.

- (e) See Note (a) under "Interests of Directors and Chief Executive Officer".
- (f) See Note (c) under "Interests of Directors and Chief Executive Officer".
- (g) See Note (d) under "Interests of Directors and Chief Executive Officer".
- (h) Mr. R. Parsons and Mr. J. A. H. Leigh, in their capacities as trustees of a trust, jointly controlled Guardian Limited and therefore were deemed to be interested in the shares in which Guardian Limited was deemed to be interested. Accordingly, the 209,014,077 shares in which Guardian Limited was interested was duplicated within the interests attributed to each of Mr. J. A. H. Leigh and Mr. R. Parsons.

2. Aggregate short position in the shares and underlying shares of the Company

As at 31 December 2011, the Company had not been notified of any short positions being held by any substantial shareholder in the shares or underlying shares of the Company.

Interests of Any Other Persons

As at 31 December 2011, the Company had not been notified of any persons other than the substantial shareholders who had interests or short positions in the shares or underlying shares of the Company, which are required to be recorded in the register required to be kept under Section 336 of Part XV of the Securities and Futures Ordinance.

Related Party Transactions

Details of the significant related party transactions undertaken in the normal course of business are provided under Note 33 to the Financial Statements. None constitutes a discloseable connected transaction as defined under the Listing Rules.

Corporate Governance

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

Auditor

The Financial Statements for the year have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for reappointment at the AGM of the Company.

By Order of the Board



The Hon. Sir Michael Kadoorie

Chairman

Hong Kong, 27 February 2012

Financials

These provide a detailed explanation of the financial performance of CLP during 2011 and of its financial position at the end of the year. We have added a five-year summary of our environmental and social performance which is presented in greater detail in our [online Sustainability Report](#). 

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141 Consolidated Statement of Comprehensive Income	A bigger picture of our financial performance, it also tells you about the changes of our resources which do not pass through earnings
142 Consolidated Statement of Financial Position	Shows our financial resources and obligations
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How Can You Approach Our Financial Statements?

Financial Statements Decoded

The purpose of financial statements is to communicate the Group's financial information to its stakeholders, especially shareholders, investors and lenders. In this section we try to help readers who are not familiar with accounting rules and financial expressions to understand our financial information, by explaining the functions and relationships between the essential financial statements: the statement of comprehensive income, the statement of financial position and the statement of cash flows. For comprehensive and authoritative definitions and explanations, readers should turn to the relevant accounting standards, but we hope this section offers useful guidance.

Statement of comprehensive income

"Financial performance measured by recording the flow of resources over a period of time"

This statement comprises
(a) profit or loss and
(b) other comprehensive income ("OCI") which represents changes in net assets/equity not arising from transactions with owners (i.e. shareholders).

An example of OCI in CLP is the exchange loss arising from the translation of our Australia and India businesses in 2011 which decreased our net assets in these two regions. Transactions with owners such as dividends are presented in the statement of changes in equity.

Statement of financial position

"A snapshot, taken at a point in time, of all the assets the company owns and all the claims against those assets"

This statement sums up the Group's economic resources (non-current assets and working capital), obligations (debts and other non-current liabilities) and owners' equity at a particular point of time, in this case, our year end at 31 December 2011. It also shows how the economic resources contributed by lenders and shareholders are used in the business. In the past, we used to call this statement a "balance sheet" because at any given time, assets must equal liabilities plus owners' equity (in other words, be in balance). The current name reflects its function more accurately.

Statement of cash flows

"Where the company gets its cash and how it spends it"

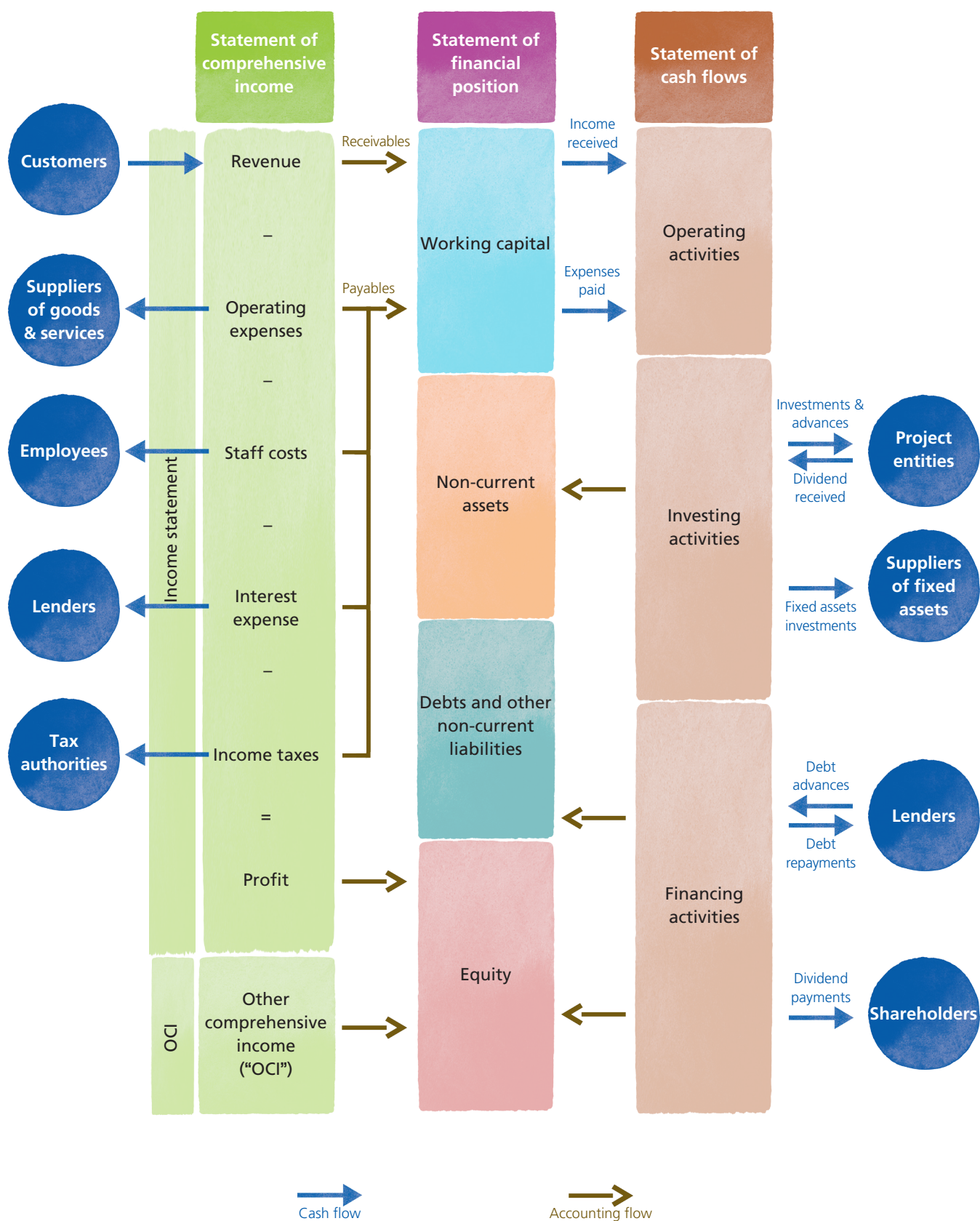
This statement divides the cash flows into operating, investing and financing cash flows. While the operating profit underlies the operating cash flows, certain non-cash charges or credits, such as depreciation, amortisation and fair value changes on derivatives, mean the operating cash flows and the operating profit are different. Investing cash flows are the cash flows arising from the purchase or disposal of non-current assets. Financing cash flows represent the cash flows between the Group, its shareholders and lenders.

Financial Statements Illustrated

The diagram opposite illustrates the relationships between the statement of comprehensive income, the statement of financial position and the statement of cash flows, as well as their links with the Group's stakeholders.

On the one hand, the Group earns revenue from customers through the deployment of non-current assets and working capital. On the other hand, it pays operating expenses to suppliers of goods and services, incurs staff costs and also invests in additional non-current assets. The net balance of revenue, operating expenses and staff costs is the operating profit. After deducting income taxes charged by tax authorities, this profit is available for payment to lenders (interest expenses and debt repayment) and for distribution to shareholders (dividends) in return for their contribution of funds to the Group in the form of debt and equity. Moreover, the Group also makes investments and advances to its project entities and receives dividend income from them in return.

Financial Statements – An Illustration

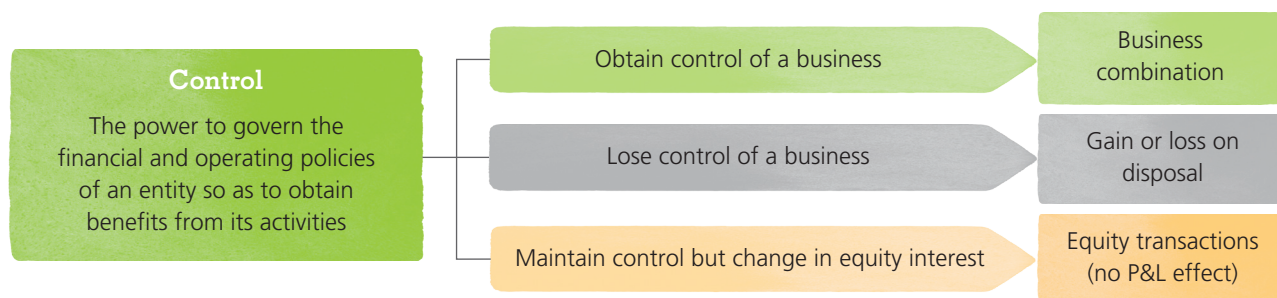




The scale of CLP's business in Australia grew substantially after the acquisition of the EnergyAustralia retail business, the Delta Western GenTrader contracts and the power station development sites in New South Wales (NSW) (the "NSW Acquisition"). The NSW Acquisition is classified as a business combination under HKFRS 3 Business Combinations. A detailed disclosure has been made in Note 2 to the Financial Statements. HKFRS 3 and its related standards have significant implications on business acquisitions and disposals which, we believe, deserve further explanation in this year's "Accounting Mini-series".

What is the difference between a business combination and an asset acquisition? Why is it important to distinguish them?

From an accounting perspective, an acquisition of a business is accounted for differently from an asset acquisition. A business combination is a transaction in which the acquirer obtains control of one or more businesses (subject business). HKFRS 3 provides guidance that "a business consists of inputs and processes applied to those inputs that have the ability to create outputs". The NSW Acquisition has been evaluated to consist of **inputs** (customer contracts, commodity contracts and intellectual property), **processes** (via the Transition Services Agreement with the vendor) and **outputs** (energy sales) and is therefore concluded to be a business combination. In contrast, our acquisition of a 20% working level interest in Eastern Star Gas in Australia is treated as an asset acquisition.

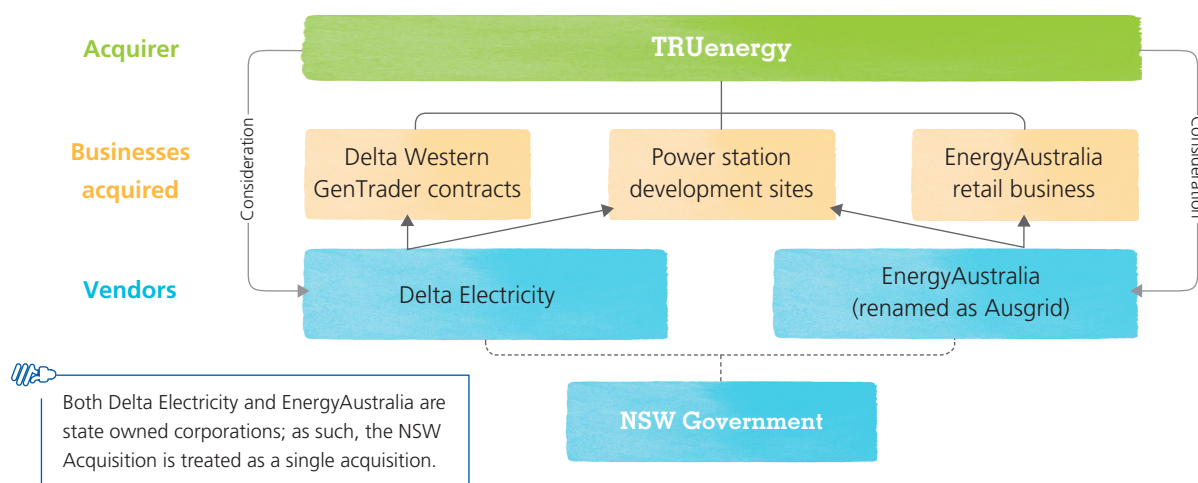


The acquisition method

The NSW Acquisition is accounted for in the Group's financial statements by using the acquisition method. This method governs the recognition and measurement of the assets acquired, liabilities assumed, consideration transferred and goodwill on the date of acquisition. The following is a step by step illustration of how the acquisition method is applied on this transaction. Are you ready to go?

Step 1: Identify the acquirer

The acquirer is the entity that obtains control over one or more other entities or businesses. It may not be a straightforward process for some complex transactions such as a reverse acquisition. A reverse acquisition occurs when the acquirer in form is identified as the "subject business" in substance for accounting purposes.

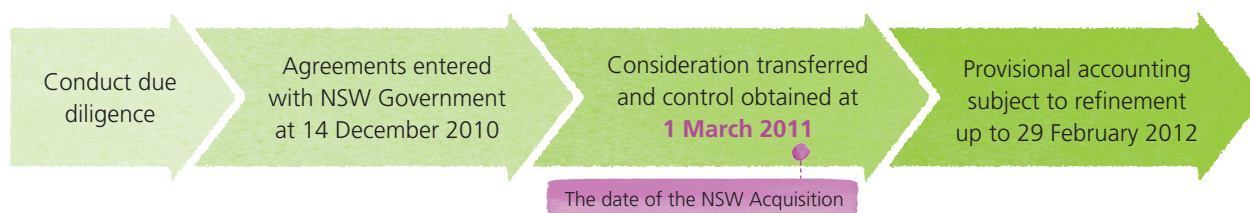


Step 2: Determine the acquisition date

Determining the acquisition date is critical as the fair value of the consideration paid, assets acquired and liabilities assumed are measured on that date. This is also the date from when the results of the acquired business are consolidated into the financial statements of the acquirer.

The acquisition date is the date on which the acquirer obtains control of the subject business. This may or may not correspond to the date when an agreement is entered, or consideration is paid. As per HKFRS 3, the assets and liabilities booked at the acquisition date are provisional and subject to refinement for up to 12 months after acquisition.

The process of the NSW Acquisition

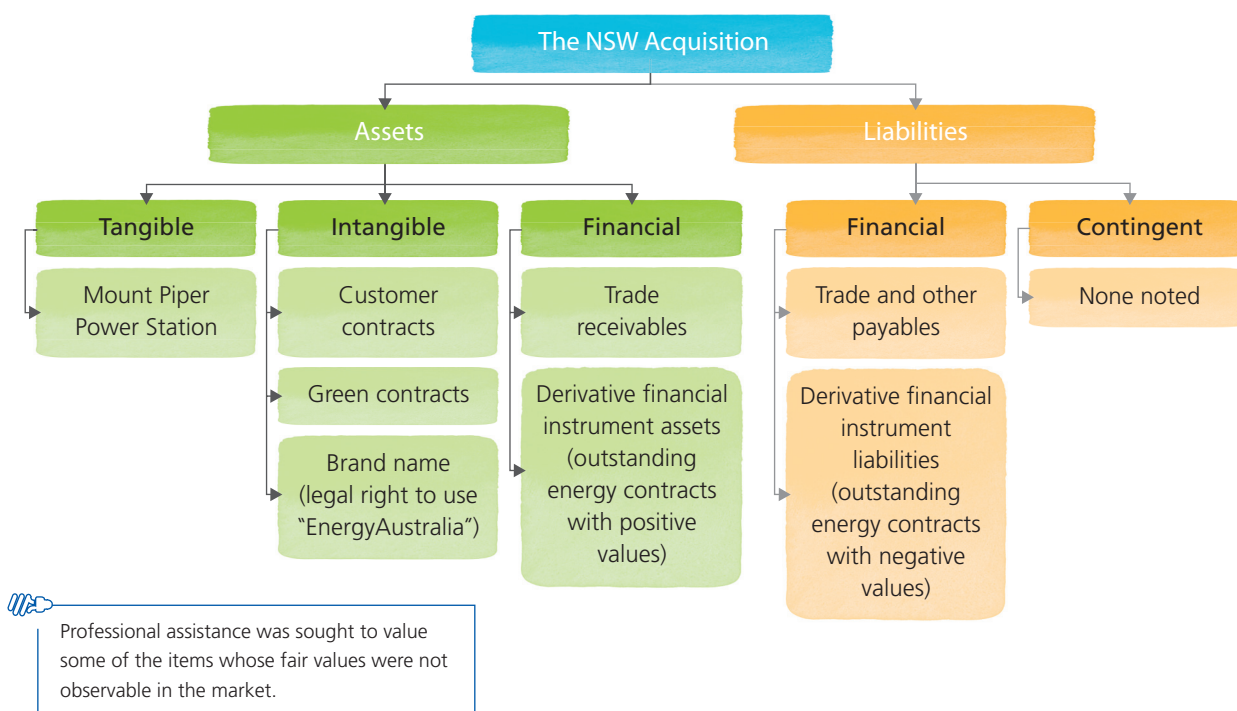


Step 3: Recognise and measure identifiable assets and liabilities and non-controlling interests

Identifiable assets are classified into different kinds (i.e. tangible, intangible and financial) with different definitions in accounting. In relation to identifiable liabilities, last year's mini-series explained that contingent liabilities are only required to be disclosed in financial statements but not recorded on the balance sheet. However, in a business combination, any contingent liabilities associated with the subject business are required to be recorded as liabilities in the books of the acquirer. As a result, the assets and liabilities identified may include some items that have not been previously recognised by the subject business.

Assets acquired and liabilities assumed are recognised on the financial statements at their fair values on the acquisition date. Fair value means "the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction".

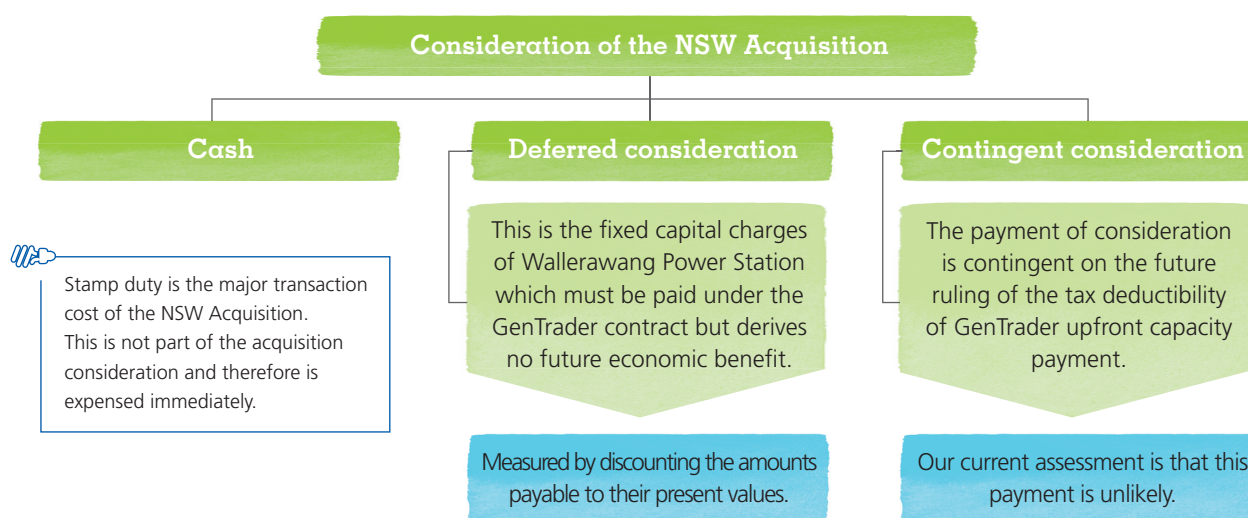
Any non-controlling interest (NCI) in the subject business is measured at either (1) the non-controlling interest's proportionate share of identifiable net assets of the subject business, or (2) at its fair value. CLP has adopted the first option.



Step 4: Recognise and measure the consideration transferred

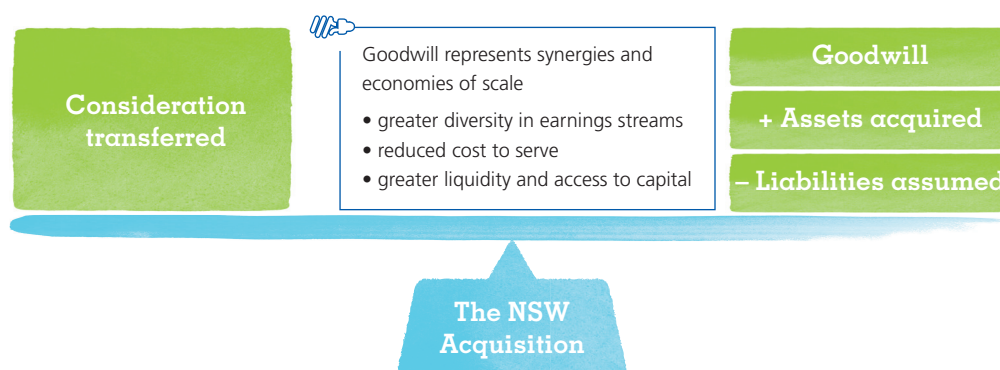
Acquisition consideration can be cash or cash equivalents and the fair value of any non-cash consideration given. The consideration may also be contingent or deferred. Contingent consideration is uncertain payments based on the occurrence of specified future events and is recognised at its fair value at the acquisition date. Deferred consideration is future payments with certainty which are discounted to reflect their present values at the acquisition date. The payments are discounted because payment at a future date is worth less than the payment of the same amount at the acquisition date.

Transaction costs or out-goings such as costs for the services of lawyers, investment bankers, accountants and valuation experts are always incurred in a business combination. People easily confuse these transaction costs with acquisition consideration. In fact, transaction costs have nothing to do with items acquired in a business combination and will not bring any future economic benefit. Therefore, they are charged as expenses at the time they are incurred.



Step 5: Recognise and measure goodwill or a gain from a bargain purchase

Goodwill represents the value created by the acquired business which does not relate to any physical attributes, and cannot be touched, seen or felt. It is measured as a residual, which represents the excess of (1) the consideration, (2) the amount of NCI, and (3) the acquirer's previously held interest at fair value over the fair value of the identifiable net assets acquired. In rare situations, such as a bargain purchase from a financially distressed seller, "negative" goodwill can arise and a gain will be recognised. Goodwill is recorded as an asset and is not written down over time. Instead, it is subject to annual impairment test or more frequently if there is an indication of impairment.



Planning for future transactions

The acquisition method results in the recognition of new assets and liabilities which were not previously recognised in the books of the subject business (e.g. customer relationships and contingent liabilities). Also, all the acquired items are required to be brought onto the acquirer's books at their fair values on the date of acquisition. The wider use of fair value increases both the number and complexity of valuations and adds to earnings volatility. In pursuing our growth strategy, CLP has to plan the approach for business acquisitions, anticipate the consequences of the transaction terms and assess potential outcomes for the financial statements.

Independent Auditor's Report

To the Shareholders of CLP Holdings Limited

(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of CLP Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 140 to 210, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

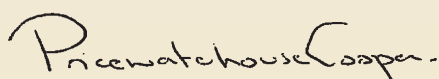
We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

The logo for PricewaterhouseCoopers, featuring the company name in a stylized, handwritten-style font.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 27 February 2012

Consolidated Income Statement

for the year ended 31 December 2011

	Note	2011 HK\$M	2010 HK\$M
 Revenue	3	91,634	58,410
Expenses			
Purchases of electricity, gas and distribution services		(43,029)	(21,740)
Operating lease and lease service payments		(12,169)	(10,098)
Staff expenses		(2,623)	(2,189)
Fuel and other operating expenses		(12,287)	(7,321)
Depreciation and amortisation		(6,353)	(5,065)
		(76,461)	(46,413)
Other income	5	776	400
Other charge	6	(2,761)	–
Operating profit	7	13,188	12,397
Finance costs	8	(6,005)	(4,212)
Finance income	8	146	101
Share of results, net of income tax			
Jointly controlled entities	16	2,929	2,080
Associated companies	17	681	813
Profit before income tax		10,939	11,179
Income tax expense	9	(1,650)	(844)
Profit for the year		9,289	10,335
Earnings attributable to:			
Shareholders	10	9,288	10,332
Non-controlling interests		1	3
		9,289	10,335
Dividends	11		
First to third interim dividends paid		3,753	3,753
Fourth interim dividend declared		2,310	2,214
		6,063	5,967
Earnings per share, basic and diluted	12	HK\$3.86	HK\$4.29

The notes and disclosures on pages 147 to 210 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2011

	2011 HK\$M	2010 HK\$M
 Profit for the year	9,289	10,335
Other comprehensive income		
Exchange differences on translation	(971)	3,929
Cash flow hedges	325	588
Net fair value gains on available-for-sale investments	27	128
Share of other comprehensive income of jointly controlled entities	(498)	2
Reclassification adjustments		
Sales of available-for-sale investments	(281)	–
Sale of a jointly controlled entity	(320)	–
Sale of a subsidiary	–	(91)
Acquisition of additional interest in a jointly controlled entity to become a subsidiary	–	(17)
Other comprehensive income for the year, net of tax	(1,718)	4,539
Total comprehensive income for the year	7,571	14,874
Total comprehensive income attributable to:		
Shareholders	7,565	14,867
Non-controlling interests	6	7
	7,571	14,874



This statement of comprehensive income includes not only conventional profit for the year, but also “other comprehensive income”. The concept of other comprehensive income is explained on page 134. Further details of other comprehensive income attributable to shareholders are presented in Note 30.

Consolidated Statement of Financial Position

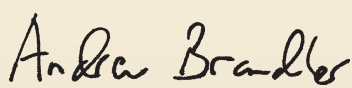
as at 31 December 2011

	Note	2011 HK\$M	2010 HK\$M
 Non-current assets			
Fixed assets	13(A)	128,571	115,731
Leasehold land and land use rights under operating leases	13(B)	1,811	1,729
Goodwill and other intangible assets	14	27,369	9,150
Interests in jointly controlled entities	16	18,226	20,476
Interests in associated companies	17	1,465	2,378
Finance lease receivables	18	1,847	2,286
Deferred tax assets	26	1,276	4,210
Fuel clause account	27	212	294
Derivative financial instruments	19	5,027	2,736
Available-for-sale investments	20	1,288	1,512
Other non-current assets		141	139
		187,233	160,641
Current assets			
Inventories – stores and fuel		1,470	751
Trade and other receivables	21	19,419	11,118
Finance lease receivables	18	142	144
Available-for-sale investments		–	336
Derivative financial instruments	19	2,158	1,609
Bank balances, cash and other liquid funds	22	3,866	4,756
		27,055	18,714
Current liabilities			
Customers' deposits	21(a)	(4,297)	(3,979)
Trade and other payables	23	(16,990)	(11,344)
Income tax payable		(143)	(165)
Bank loans and other borrowings	24	(12,596)	(7,816)
Obligations under finance leases	25	(2,200)	(1,995)
Derivative financial instruments	19	(2,212)	(932)
		(38,438)	(26,231)
Net current liabilities		(11,383)	(7,517)
Total assets less current liabilities		175,850	153,124

	Note	2011 HK\$M	2010 HK\$M
 Financed by:			
Equity			
Share capital	29	12,031	12,031
Share premium		1,164	1,164
Reserves	30		
Declared dividends		2,310	2,214
Others		65,754	64,252
Shareholders' funds		81,259	79,661
Non-controlling interests		93	97
		81,352	79,758
Non-current liabilities			
Bank loans and other borrowings	24	52,925	36,807
Obligations under finance leases	25	25,196	25,105
Deferred tax liabilities	26	7,979	7,590
Derivative financial instruments	19	5,082	1,079
Scheme of Control (SoC) reserve accounts	28	643	1,509
Other non-current liabilities		2,673	1,276
		94,498	73,366
Equity and non-current liabilities		175,850	153,124



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



Andrew Brandler
Chief Executive Officer



Mark Takahashi
Chief Financial Officer

The notes and disclosures on pages 147 to 210 are an integral part of these consolidated financial statements.

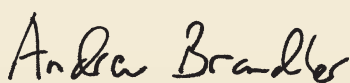
Company Statement of Financial Position

as at 31 December 2011

	Note	2011 HK\$M	2010 HK\$M
Non-current assets			
Fixed assets	13(A)	117	85
Investments in subsidiaries	15	51,314	43,949
Advance to a subsidiary	15	39	39
Other non-current assets		34	22
		51,504	44,095
Current assets			
Trade and other receivables	21	55	44
Bank balances and cash		1	2
		56	46
Current liabilities			
Trade and other payables	23	(256)	(247)
Advances from subsidiaries	33(D)	(232)	(132)
Bank loans and other borrowings	24	(2,638)	–
		(3,126)	(379)
Net current liabilities		(3,070)	(333)
Total assets less current liabilities		48,434	43,762
Financed by:			
Equity			
Share capital	29	12,031	12,031
Share premium		1,164	1,164
Reserves	30		
Declared dividends		2,310	2,214
Others		27,889	28,353
		43,394	43,762
Non-current liabilities			
Bank loans and other borrowings	24	5,040	–
Equity and non-current liabilities		48,434	43,762



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



Andrew Brandler
Chief Executive Officer



Mark Takahashi
Chief Financial Officer

The notes and disclosures on pages 147 to 210 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2011

	Attributable to Shareholders				Non-controlling Interests	Total
	Share Capital HK\$M	Share Premium HK\$M	Reserves HK\$M	Total HK\$M		
Balance at 1 January 2010	12,031	1,164	57,566	70,761	107	70,868
Profit for the year	–	–	10,332	10,332	3	10,335
Other comprehensive income for the year	–	–	4,535	4,535	4	4,539
Dividends paid						
2009 final	–	–	(2,214)	(2,214)	–	(2,214)
2010 first to third interim	–	–	(3,753)	(3,753)	–	(3,753)
Dividends paid to non-controlling interests of subsidiaries	–	–	–	–	(17)	(17)
Balance at 31 December 2010	12,031	1,164	66,466	79,661	97	79,758
Balance at 1 January 2011	12,031	1,164	66,466	79,661	97	79,758
Profit for the year	–	–	9,288	9,288	1	9,289
Other comprehensive income for the year	–	–	(1,723)	(1,723)	5	(1,718)
Dividends paid						
2010 fourth interim	–	–	(2,214)	(2,214)	–	(2,214)
2011 first to third interim	–	–	(3,753)	(3,753)	–	(3,753)
Dividends paid to non-controlling interests of subsidiaries	–	–	–	–	(10)	(10)
Balance at 31 December 2011	12,031	1,164	68,064	81,259	93	81,352

The notes and disclosures on pages 147 to 210 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2011

	Note	2011		2010	
		HK\$M	HK\$M	HK\$M	HK\$M
 Operating activities					
Net cash inflow from operations	31	18,717		16,810	
Interest received		145		99	
Income tax paid		(800)		(824)	
Net cash inflow from operating activities			18,062		16,085
Investing activities					
Capital expenditure		(12,109)		(10,137)	
Capitalised interest paid		(667)		(515)	
Proceeds from disposal of fixed assets		490		267	
Additions of other intangible assets		(534)		(42)	
Additions of available-for-sale investments		(7)		(1,190)	
Acquisition of business	2(A)	(15,378)		–	
Acquisition of subsidiaries	2(C)	123		(38)	
Asset acquisition in ESG	2(D)	(2,094)		–	
Reorganisation of OneEnergy and proceeds from sale of interest in EGCO	2(B)	2,192		–	
Deferred consideration paid		(443)		–	
Proceeds from sale of a subsidiary		–		852	
(Investments in and advances to)/repayment from					
Jointly controlled entities		(87)		(2,069)	
Associated companies		25		7	
Dividends received from					
Jointly controlled entities		1,998		2,251	
Associated companies		1,232		343	
Decrease in bank deposits with maturities of more than three months		–		8	
Net cash outflow from investing activities			(25,259)		(10,263)
Net cash (outflow)/inflow before financing activities			(7,197)		5,822
Financing activities					
Proceeds from long-term borrowings		53,013		14,422	
Repayment of long-term borrowings		(34,588)		(11,105)	
Repayment of obligations under finance leases		(2,251)		(1,790)	
Increase/(decrease) in short-term borrowings		1,612		(458)	
Interest and other finance costs paid		(5,438)		(4,199)	
Dividends paid to shareholders		(5,967)		(5,967)	
Dividends paid to non-controlling interests of subsidiaries		(10)		(17)	
Net cash inflow/(outflow) from financing activities			6,371		(9,114)
Net decrease in cash and cash equivalents			(826)		(3,292)
Cash and cash equivalents at beginning of year			4,023		7,148
Effect of exchange rate changes			(93)		167
Cash and cash equivalents at end of year			3,104		4,023
Analysis of balances of cash and cash equivalents					
Deposits with banks			1,983		3,821
Cash at banks and on hand			1,883		935
Bank balances, cash and other liquid funds	22		3,866		4,756
Excluding: cash restricted for specific purposes			(762)		(733)
			3,104		4,023

The notes and disclosures on pages 147 to 210 are an integral part of these consolidated financial statements.

Significant Accounting Policies

Apart from the accounting policies presented within the corresponding notes to the financial statements, other significant accounting policies are set out below.

1. Basis of Preparation

The Company, CLP Holdings Limited, and its subsidiaries are collectively referred to as the Group in the consolidated financial statements.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). They have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities (including derivative financial instruments) which have been measured at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise their judgments in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Critical Accounting Estimates and Judgments on pages 155 and 156.

2. Effect of New / Revised HKFRS

(A) Adoption of new / revised HKFRS for the first time for the financial year beginning 1 January 2011

The Group has adopted the following new / revised standards and interpretations:

- HKAS 24 (Revised) "Related Party Disclosures"
- Improvements to HKFRS published by HKICPA in May 2010

The adoption of these new / revised standards and interpretations has no significant impact on the Group's financial statements.

(B) New / revised HKFRS that have been issued but are not yet effective

The following new / revised HKFRS, potentially relevant to the Group's operations, have been issued and are mandatory for adoption by the Group for accounting periods beginning on or after 1 January 2012 or later periods, but the Group has not early adopted:

- Amendments to HKAS 1 (Revised) "Presentation of Items of Other Comprehensive Income"
- Amendments to HKAS 12 "Deferred Tax: Recovery of Underlying Assets"
- HKFRS 9 "Financial Instruments"
- HKFRS 10 "Consolidated Financial Statements"
- HKFRS 11 "Joint Arrangements"
- HKFRS 12 "Disclosure of Interests in Other Entities"
- HKFRS 13 "Fair Value Measurement"
- HKAS 19 (2011) "Employee Benefits"
- HKAS 27 (2011) "Separate Financial Statements"
- HKAS 28 (2011) "Investments in Associates and Joint Ventures"
- HK(IFRIC)-Int 20 "Stripping Costs in the Production Phase of a Surface Mine"

Except for those as stated below and other presentational changes, the adoption of these new / revised HKFRS is not expected to have significant impact on the results and the financial position of the Group:

- HKFRS 9 may have an effect on the classification and the treatment of fair value changes of existing available-for-sale investments;
- HKFRS 11 may have an effect on the classification of joint arrangements; and
- HKFRS 13 may have an effect on the measurement of fair values of the Group's financial instruments.

3. Consolidation

(A) Basis of consolidation

The consolidated financial statements of the Group incorporate the financial statements of the Company and its subsidiaries made up to 31 December and include the Group's interests in jointly controlled entities, jointly controlled assets and associated companies on the basis set out in (C) below.

The results of subsidiaries acquired during the year are included in the consolidated financial statements from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group entities are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary to ensure consistency with the policies adopted by the Group, adjustments are made to the financial statements of subsidiaries, jointly controlled entities and associated companies.

(B) Subsidiaries

A subsidiary is an entity which is controlled by the Company through, directly or indirectly, controlling the composition of the board of directors or controlling more than half of the voting power. Control represents the power to govern the financial and operating policies of that entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Where an entity in which the Company holds, directly or indirectly, more than half of the issued share capital, is excluded from consolidation on the grounds of lack of effective control, it would be accounted for as a jointly controlled entity or an associated company, as appropriate.

Investments in subsidiaries are carried on the statement of financial position of the Company at cost together with advances from the Company which are neither planned nor likely to be settled in the foreseeable future, less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments within the measurement period. Provision for impairment in a subsidiary is made when the recoverable amount of the subsidiary is lower than the Company's respective cost of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(C) Jointly controlled entities, jointly controlled assets and associated companies

Jointly controlled entities and associated companies

A jointly controlled entity is a joint venture in which the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

An associated company is an entity over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Interests in jointly controlled entities/associated companies in the consolidated financial statements are initially recognised at cost and are subsequently accounted for by the equity method of accounting. The Group's share of its jointly controlled entities/associated companies' post-acquisition profit or loss is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

In the consolidated statement of financial position, interests in jointly controlled entities/associated companies comprise the Group's share of the net assets and its net advances made to the jointly controlled entities/associated companies (where the advances are neither planned nor likely to be settled in the foreseeable future), plus goodwill identified on acquisition and net of accumulated impairment losses.

When the Group's share of losses of a jointly controlled entity/an associated company equals or exceeds its interest therein, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entities/associated companies.

Any excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired jointly controlled entities/associated companies at the date of acquisition is recognised as goodwill. Goodwill is included within interests in jointly controlled entities/associated companies and is tested for impairment as a whole.

Unrealised gains on transactions between the Group and its jointly controlled entities/associated companies are eliminated to the extent of the Group's interest in the jointly controlled entities/associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred.

Dilution gains or losses arising in investments in jointly controlled entities/associated companies are recognised in profit or loss.

Jointly controlled assets

The Group has an interest in certain joint ventures, whereby the venturers have contractual agreements that establish joint control over the economic activities of the joint venture assets. The agreements require unanimous agreement for financial and operating decisions among the venturers. The Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognised in the financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amounts can be measured reliably.

(D) Change in ownership interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases of ownership interests from non-controlling interests, the difference between any consideration paid and the relevant share of the carrying value of net assets of a subsidiary acquired is recorded in equity. For disposal of ownership interests to non-controlling interests that do not result in loss of control, gains or losses on disposals to non-controlling interests are also recorded in equity.

If the ownership interest in a jointly controlled entity or associated company is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

For changes in ownership interests that result in loss of control of subsidiaries, loss of joint control in jointly controlled entities or loss of significant influence in associated companies, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest as a jointly controlled entity, associated company or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are reclassified to profit or loss.



A quick guide to the classification of different entities:

Control → Subsidiary

Joint Control → Jointly Controlled Entity or Jointly Controlled Asset

Significant Influence → Associated Company

Less than Significant Influence → Available-for-sale Investment

4. Impairment of Non-Financial Assets

Non-financial assets that have indefinite useful lives are not subject to amortisation. They are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, and in any case, at least annually. Non-financial assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

An impairment loss recognised in prior years for an asset other than goodwill is reversed when there is a favourable change in the estimates used to determine the recoverable amount of an asset. A reversal of the impairment loss is limited to the asset's carrying amount (net of accumulated amortisation or depreciation) that would have been determined had no impairment loss been recognised in prior years.



Indefinite useful life ≠ Infinite useful life

An indefinite useful life only means that there is no foreseeable limit to the period over which an asset is expected to generate cash flows to the Group. It does not necessarily mean that it will generate such cash flows forever.



Readers who would like to revisit our expanded discussion on [impairment assessment](#) can find this on our website as part of our accounting "mini-series". 📖

5. Derivative Financial Instruments and Hedging Activities

A derivative is initially recognised at fair value on the date a derivative contract is entered into and is subsequently remeasured at its fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either fair value hedges, which are hedges of the fair value of recognised financial assets or financial liabilities or firm commitments (e.g. fixed interest rate loans, foreign currency trade receivables) or cash flow hedges, which are hedges of the cash flows of recognised financial assets or financial liabilities or highly probable forecast transactions (e.g. floating interest rate loans, future purchases of fuels denominated in U.S. dollar).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

(A) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss, which offset any changes in the fair value recognised in profit or loss of the corresponding hedged asset or liability that are attributable to the hedged risk and achieve the overall hedging result.

(B) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged items affect profit or loss. Such reclassification from equity will offset the effect on profit or loss of the corresponding hedged item to achieve the overall hedging result. However, when the highly probable forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold in the case of inventory or in depreciation in the case of fixed assets.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is reclassified from equity to profit or loss in the same period when the hedged forecast cash flows ultimately affect profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that has been deferred in equity is reclassified to profit or loss immediately.

(C) Derivatives not qualifying for hedge accounting or held for trading purposes

Certain derivative financial instruments do not qualify for hedge accounting or are held for trading purposes. Changes in the fair value of these derivative financial instruments are recognised immediately in profit or loss.

The Group enters into sale and purchase transactions for commodities within the ordinary course of business. Transactions that take the form of contracts that are within the scope of HKAS 39 are fair valued at the end of each reporting period. Contracts that were entered into and continue to be held for the purpose of receipt or delivery of commodities in accordance with the Group's expected sale, purchase or usage requirements are not within the scope of HKAS 39 but need to be assessed at inception to determine if they contain embedded derivatives.

An embedded derivative is one or more implicit or explicit terms in a contract that affect the cash flows of the contract in a manner similar to a stand-alone derivative instrument. Any embedded derivative that meets the separation criterion shall be separated from its host contract and measured as if it were a stand-alone derivative if its economic characteristics were not closely related to those of the host contract.

6. Inventory

Inventory comprises stores and fuel and is stated at the lower of cost and net realisable value. Cost is calculated on the weighted average basis for stores, coal and gas, and on the first-in, first-out basis for oil and naphtha. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

7. Current and Deferred Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised either in other comprehensive income or directly in equity. In this case, the tax is also recognised in either other comprehensive income or equity, respectively.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax is also provided on temporary differences arising on investments in subsidiaries, jointly controlled entities and associated companies, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

8. Employee Benefits

(A) Retirement benefits

The Group operates and/or participates in a number of defined contribution plans in Hong Kong, including the CLP Group Provident Fund Scheme (GPFS) and Mandatory Provident Fund (MPF) scheme administered by HSBC Life (International) Limited. These schemes are set up as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance. The assets of these schemes are held in separate trustee-administered funds. The pension plans are funded by payments from employees and by the participating companies of the Group, and provide benefits linked to contributions and investment returns on the plans. The Group has no further legal or constructive payment obligations if the fund does not hold sufficient assets to pay all employees the benefit relating to employee service in the current and prior periods, once the contributions have been paid.

The Group's employees outside Hong Kong are primarily covered by the respective defined contribution schemes in accordance with local legislation and practices.

Contributions to the defined contribution plans are recognised as expenses in the year to which the contributions relate, except to the extent that they are capitalised as part of the cost of qualifying assets.

(B) Incentive bonus and employee leave entitlement

Provisions are made for the estimated liability for incentive bonus and employee leave entitlement as a result of services rendered by employees up to the end of the reporting period, where there is a contractual obligation or past practice has created a constructive obligation.

9. Foreign Currency Translation

Items included in the financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in the Hong Kong dollar, which is the Company's functional and the Group's and the Company's presentation currency.

Foreign currency transactions are translated into the relevant functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies by using the exchange rates at the end of the reporting period are recognised in profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges or qualifying net investment hedges.

For subsidiaries, jointly controlled entities and associated companies that have a functional currency different from the Group's presentation currency, assets and liabilities for each statement of financial position presented are translated using the closing rate at the end of the reporting period; whilst income and expenses for each income statement presented are translated at the average exchange rate for the reporting period (unless this average rate is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the date of the transactions). All resulting exchange differences are recognised in other comprehensive income and as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated using the closing rate at the end of the reporting period.

Upon disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary/loss of joint control over a jointly controlled entity/loss of significant influence over an associated company that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in a jointly controlled entity or an associated company that do not result in the Group losing joint control or significant influence) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.



Monetary assets and liabilities are assets to be received and liabilities to be paid in fixed money amounts. For example, a trade receivable is a monetary asset (the amount to be received is fixed) but a fixed asset is not a monetary asset because it is uncertain how much you will receive if the fixed asset is to be sold.



A company entity can have both functional currency and presentation currency; however, a consolidation group can only have presentation currency but not functional currency. This is because presentation currency is a matter of choice but functional currency is based on the different primary economic environment in which each group entity is operating.

10. Leases

Leases of assets in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under an operating lease and the corresponding lease income / expense are amortised on a straight-line basis over the term of the lease to profit or loss.

Leases of assets where the lessee has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at their commencement at the lower of the fair value of the leased asset and the present value of the minimum lease payments. A fixed asset under a finance lease is depreciated over the shorter of its useful life or the lease term. The corresponding rental obligations, net of finance charges, are included as obligations under finance leases in current and non-current liabilities. Where assets are leased out under a finance lease, the present value of the lease receipts is recognised as a receivable.

For a finance lease, each lease receipt / payment is allocated between the receivable / liability and finance income / charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the lease receipt / payment is recognised in profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the receivable / liability for each period.

In the case of an electricity supply or a power purchase contractual arrangement, where the fulfilment of the arrangement is dependent on the use of specific assets and the arrangement conveys a right to use these assets, such a contractual arrangement is accounted for as containing a finance or an operating lease. Payments for services and the cost of inputs of the arrangement are excluded from the calculation of the minimum lease payments and are recognised as lease service income / payment. In respect of the power purchase arrangement between CLP Power Hong Kong Limited (CLP Power Hong Kong) and Castle Peak Power Company Limited (CAPCO), the effective interest rate of the finance lease obligation is a variable rate akin to a price index which moves with reference to the return allowed under the SoC Agreement and accordingly, the finance charge has been treated as contingent rent. Contingent rent is recognised as an expense in the period in which it is incurred.



Readers who would like to revisit our explanation of [lease accounting](#) in our accounting “mini-series” can find this on our website. 

Critical Accounting Estimates and Judgments

In preparing the consolidated financial statements, management are required to exercise significant judgments in the selection and application of accounting principles, as well as in making estimates and assumptions. The following is a review of the more significant judgments and uncertainties and for which different amounts may be reported under a different set of conditions or using different assumptions.

1. Deferred Tax

At 31 December 2011, a deferred tax asset of HK\$5,018 million (2010: HK\$5,636 million) in relation to unused tax losses was recognised in the consolidated statement of financial position. Estimating the deferred tax asset to be recognised requires a process that involves determining appropriate tax provisions, forecasting future years' taxable income and assessing our ability to utilise tax benefits through future earnings. In cases where the actual future profits generated are less than expected, a material reversal of the deferred tax asset may arise, which would be recognised in profit or loss for the period in which such a reversal takes place. The Group's deferred tax asset arises mainly from tax losses in our Australia business. The current financial models indicate that the tax losses can be utilised in the foreseeable future, and with no expiry date for utilising losses in Australia, management believe that any reasonable changes in the model assumptions would not affect management's view as at the close of 2011. However, any unexpected changes in assumptions and estimates and in tax regulations can affect the recoverability of this deferred tax asset in future.

2. Asset Impairment

The Group has made substantial investments in tangible long-lived assets, jointly controlled entities and associated companies. The Group conducts impairment reviews of these assets whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable or tests for impairment of goodwill at least annually in accordance with the relevant accounting standards. Determining whether an asset is impaired requires an estimation of the value in use, which requires the Group to estimate the future cash flows, a growth rate (that reflects the economic environments in which the Group operates) and a pre-tax discount rate (that reflects the current market assessments of the time value of money and the risks specific to the asset) in order to calculate the present value. Where the expected cash flows are less than the asset's carrying amount, an impairment loss may arise. During 2011, after reviewing the business environment as well as the Group's objectives and past performance of the investments, management concluded that, except for the impairment provision for Yallourn of HK\$2,761 million (2010: nil) (Note 6), there was no material impairment loss for SoC fixed assets of HK\$85,836 million (2010: HK\$82,744 million), goodwill of HK\$21,616 million (2010: HK\$7,701 million) and other long-lived assets. As the latest annual impairment models indicated that headroom (meaning the excess of the recoverable amount over carrying value) existed for the relevant assets, management believe that any reasonably possible changes in the assumptions used in the models would not affect management's view on impairment at 2011 year end.

3. Asset Retirement Obligations

CLP Power Hong Kong and CAPCO have been investing in the transmission and distribution network and power stations respectively to supply electricity to the customers in its supply area in Hong Kong. CLP Power Hong Kong and CAPCO expect that the land currently used for its transmission and distribution network and generation facilities will continue to be used for generation and distribution of electricity supply in order to maintain the electricity supply to customers for the foreseeable future. It is considered remote that the transmission and distribution network and the power stations would be removed from the existing land sites. As such, an asset retirement obligation has not been recognised upfront in the respective accounts of CLP Power Hong Kong and CAPCO in accordance with the requirements of accounting standards.

4. SoC-related Accounts

As stipulated in the SoC, the balances in the Tariff Stabilisation Fund and the Rate Reduction Reserve shall represent liabilities in the financial statements of CLP Power Hong Kong and shall not accrue to the benefit of its shareholders save as provided for by the SoC. The Group considers that CLP Power Hong Kong is required under the SoC to discharge its obligations arising from the SoC upon the expiry of the SoC Agreement to customers such that the SoC reserve account balances of HK\$643 million (2010: HK\$1,509 million) meet the definition of a liability.

5. Lease Accounting

The application of HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease" has resulted in finance lease accounting being applied to CLP Power Hong Kong as lessee (for its Electricity Supply Contract with CAPCO), whilst being applied to CLP India Private Limited (CLP India) (formerly known as Gujarat Paguthan Energy Corporation Private Limited (GPEC)) as lessor (for the Power Purchase Agreement with its off-taker). To apply finance lease accounting, a number of assumptions in the lease models have been made, such as the determination of minimum lease payments, implicit interest rates and residual values of the power plants at the end of contract periods. For the power purchase arrangement between CLP Power Hong Kong and CAPCO, in determining the minimum lease payments, the assumption has been made that the return contained in the lease is a variable rate return which moves with reference to the return allowed under the SoC and accordingly, the finance charge has been treated as contingent rent. Any future changes to these assumptions will affect the value of the lease assets and liabilities recognised and the corresponding lease income and expenses.

6. Revenue Recognition

The Group records revenue for retail and wholesale energy sales under the accrual method. Retail electricity and gas revenues are recognised when the commodity is provided to customers on the basis of periodic cycle meter readings and include an estimated accrual for the value of the commodity consumed from the meter reading date to the end of the reporting period. The unbilled revenue is calculated at the end of the reporting period based on estimated daily consumption after the meter reading date to the end of the reporting period. Estimated daily consumption is derived using historical customer profiles adjusted for weather and other measurable factors affecting consumption.

7. Fair Value Estimation of Derivative Financial Instruments

Please refer to "Financial Risk Management" No. 2 Fair Value Estimation on page 208.

Notes to the Financial Statements

1. General Information

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

The financial operations of the Company's major subsidiary, CLP Power Hong Kong, and its jointly controlled entity, CAPCO, (collectively referred as SoC Companies) are governed by a SoC entered with the Hong Kong Government. Our electricity business in Hong Kong is therefore also referred to as the SoC business. The main features of the SoC agreement are summarised on pages 211 and 212.

These financial statements have been approved for issue by the Board of Directors on 27 February 2012.

2. Business Combinations and Reorganisations

Accounting Policy

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The consideration transferred for the acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised either in profit or loss or other comprehensive income as appropriate. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree plus the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired, is recorded as goodwill. If the purchase consideration is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.



The application of the acquisition method on the NSW Acquisition is elaborated in our accounting "mini-series" on pages 136 to 138.

(A) New South Wales (NSW) Acquisition

On 1 March 2011 the Group completed the acquisition of EnergyAustralia Retail, the Delta Western GenTrader contracts and Project Sites (the "NSW Acquisition") from the NSW Government.

EnergyAustralia Retail was an energy retailing business with a customer base of approximately 1.5 million billable accounts along the east coast of Australia. The acquisition of EnergyAustralia Retail did not include EnergyAustralia's electricity distribution network, which remains to be owned and operated by the vendor, now known as Ausgrid. The EnergyAustralia Retail business consists of the customer accounts and associated assets, but does not include the transfer of employees or physical assets. The Group entered into a Transition Services Agreement with the vendor to ensure the smooth integration of EnergyAustralia customers into the TRUenergy business.

2. Business Combinations and Reorganisations (continued)

(A) NSW Acquisition (continued)

The Delta Western GenTrader contracts comprise long-term exclusive off-take arrangements to control the dispatch and buy the output of the black coal-fired power stations of Delta Electricity at Mount Piper and Wallerawang. The Mount Piper and Wallerawang Power Stations have power generating capacities of 1,400MW and 1,000MW respectively. In accordance with the terms of the GenTrader contracts, Delta Electricity continues to own, operate and maintain the power stations and employ a workforce for these purposes, while the Group has exclusive rights to trade the electricity for the anticipated life of each power station. The Group makes periodic payments to Delta Electricity ("Fixed and Variable Charges") which are intended to cover Delta Electricity's costs of operating and maintaining the stations, including capital expenditure.

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

The acquisition offers an opportunity for the Group to strengthen its position in NSW, the largest energy market in Australia, and is in line with the Group's objective of building a diversified and integrated energy business in Australia. The total consideration for the acquisition was A\$2,183 million (HK\$17,319 million). The following table summarises the consideration paid and the provisional amounts of the assets recognised and liabilities assumed at the acquisition date. The initial accounting for the NSW Acquisition has only been provisionally determined as the necessary market valuation and other calculations have not been finalised.

	HK\$M
Consideration	
Cash	15,378
Deferred consideration ^(a)	1,894
Others	47
Total consideration ^(b)	17,319
Recognised amounts of identifiable assets acquired and liabilities assumed	
Fixed assets ^(c)	6,159
Other intangible assets	1,797
Trade receivables ^(d)	5,605
Derivative financial instrument assets	567
Other current assets	1,058
Trade and other payables	(4,955)
Deferred tax liabilities	(2,640)
Derivative financial instrument liabilities	(4,283)
Total identifiable net assets	3,308
Goodwill ^(e) (Note 14)	14,011
	17,319

Acquisition-related costs charged to profit or loss (included in fuel and other operating expenses) totalled HK\$791 million, which comprised stamp duty of HK\$640 million (including an amount of HK\$622 million paid through the vendor) and other costs of HK\$151 million.

2. Business Combinations and Reorganisations (continued)

(A) NSW Acquisition (continued)

	HK\$M
Net cash flow on acquisition	
Cash paid to vendor ^(f)	16,000
Less: stamp duty expensed	(622)
Net cash outflow for business acquisition	15,378

Notes:

- (a) A payable for the GenTrader contract with respect to Wallerawang Power Station of A\$239 million (HK\$1,894 million) was recognised upon the acquisition. The deferred consideration reflects the fair value of committed, contracted and unavoidable fixed capital charges that must be paid to Delta Electricity in return for no future economic benefit. Excluding the fixed capital charges, the fair value of the Wallerawang GenTrader contract as at 1 March 2011 was nil.
- (b) A contingent consideration of up to an additional A\$60 million (HK\$476 million) is payable if the Australian Tax Office rules that GenTrader upfront capacity payments are tax deductible. The Group is not aware of any similar circumstances or structures where the Australian Tax Office has allowed such deductions. The Group therefore considers that an additional payment is unlikely and no consideration has been recorded for this contingent payment.
- (c) Including leased fixed assets of Mount Piper Power Station of A\$761 million (HK\$6,039 million). The GenTrader arrangements have been accounted for as finance leases in accordance with HK(IFRIC)-Int 4 and HKAS 17 whilst the corresponding obligations under finance leases have been effectively paid upfront as part of the consideration.
- (d) The fair value of trade receivables acquired is HK\$5,605 million, with the gross contractual amount being HK\$5,744 million. The Group expects HK\$139 million to be uncollectible.
- (e) The goodwill arising from the acquisition is attributable to increased business scale, diversity of earnings, greater liquidity and access to capital, and other cost and revenue synergies. None of the goodwill recognised is expected to be deductible for income tax purposes.
- (f) The net cash paid was A\$2,017 million (HK\$16,000 million), being A\$2,025 million (HK\$16,064 million) consideration paid on 1 March 2011 and A\$1 million (HK\$8 million) deferred consideration paid in October 2011, less working capital completion amount received of A\$9 million (HK\$72 million) in December 2011. This net cash paid included estimated stamp duty of A\$78 million (HK\$622 million) paid to the vendor as part of the purchase price.

It is not practicable to disclose the expected annualised performance of the acquired business as if it had been owned by the Group for the full financial year ended 31 December 2011, because the required historical financial information for the specific assets acquired is not available as part of the acquisition transaction. It is also not practicable to disclose the performance of the acquired business from 1 March 2011 to 31 December 2011, as the business has been largely integrated into the existing TRUenergy business, and stand alone results for the acquired business are not available.

(B) Reorganisation of OneEnergy Limited (OneEnergy) and sale of interest in Electricity Generating Public Company Limited (EGCO)

In February 2011, the Group, Mitsubishi Corporation (MC) and OneEnergy (a 50% owned jointly controlled entity held by the Group with MC) entered into an agreement in relation to the reorganisation of OneEnergy and the divestment of the Group's interest in EGCO.

Prior to the reorganisation, the Group had an effective interest (both direct and indirect interest through OneEnergy) of approximately 13.36% in EGCO. As part of the reorganisation, the Group and OneEnergy sold all their interests in EGCO to a company owned by MC and its business partner. The total consideration for the divestment was US\$273 million (HK\$2,122 million). In addition, OneEnergy became a wholly-owned subsidiary of the Group after the reorganisation and the Group continues to hold a 20% effective interest in Ho-Ping Power Company (Ho-Ping) in Taiwan through OneEnergy Taiwan Ltd (OneEnergy Taiwan) (a 50% owned jointly controlled entity held by OneEnergy with MC).

The reorganisation was completed in April 2011 and the Group recognised a total gain of HK\$876 million, which comprised the gain on sale of the Group's direct interest in EGCO of HK\$171 million (Note 5) and an amount included in the share of results of OneEnergy of HK\$705 million (being the gain on sale of the indirect interest in EGCO) (Note 16).

2. Business Combinations and Reorganisations (continued)

(C) Reorganisation of Roaring 40s Renewable Energy Pty Ltd (Roaring 40s)

On 30 June 2011, the Group completed a restructuring of its 50% investment in the Roaring 40s joint venture. Under the reorganisation, the Group acquired 100% of the issued capital of Waterloo Investment Holding Pty Ltd (100% owner of the Waterloo wind farm), 100% of the issued capital of Cathedral Rocks Investments Pty Ltd (owner of 50% of the Cathedral Rocks wind farm) and certain development site assets from Roaring 40s. Consideration for the assets was A\$145 million (HK\$1,206 million), including the fair value of the Group's 50% interest in existing issued capital in Roaring 40s. As a result of the transaction, the interest in Roaring 40s was effectively sold and a gain of HK\$457 million was recognised (Note 5). Taking into account the loss on deemed cancellation of a pre-acquisition off-take contract between TRUenergy and Waterloo wind farm of HK\$120 million and related stamp duty and other transaction costs of HK\$37 million, the overall gain on the reorganisation was HK\$300 million.

The reorganisation expands the Group's renewable energy portfolio in Australia, in addition to providing wind farm development opportunities of more than 400MW across various stages of development.

(D) Asset acquisition in Eastern Star Gas Limited (ESG)

On 21 November 2011, the Group acquired a 20% working level interest in key ESG exploration permits and other assets in Australia as part of a joint arrangement with Santos Limited (Santos). Under the arrangement, Santos purchased 100% of the ESG shares (including the Group's existing holding of 3.8%) and subsequently on-sold a 20% interest in the permits (Note 14(b)) to the Group via a joint venture arrangement. Consideration for the interest was A\$304 million (HK\$2,374 million) comprising cash of A\$250 million (HK\$1,951 million), sale proceeds of ESG shares sold of A\$35 million (HK\$271 million) and transaction costs of A\$19 million (HK\$152 million). A completion adjustment is expected to occur in March 2012. A gain of A\$19 million (HK\$148 million) was recognised upon the sale of the 3.8% interest in ESG (Note 5).

The asset acquisition provides the Group with upstream gas reserves to help support generation and retail gas operation in Australia into the future. ESG has the largest natural gas reserves position in NSW, with current gross reserves across its permits of 988 PJ (2P) and 1,818 PJ (3P), and a large inventory of contingent and prospective resources. The transaction provides the Group with an effective interest in over 500 PJ of coal seam gas reserves in Australia.

3. Revenue

Accounting Policy

Revenue primarily represents sales of electricity and gas, engineering and maintenance service fees, other electricity-related revenue such as temporary electricity supply works and reconnection fees and adjustments stipulated under the SoC. It is measured at the fair value of the consideration received or receivable, net of applicable tax, discounts and rebates.

Sales of electricity and gas are based on actual and accrued consumption or the amount billed in accordance with the terms of the contractual agreements where applicable during the year. Other revenue is recognised when services are rendered or sales are completed.

Lease service income comprises servicing income and fuel costs received from lessees with respect to the leased assets. Finance lease income represents the interest element of the lease receipts on lease receivables and is recognised over the lease period using the effective interest method. Interest income is recognised on a time proportion basis using the effective interest method.

3. Revenue (continued)

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

	2011 HK\$M	2010 HK\$M
 Sales of electricity	79,922	49,462
Lease service income	2,007	1,889
Finance lease income	347	363
Sales of gas	7,836	5,792
Other revenue	936	980
	91,048	58,486
Transfer for SoC (Note 28)	586	(76)
	91,634	58,410



In accordance with HK(IFRIC)-Int 4 and HKAS 17, servicing income and fuel costs received by CLP India from the lessee, or servicing charges and fuel costs paid to the lessor by CLP Power Hong Kong, with respect to the leased assets are not part of the minimum lease payments and are recognised as lease service income or payments respectively.

4. Segment Information

Accounting Policy



Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive Officer, who is the chief operating decision-maker of the Group. In accordance with the Group's internal organisation and reporting structure, the operating segments are based on geographical regions.

Segment revenue is based on the geographical region in which the electricity is generated and/or services are rendered. Segment capital additions represent the total cost incurred during the year to acquire fixed assets and other segment assets that are expected to be used for more than one year. Unallocated items comprise mainly corporate expenses, corporate assets, and the Company's liquid funds and borrowings.

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

4. Segment Information (continued)

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
<i>For year ended 31 December 2011</i>							
Revenue	31,722	56,325	625	2,923	33	6	91,634
Operating profit / (loss)	9,606	3,097	147	671	138	(471)	13,188
Finance costs	(3,508)	(1,929)	(135)	(382)	—	(51)	(6,005)
Finance income	2	70	4	63	4	3	146
Share of results, net of income tax							
Jointly controlled entities	1,448	11	645 ^(a)	—	825	—	2,929
Associated companies	—	42	639 ^(a)	—	—	—	681
Profit / (loss) before income tax	7,548	1,291	1,300	352	967	(519)	10,939
Income tax expense	(874)	(505)	(68)	(198)	(5)	—	(1,650)
Profit / (loss) for the year	6,674	786	1,232	154	962	(519)	9,289
Earnings attributable to non-controlling interests	—	—	(1)	—	—	—	(1)
Earnings / (loss) attributable to shareholders	6,674	786 ^(b)	1,231	154	962	(519)	9,288
Capital additions	8,042	4,563	1,268	4,710	—	56	18,639
Depreciation and amortisation	3,797	2,205	148	182	—	21	6,353
Impairment charge	—	3,210 ^(c)	—	23 ^(c)	—	—	3,233 ^(c)
<i>At 31 December 2011</i>							
Fixed assets	86,384	25,511	5,199	11,360	—	117	128,571
Goodwill and other intangible assets	—	27,295	39	35	—	—	27,369
Interests in							
Jointly controlled entities	9,096	98	7,609	—	1,423	—	18,226
Associated companies	—	—	1,465	—	—	—	1,465
Deferred tax assets	—	1,212	63	1	—	—	1,276
Other assets	7,959	19,047	3,605	5,910	49	811	37,381
Total assets	103,439	73,163	17,980	17,306	1,472	928	214,288
Bank loans and other borrowings	27,391	19,127	3,271	8,054	—	7,678	65,521
Current and deferred tax liabilities	7,374	—	146	602	—	—	8,122
Obligations under finance leases	27,328	68	—	—	—	—	27,396
Other liabilities	10,917	18,893	366	1,483	5	233	31,897
Total liabilities	73,010	38,088	3,783	10,139	5	7,911	132,936

The difference between total assets and total liabilities represents shareholders' financing.

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
<i>For year ended 31 December 2010</i>							
Revenue	30,281	25,182	305	2,578	59	5	58,410
Operating profit/(loss)	9,252	2,793	412	374	5	(439)	12,397
Finance costs	(3,115)	(831)	(49)	(198)	—	(19)	(4,212)
Finance income	1	52	1	46	—	1	101
Share of results, net of income tax							
Jointly controlled entities	1,159	(287)	816 ^(a)	—	392	—	2,080
Associated companies	—	9	804 ^(a)	—	—	—	813
Profit/(loss) before income tax	7,297	1,736	1,984	222	397	(457)	11,179
Income tax (expense)/credit	(1,004)	395	(147)	(81)	(7)	—	(844)
Profit/(loss) for the year	6,293	2,131	1,837	141	390	(457)	10,335
Earnings attributable to non-controlling interests	—	—	(3)	—	—	—	(3)
Earnings/(loss) attributable to shareholders	6,293	2,131	1,834	141	390	(457)	10,332
Capital additions	11,577	1,880	965	5,763	—	37	20,222
Depreciation and amortisation	3,365	1,493	81	112	1	13	5,065
Impairment charge	—	170	17	17	—	—	204
<i>At 31 December 2010</i>							
Fixed assets	82,829	20,093	3,907	8,814	3	85	115,731
Goodwill and other intangible assets	—	9,078	37	35	—	—	9,150
Interests in							
Jointly controlled entities	9,144	1,018	7,371	—	2,943	—	20,476
Associated companies	—	36	2,342	—	—	—	2,378
Deferred tax assets	—	4,146	64	—	—	—	4,210
Other assets	6,288	9,179	2,271	7,009	378	2,285	27,410
Total assets	98,261	43,550	15,992	15,858	3,324	2,370	179,355
Bank loans and other borrowings	25,603	10,815	2,288	5,917	—	—	44,623
Current and deferred tax liabilities	6,881	21	231	622	—	—	7,755
Obligations under finance leases	27,064	36	—	—	—	—	27,100
Other liabilities	10,615	6,376	244	2,650	4	230	20,119
Total liabilities	70,163	17,248	2,763	9,189	4	230	99,597

Notes:

- Out of the total amount of HK\$1,284 million (2010: HK\$1,620 million), HK\$715 million (2010: HK\$877 million) was attributed to investments in Guangdong Nuclear Power Joint Venture Company, Limited (GNPJVC) and Hong Kong Pumped Storage Development Company, Limited (PSDC), whose generating facilities serve Hong Kong.
- Excluding the impairment provision for Yallourn and other one-off items, the operating earnings of Australia were HK\$2,911 million (2010: HK\$1,303 million).
- Including the impairment provisions for Yallourn of HK\$2,761 million (Note 6) and trade receivables of HK\$472 million (Note 21).

5. Other Income

	2011 HK\$M	2010 HK\$M
Gains on sales of available-for-sale investments (note)	319	–
Gain on sale of a jointly controlled entity (Note 2(C))	457	–
Gain on sale of a subsidiary	–	400
	776	400

Note: Including the gains on sales of the direct interests in EGCO of HK\$171 million (Note 2(B)) and ESG of HK\$148 million (Note 2(D)) (2010: nil).

6. Other Charge

The passing of the Australian Government's Clean Energy legislative package on 8 November 2011 imposes a cost on the emission of carbon dioxide (CO₂) equivalent, resulting in increased production costs and reduced generation over the longer term at Yallourn. The impairment test for the Yallourn cash generating unit has resulted in an impairment provision of HK\$2,761 million (A\$350 million) (HK\$1,933 million (A\$245 million) after tax) for the year ended 31 December 2011 (2010: nil). The impairment loss has been recognised in the consolidated income statement.

The recoverable amount tested for impairment has been determined based on value in use calculations. The value in use calculations use cash flow projections as at 31 December 2011 based on a Business Plan that has been approved by the TRUenergy Holdings Pty Ltd (TRUenergy) Board which utilises whole of life projections.

The key assumptions used in the value in use calculations are as follows:

- National Energy Market modelling

Electricity pool prices and generation volumes were derived using modelling of the electricity wholesale market. The modelling does not factor any forced closure of power stations under the Australian Federal Government's contract for closure programme. The inputs to the modelling are consistent with management's view of the Australian electricity wholesale market.

- Projection period

The Yallourn value in use model has been extended to the end of its operating life to 2036, inclusive of the restoration period. The Group considers that a projection period of longer than five years is appropriate to take into account the anticipated longer term impact of the Clean Energy legislation on Yallourn. No terminal value growth rate has therefore been applied.

- Carbon price trajectory

The initial carbon price at commencement on 1 July 2012 is A\$23/t CO₂. Following the end of the fixed price period to 30 June 2015, carbon cost assumptions are taken from the "Core" price scenario modelled by the Australian Federal Government Treasury.

- Clean Energy Legislative Package Transitional Assistance

Transitional assistance expected to be provided under the Clean Energy legislation has been reflected in the Yallourn value in use calculation, as the assistance is linked with the ongoing operation of the asset. The share of the national five year Government compensation package allocated to Yallourn has been estimated at 25.6% of the national assistance package, however this allocation is subject to confirmation and potential adjustment.

- Capital expenditure

Capital expenditure relates to major outages and capital spares under long-term service arrangements and other forecast capital expenditure from the Business Plan.

6. Other Charge (continued)

- Pre-tax discount rates

Discount rates reflect management's estimate of the time value of money and the specific risks that are not already reflected in the cash flows. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. In determining appropriate discount rates, regard has been given to the weighted average cost of capital. The estimated pre-tax discount rate of 15.76% (reflecting a post-tax discount rate of 9.9% applied to the relevant Australian entities) has been utilised in estimating the value in use.

Objective, externally sourced data has been utilised wherever possible in determining value in use assumptions.

Management have undertaken sensitivity analysis to ensure the key assumptions used to determine the recoverable amount of Yallourn are reasonable. Management will continue to monitor changes in assumptions which may result in further impairment or impairment reversal.



[Impairment assessment](#) and its application on Yallourn have been discussed in our accounting "mini-series". Please visit our website.

7. Operating Profit

Operating profit is stated after charging / (crediting) the following:



	2011 HK\$M	2010 HK\$M
Charging		
Staff costs		
Salaries and other costs	2,431	2,024
Retirement benefits costs ^(a)	192	165
Auditor's remuneration		
Audit	42	32
Permissible non-audit services ^(b)	6	10
Operating lease expenditure on the agreement with Ecogen	328	282
Net loss on disposal of fixed assets	122	183
Impairment of fixed assets	2,761	17
Net fair value (gain) / loss on derivative financial instruments		
Cash flow hedges, reclassified from equity to		
Purchases of electricity, gas and distribution services	(116)	(60)
Fuel and other operating expenses	(606)	(63)
Transactions not qualifying as hedges	141	452
Ineffectiveness of cash flow hedges	100	82
Crediting		
Net rental income from properties	(18)	(19)
Net exchange gain	(40)	(79)
Coal mine subsidence insurance recovery of TRUenergy	–	(138)

Notes:

- (a) The retirement benefit plans for staff employed by the Group entities in Hong Kong are regarded as defined contribution schemes. The current scheme, GPFS, provides benefits linked to contributions and investment returns on the scheme. Contributions paid to defined contribution schemes, including GPFS and MPF as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, totalled HK\$204 million (2010: HK\$202 million), of which HK\$97 million (2010: HK\$96 million) was capitalised.

Staff employed by the Group entities outside Hong Kong are primarily covered by the respective defined contribution schemes in accordance with local legislation and practices. Total contributions amounted to HK\$91 million (2010: HK\$65 million).

- (b) Permissible non-audit services comprise accounting / tax advisory services for business development, auditor's attestation and system / process review.

8. Finance Costs and Income

Accounting Policy

Borrowing costs are recognised as an expense in the year in which they are incurred, except to the extent that they are capitalised when they are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use.

	2011 HK\$M	2010 HK\$M
 Finance costs		
Interest expenses on		
Bank loans and overdrafts	1,849	1,103
Other borrowings		
Wholly repayable within five years	628	214
Not wholly repayable within five years	642	583
Tariff Stabilisation Fund ^(a)	2	3
Customers' deposits, fuel clause over-recovery and others	–	2
Finance charges under finance leases ^(b)	2,735	2,471
Other finance charges	548	203
Fair value loss/(gain) on derivative financial instruments		
Cash flow hedges, reclassified from equity	(351)	(53)
Fair value hedges	(153)	54
Ineffectiveness of cash flow hedges	(65)	–
Loss/(gain) on hedged items in fair value hedges	151	(43)
Other net exchange loss on financing activities	718	168
	6,704	4,705
Less: amount capitalised ^(c)	(699)	(493)
	6,005	4,212
Finance income		
Interest income on short-term investments, bank deposits and fuel clause under-recovery	146	101

Notes:

- (a) CLP Power Hong Kong is required to credit, to a Rate Reduction Reserve in its financial statements, a charge of the average of one-month Hong Kong interbank offered rate on the average balance of the Tariff Stabilisation Fund under the SoC (Note 28).
- (b) Finance charges under finance leases primarily relate to contingent rent in respect of the power purchase arrangement between CLP Power Hong Kong and CAPCO accounted for as finance lease in accordance with HK(IFRIC)-Int 4 and HKAS 17.
- (c) Finance costs have been capitalised at average interest rates of 3.09% – 8.57% (2010: 3.18% – 13.50%) per annum.

9. Income Tax Expense

Accounting Policy No. 7

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

	2011 HK\$M	2010 HK\$M
Current income tax		
Hong Kong	489	621
Outside Hong Kong	126	136
	615	757
Deferred tax		
Hong Kong	385	382
Outside Hong Kong (note)	650	(295)
	1,035	87
	1,650	844

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits for the year. Income tax on profits assessable outside Hong Kong has been provided at the rates prevailing in the respective jurisdictions.

The income tax on the Group's profit before income tax differs from the theoretical amount that would arise using the Hong Kong profits tax rate as follows:

	2011 HK\$M	2010 HK\$M
Profit before income tax	10,939	11,179
Less: Share of results of jointly controlled entities and associated companies, net of income tax	(3,610)	(2,893)
	7,329	8,286
Calculated at an income tax rate of 16.5% (2010: 16.5%)	1,209	1,367
Effect of different income tax rates in other countries	362	381
Income not subject to tax	(199)	(64)
Expenses not deductible for tax purposes	387	165
Revenue adjustment for SoC not subject to tax (Note 28)	(97)	12
Over-provision in prior years	(32)	(46)
Tax losses not recognised	6	18
Derecognition of deferred tax assets	17	–
Utilisation of previously unrecognised tax losses	(3)	–
Tax consolidation benefit (note)	–	(989)
Income tax expense	1,650	844

Note: In 2010, the amount included TRUenergy's tax consolidation benefit of HK\$989 million (A\$144 million) as a result of certain amendments to the tax consolidation rules in Australia.

The Australian Government announced on 25 November 2011 that it will retrospectively amend the tax consolidation amendments that it enacted in 2010. This may impact on the tax consolidation benefit recorded in 2010. However, as no draft legislation has been released and the exact details of the changes to the tax law are not known, no changes have been made with regard to the tax benefit recorded in 2010.

10. Earnings Attributable to Shareholders

Earnings attributable to shareholders have been dealt with in the financial statements of the Company to the extent of HK\$5,599 million (2010: HK\$5,884 million).



CLP Holdings is the investment holding company. Its earnings were mainly derived from dividends of subsidiaries.

11. Dividends

	2011		2010	
	HK\$ per share	HK\$M	HK\$ per share	HK\$M
First to third interim dividends paid	1.56	3,753	1.56	3,753
Fourth interim dividend declared	0.96	2,310	0.92	2,214
	2.52	6,063	2.48	5,967

At the Board meeting held on 27 February 2012, the Directors declared the fourth interim dividend of HK\$0.96 per share (2010: HK\$0.92 per share). The fourth interim dividend is not reflected as dividends payable in the financial statements, but as a separate component of the shareholders' funds at 31 December 2011.

12. Earnings per Share

The earnings per share are computed as follows:

	2011	2010
Earnings attributable to shareholders (HK\$M)	9,288	10,332
Weighted average number of shares in issue (thousand shares)	2,406,143	2,406,143
Earnings per share (HK\$)	3.86	4.29

Basic and fully diluted earnings per share are the same as the Company did not have any dilutive equity instruments throughout the year ended 31 December 2011 (2010: nil).

13. Fixed Assets and Leasehold Land and Land Use Rights under Operating Leases

Accounting Policy



Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the fixed asset. Cost may also include transfer from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of fixed assets. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. For any asset replacement, the carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as expenses in the period in which they are incurred.

Fixed assets employed for the electricity business in Hong Kong, also referred to as SoC fixed assets, represent a major portion of the assets of the Group. Depreciation of fixed assets and amortisation of leasehold land is on a straight-line basis using the rates authorised under the SoC which reflect the pattern in which the assets' economic benefits are consumed.

Leasehold land	unexpired term of the lease
Cable tunnels	100 years
Buildings and civil structures at power stations	35 years
Other buildings and civil structures	50 years
Overhead lines (33 kV and above)	50 years
Overhead lines (below 33 kV)	45 years
Cables (132 kV and above)	55 years
Cables (below 132 kV)	60 years
Switchgear and transformers	50 years
Generating plant	25 years
Substation miscellaneous	25 years
Meters	15 years
System control equipment, furniture, tools, communication and office equipment	10 years
Computers and office automation equipment other than those forming part of the generating plant	5 years
Motor vehicles and marine craft	5 years
Refurbished or improved assets	remaining original life plus any life extension

Fixed assets used for the non-SoC business primarily relate to the electricity businesses located outside Hong Kong.

Amortisation of leasehold land and depreciation of fixed assets are calculated, using the straight-line method, to allocate their cost to their estimated residual values over the unexpired term of the lease or their estimated useful lives, as appropriate. Their estimated useful lives are similar to those of the SoC fixed assets and are set out as follows:

Leasehold land	unexpired term of the lease
Buildings	30 – 40 years
Generating plant	17 – 31 years
Switchgear and transformers	17 – 45 years
Gas storage plant	25 years
Other equipment	10 – 30 years
Computers, furniture and fittings and office equipment	3 – 10 years
Motor vehicles	3 – 10 years
Freehold land	not depreciable

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period. For plant under construction, no depreciation is provided until the construction is completed and the assets are ready for their intended use. Leasehold land commences amortisation from the time when the land interest becomes available for its intended use. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

13. Fixed Assets and Leasehold Land and Land Use Rights under Operating Leases (continued)

Fixed assets and leasehold land and land use rights under operating leases totalled HK\$130,382 million (2010: HK\$117,460 million). Included in fixed assets is plant under construction with book value of HK\$15,375 million (2010: HK\$12,689 million). Movements in the accounts are as follows:

(A) Fixed Assets

Group

	Land		Buildings		Plant, Machinery and Equipment		Total
	Freehold HK\$M	Leased HK\$M	Owned HK\$M	Leased ^(a) HK\$M	Owned HK\$M	Leased ^(a) HK\$M	HK\$M
Net book value at 1 January 2010	789	494	8,882	4,452	65,049	17,432	97,098
Acquisition of subsidiaries	—	—	903	—	289	—	1,192
Additions	6	—	1,135	1,774	11,848	5,259	20,022
Transfers and disposals	—	(71)	(25)	(28)	(220)	(141)	(485)
Depreciation	—	(11)	(203)	(291)	(2,935)	(1,329)	(4,769)
Impairment charge	—	—	—	—	(17)	—	(17)
Exchange differences	54	—	125	—	2,503	8	2,690
Net book value at 31 December 2010	849	412	10,817	5,907	76,517	21,229	115,731
Cost	849	475	13,845	11,539	114,677	42,738	184,123
Accumulated depreciation and impairment	—	(63)	(3,028)	(5,632)	(38,160)	(21,509)	(68,392)
Net book value at 31 December 2010	849	412	10,817	5,907	76,517	21,229	115,731
Net book value at 1 January 2011	849	412	10,817	5,907	76,517	21,229	115,731
Acquisition of business (Note 2(A))	120	—	—	—	—	6,039	6,159
Acquisition of subsidiaries (Note 2(C))	—	—	89	—	1,969	216	2,274
Additions	5	176	1,515	153	11,462	2,364	15,675
Transfers and disposals	—	(3)	(198)	(13)	(185)	(251)	(650)
Depreciation	—	(13)	(230)	(331)	(3,408)	(1,831)	(5,813)
Impairment charge (Note 6)	—	—	(25)	—	(2,736)	—	(2,761)
Exchange differences	(94)	—	98	—	(2,008)	(40)	(2,044)
Net book value at 31 December 2011	880	572	12,066	5,716	81,611	27,726	128,571
Cost	880	647	15,378	11,652	125,049	50,629	204,235
Accumulated depreciation and impairment	—	(75)	(3,312)	(5,936)	(43,438)	(22,903)	(75,664)
Net book value at 31 December 2011	880	572	12,066	5,716	81,611	27,726	128,571

Note (a): These leased assets include mainly CAPCO's operational generating plant and associated fixed assets of net book value of HK\$27,328 million (2010: HK\$27,065 million), which are deployed for the generation of electricity supplied to CLP Power Hong Kong under the Electricity Supply Contract between the two parties; and Delta Electricity's power station at Mount Piper of net book value of HK\$5,838 million (2010: nil) under the Delta Western GenTrader contracts. These arrangements have been accounted for as finance leases in accordance with HK(IFRIC)-Int 4 and HKAS 17.

13. Fixed Assets and Leasehold Land and Land Use Rights under Operating Leases (continued)

(A) Fixed Assets (continued)



Although the GenTrader arrangements with respect to both Mount Piper and Wallerawang power stations are accounted for as finance leases, the estimated future costs (primarily fixed capital charges) of Wallerawang will not result in any corresponding future economic benefit. Therefore no value is assigned to the leased assets of Wallerawang Power Station.

Company

The net book value of fixed assets of the Company was HK\$117 million (2010: HK\$85 million), comprising mainly office furniture, fittings and equipment. The additions, disposals and depreciation for the year were HK\$55 million (2010: HK\$36 million), HK\$2 million (2010: nil) and HK\$21 million (2010: HK\$13 million) respectively.

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

Group



	2011 HK\$M	2010 HK\$M
Net book value at 1 January	1,729	1,760
Additions	123	10
Transfers and disposals	–	(2)
Amortisation	(44)	(43)
Exchange differences	3	4
Net book value at 31 December	1,811	1,729
Cost	2,149	2,022
Accumulated amortisation	(338)	(293)
Net book value at 31 December	1,811	1,729

(C) Tenure of Leasehold Land and Land Use Rights

The tenure of leasehold land and land use rights (under finance or operating leases) of the Group is as follows:



	2011 HK\$M	2010 HK\$M
Held in Hong Kong		
On long-term leases (over 50 years)	125	127
On medium-term leases (10 – 50 years)	2,089	1,888
On short-term leases (less than 10 years)	33	8
	2,247	2,023
Held outside Hong Kong		
On medium-term leases (10 – 50 years)	136	118
	2,383	2,141

14. Goodwill and Other Intangible Assets

Accounting Policy

Goodwill

Goodwill represents the excess of the consideration transferred of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in "intangible assets". Goodwill is tested for impairment at least annually or whenever there is an indication that it may be impaired and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash generating units which are expected to benefit from the business combination in which the goodwill arose.

Other intangible assets

Intangible assets other than goodwill are measured initially at cost or, if acquired in a business combination, fair value at the acquisition date. An intangible asset with a finite useful life is amortised on a straight-line basis over its useful life of 2 – 34 years or using the unit of production method and carried at cost less accumulated amortisation and accumulated impairment losses. An intangible asset with an indefinite useful life is tested for impairment at least annually or whenever there is an indication that it may be impaired and carried at cost less accumulated impairment losses.



For a more detailed discussion and explanation on how goodwill arises and what it implies, please refer to our accounting "mini-series" on pages 136 to 138.



	Goodwill ^(a)	Other Intangible Assets ^(b)	Total
	HK\$M	HK\$M	HK\$M
Net carrying value at 1 January 2010	6,766	1,339	8,105
Acquisition of subsidiaries	32	–	32
Additions	–	190	190
Amortisation	–	(253)	(253)
Exchange differences	903	173	1,076
Net carrying value at 31 December 2010	7,701	1,449	9,150
Cost	7,701	2,833	10,534
Accumulated amortisation	–	(1,384)	(1,384)
Net carrying value at 31 December 2010	7,701	1,449	9,150
Net carrying value at 1 January 2011	7,701	1,449	9,150
Acquisition of business (Note 2(A))	14,011	1,797	15,808
Acquisition of subsidiaries (Note 2(C))	–	166	166
Additions	–	2,841 ^(b)	2,841
Amortisation	–	(496)	(496)
Exchange differences	(96)	(4)	(100)
Net carrying value at 31 December 2011	21,616	5,753	27,369
Cost	21,616	7,245	28,861
Accumulated amortisation	–	(1,492)	(1,492)
Net carrying value at 31 December 2011	21,616	5,753	27,369

14. Goodwill and Other Intangible Assets (continued)

Notes:

- (a) Goodwill predominantly arose from the previous acquisition of the Merchant Energy Business (MEB) in Australia and the NSW Acquisition during the year (Note 2(A)). In accordance with the Group's accounting policies, the Group has assessed the recoverable amount of goodwill for the corresponding cash generating units and determined that such goodwill has not been impaired. The recoverable amount of the cash generating units tested for impairment has been determined based on value in use calculations. The value in use calculations use cash flow projections as at 31 December 2011 based on a Business Plan that has been approved by the TRUenergy Board covering a period of ten years. A period of greater than five years has been used on the basis that a longer projection period presents a more accurate reflection of future cash flows to take account of anticipated legislative, regulatory and structural changes in the energy industry. Objective, externally sourced data has been utilised wherever possible in determining value in use assumptions. Management have undertaken sensitivity analysis to ensure that the key assumptions used to determine the recoverable amount are reasonable.

The key assumptions used in the value in use calculations are as follows:

- Electricity pool prices and gas prices were derived using modelling of the electricity wholesales and gas markets. The inputs to the modelling are consistent with management's view of the electricity wholesales and gas markets.
 - Pre-tax discount rate reflects management's estimate of the time value of money and the specific risks that are not already reflected in the cash flows. This is the benchmark used by management to assess operating performances and to evaluate future investment proposals. In determining appropriate discount rate, regard has been given to the weighted average cost of capital. Estimated pre-tax discount rate of 12.72% (reflecting a post-tax discount rate of 9.9% applied to the relevant Australian entities) and terminal value growth rate of 3% have been utilised in estimating the values in use.
 - Retail price path assumptions are based on management estimates and expectations which in turn are based on current market conditions and regulatory announcements.
 - The electricity and gas volumes for purchases and sales represent the forecast projections in the TRUenergy Business Plan.
 - Electricity and gas network (distribution) cost assumptions are based on published regulated price paths where available. When no estimates are available, network costs are assumed to escalate by Consumer Price Index.
 - Customer account numbers growth for electricity and gas in the years 2011 to 2015 aligns with the TRUenergy Business Plan. Beyond 2016, customer numbers are assumed to grow at rates between 0.8% and 2.1% per annum depending on the State in which the customers are located. The usage per customer remains constant.
 - Retail operating costs (cost to acquire, cost to serve and corporate costs) are escalated by relevant cost drivers using activity-based costing principles.
- (b) Other intangible assets mainly include contracted customers, a lease arrangement under the long-term Master Hedge Agreement with Ecogen arising from the acquisition of the MEB in May 2005, and the exploration permits of HK\$2,277 million acquired as part of the asset acquisition in ESG during the year (Note 2(D)). The exploration permits represent a 20% working level interest in petroleum licences giving the Group the right to exploration, extraction and production of petroleum within the licence area, largely within the Gunnedah Basin of NSW. The licences will be systematically amortised using the unit of production method. At 31 December 2011 no amortisation had been recognised as production has not yet commenced.

15. Investments in and Advances to Subsidiaries

 Accounting Policy No. 3(B)

	2011 HK\$M	2010 HK\$M
 Unlisted shares, at cost	23,635	23,617
Provision for impairment losses	(100)	(100)
Advances to subsidiaries, less provisions (note)	27,779	20,432
	51,314	43,949

Note: The advances to subsidiaries are unsecured, interest-free and have no fixed repayment terms (Note 33(D)). These advances are considered equity in nature.

Apart from the above advances to subsidiaries which are considered equity in nature, the Company has also made an advance to CLP Engineering Limited of HK\$39 million (2010: HK\$39 million), which is interest-free and due on or after 30 June 2013 upon demand. This advance is classified as a long-term receivable in the Company's financial statements.

15. Investments in and Advances to Subsidiaries (continued)

The table below lists the principal subsidiaries of the Group at 31 December 2011:

Name	Issued Share Capital / Registered Capital	% of Issued Capital Held at 31 December 2011	Place of Incorporation / Operation	Principal Activity
CLP Power Hong Kong Limited	2,488,320,000 ordinary shares of HK\$5 each	100	Hong Kong	Generation and Supply of Electricity
Hong Kong Nuclear Investment Company Limited	300,000 ordinary shares of HK\$1,000 each	100	Hong Kong / Chinese mainland	Power Projects Investment Holding
CLP Engineering Limited	4,995 ordinary shares of HK\$10,000 each	100	Hong Kong	Engineering Services
CLP Power Asia Limited	1,000 ordinary shares of US\$1 each	100	British Virgin Islands / International and Chinese mainland	Power Projects Investment Holding
CLP Power China Limited	192,000,000 ordinary shares of US\$1 each	100 ^(a)	British Virgin Islands / Chinese mainland	Power Projects Investment Holding
CLP Power International Limited	692,000 ordinary shares of US\$1,000 each	100 ^(a)	British Virgin Islands / International	Power Projects Investment Holding
CLP Properties Limited	15,000,000 ordinary shares of HK\$10 each	100	Hong Kong	Property Investment Holding
CLP Research Institute Limited	1 ordinary share of US\$1 each	100	British Virgin Islands / Hong Kong	Research and Development
TRUenergy Holdings Pty Ltd	5 ordinary shares of A\$1 each; 5,336,760 redeemable preference shares of A\$100 each	100 ^(a)	Australia	Energy Business Investment Holding
TRUenergy Yallourn Pty Ltd	15 ordinary shares of A\$1 each	100 ^(a)	Australia	Generation and Supply of Electricity
TRUenergy Pty Ltd	1,331,686,988 ordinary shares of A\$1 each	100 ^(a)	Australia	Retailing of Electricity and Gas

15. Investments in and Advances to Subsidiaries (continued)

Name	Issued Share Capital / Registered Capital	% of Issued Capital Held at 31 December 2011	Place of Incorporation / Operation	Principal Activity
CLP India Private Limited (formerly known as Gujarat Paguthan Energy Corporation Private Limited)	1,355,037,342 equity shares of Rs.10 each	100 ^(a)	India	Generation of Electricity and Power Projects Investment Holding
Jhajjar Power Limited	20,000,000 equity shares of Rs.10 each; 1,699,824,158 compulsory convertible preference shares of Rs.10 each	100 ^(a)	India	Generation of Electricity
CLP Sichuan (Jiangbian) Power Company Limited ^(b)	RMB496,380,000	100 ^(a)	Chinese mainland	Generation of Electricity
Guangdong Huaiji Changxin Hydro-electric Power Company Limited ^(c)	RMB69,098,976	84.9 ^(a)	Chinese mainland	Generation of Electricity
Guangdong Huaiji Gaotang Hydro-electric Power Company Limited ^(c)	RMB249,430,049	84.9 ^(a)	Chinese mainland	Generation of Electricity
Guangdong Huaiji Weifa Hydro-electric Power Company Limited ^(c)	US\$13,266,667	84.9 ^(a)	Chinese mainland	Generation of Electricity
Guangdong Huaiji Xinlian Hydro-electric Power Company Limited ^(c)	RMB141,475,383	84.9 ^(a)	Chinese mainland	Generation of Electricity

Notes:

(a) Indirectly held

(b) Registered as a wholly foreign owned enterprise under People's Republic of China (PRC) law

(c) Registered as Sino-Foreign Cooperative Joint Ventures under PRC law

16. Interests in Jointly Controlled Entities

Accounting Policy No. 3(C)

	2011 HK\$M	2010 HK\$M
Share of net assets	8,626	11,402
Goodwill	152	142
Advances	9,448	8,932
	18,226	20,476

Advances to jointly controlled entities are unsecured, interest-free and have no fixed repayment terms. These advances are considered equity in nature.

The Group's interests in jointly controlled entities are analysed as follows:

		2011				2010			
		Share of Net Assets HK\$M	Goodwill HK\$M	Advances HK\$M	Total HK\$M	Share of Net Assets HK\$M	Goodwill HK\$M	Advances HK\$M	Total HK\$M
CAPCO (A)		206	—	8,868	9,074	151	—	8,720	8,871
CSEC Guohua International Power Company Limited (B)		2,855	107	—	2,962	2,558	99	—	2,657
CLP Guangxi Fangchenggang Power Company Limited (C)		1,432	—	—	1,432	1,477	—	—	1,477
OneEnergy Taiwan (Note 2(B)) (D)		937	—	314	1,251	—	—	—	—
OneEnergy (Note 2(B))		—	—	—	—	2,887	—	—	2,887
Shandong Zhonghua Power Company, Limited (E)		924	—	—	924	966	—	—	966
Roaring 40s (Note 2(C))		—	—	—	—	1,018	—	—	1,018
PSDC (F)		12	—	145	157	12	—	207	219
Others (G)		2,260	45	121	2,426	2,333	43	5	2,381
		8,626	152	9,448	18,226	11,402	142	8,932	20,476

16. Interests in Jointly Controlled Entities (continued)

The Group's share of net assets, capital commitments and contingent liabilities of the jointly controlled entities at 31 December and its share of profit for the year then ended are as follows:

	2011 HK\$M	2010 HK\$M
Non-current assets	35,036	37,524
Current assets	4,650	5,380
Current liabilities	(8,005)	(7,564)
Non-current liabilities	(21,301)	(22,338)
Non-controlling interests	(1,754)	(1,600)
Share of net assets	8,626	11,402
Revenue	16,306	14,533
Expenses	(12,838)	(11,948)
Profit before income tax	3,468	2,585
Income tax expense	(409)	(377)
Non-controlling interests	(130)	(128)
Share of profit for the year (note)	2,929	2,080
Share of capital commitments	2,093	2,473
Share of contingent liabilities	59	57

Note: The amount included the share of the gain on sale of interest in EGCO of HK\$705 million (Note 2(B)) and a provision for Roaring 40s of HK\$258 million in 2011 and 2010 respectively.

The Group's capital commitments in relation to its interest in the jointly controlled entities are disclosed in Note 32.

Details of the jointly controlled entities are summarised below:

- (A) CAPCO is incorporated in Hong Kong and its ordinary share capital is 40% owned by CLP Power Hong Kong and 60% owned by ExxonMobil Energy Limited. Its principal activity is the generation of electricity for the sole supply to CLP Power Hong Kong. While CAPCO owns the power generation assets, CLP Power Hong Kong builds and operates all CAPCO's power stations and is the sole off-taker. In accordance with HK(IFRIC)-Int 4 and HKAS 17, such arrangement is considered as a finance lease and the power generation assets are accounted for as leased fixed assets on the Group's statement of financial position (Note 13).

Under the terms of the revised CAPCO Deed of Subordination, in the event of the winding up of CAPCO, CLP Power Hong Kong's advances to it would be subordinated to certain loans of CAPCO. CLP Power Hong Kong's advances to CAPCO may be withdrawn only to the extent that the shareholders' funds exceed two-thirds of the aggregate principal amount outstanding of the said loans. In this context the shareholders' funds represent the sum of the issued share capital, shareholders' advances, special advances, deferred taxation, retained profits and any proposed dividend.

16. Interests in Jointly Controlled Entities (continued)

An extract of the financial statements of CAPCO for the year ended 31 December is set out as follows:

	2011 HK\$M	2010 HK\$M
Results for the year		
Revenue	13,803	12,607
Profit after income tax	3,049	2,852
Net assets (note)		
Non-current assets	28,845	28,472
Current assets	5,292	5,002
Current liabilities	(5,438)	(4,959)
Deferred tax	(3,582)	(3,524)
Non-current liabilities	(2,432)	(2,811)
	22,685	22,180
Group's share of profit after income tax	1,220	1,141

Note: The amounts exclude advances from shareholders.

- (B) CSEC Guohua International Power Company Limited, the joint stock company with 70% of its registered capital owned by China Shenhua Energy Company Limited and 30% owned by the Group, is incorporated in the Chinese mainland. It holds interests in five coal-fired power stations, namely Beijing Yire Power Station in Beijing, Panshan Power Station in Tianjin, Sanhe Power Station in Hebei, Zhungeer Power Station in Inner Mongolia and Suizhong Power Station in Liaoning, with a combined capacity of 7,650MW.
- (C) CLP Guangxi Fangchenggang Power Company Limited (Fangchenggang) is incorporated in the Chinese mainland and 70% of its registered capital is owned by the Group. This company owns and operates a 1,260MW coal-fired power station in Guangxi. All power generated is for supply to the Guangxi power grid.
- Under the joint venture agreement, none of the joint venture partners has unilateral control over the economic activities of Fangchenggang and hence, the Group's interest is accounted for as a jointly controlled entity.
- (D) OneEnergy Taiwan is incorporated in the British Virgin Islands and 50% of its ordinary share capital is owned by each of Mitsubishi Corporation of Japan and the Group. This company owns a 40% interest in Ho-Ping.
- (E) Shandong Zhonghua Power Company, Limited is incorporated in the Chinese mainland and 29.4% of its registered capital is owned by the Group. This company owns four coal-fired power stations, namely Shiheng I, Shiheng II, Heze II and Liaocheng, with a combined installed capacity of 3,060MW. All power generated is for supply to the Shandong power grid.
- (F) PSDC is incorporated in Hong Kong and 49% of its ordinary share capital is owned by the Group. This company has the right to use 50% of the capacity of Phase 1 of the Guangzhou Pumped Storage Power Station in Guangdong Province until 2034.
- (G) The Group's other investments include the following key projects:
- 49% interest in the registered capital of CLP Guohua Shenmu Power Company Limited, which is incorporated in the Chinese mainland and holds an interest in a coal-fired power station, Shenmu Power Station, with an installed capacity of 220MW; and
 - 49% interests in the registered capital of various Chinese jointly controlled entities at a carrying amount of HK\$1,348 million (2010: HK\$1,267 million) in aggregate acquired from Roaring 40s in 2009. The jointly controlled entities are incorporated in the Chinese mainland and hold interests in various wind power stations in Shandong and Jilin, with a total installed capacity of 593MW.

17. Interests in Associated Companies

 Accounting Policy No. 3(C)

	2011 HK\$M	2010 HK\$M
 Share of net assets	1,465	2,366
Goodwill	–	12
	1,465	2,378

The Group's interests in associated companies are analysed as follows:

	2011 HK\$M	2010 HK\$M
 GNPJVC (A)	1,465	2,342
Others	–	36
	1,465	2,378

Summarised financial information in respect of the Group's associated companies is set out below:

	2011 HK\$M	2010 HK\$M
 Total assets	12,800	15,312
Total liabilities	(6,941)	(5,884)
Net assets	5,859	9,428
Group's share of associated companies' net assets	1,465	2,366
Revenue	7,350	7,216
Profit after income tax	2,565	3,232
Group's share of profit after income tax	681	813

At 31 December 2011, the Group's share of capital commitments of its associated companies was HK\$95 million (2010: HK\$154 million).

- (A) GNPJVC is unlisted, incorporated in the Chinese mainland and its registered capital is 25% owned by the Group and 75% owned by Guangdong Nuclear Investment Company, Limited. GNPJVC constructed and operates the Guangdong Daya Bay Nuclear Power Station and its principal activity is the generation of electricity for supply to Hong Kong and Guangdong Province.

17. Interests in Associated Companies (continued)

An extract of the management financial statements of GNPJVC for the year ended 31 December is set out as follows:

	2011 HK\$M	2010 HK\$M
Results for the year		
Revenue	7,040	6,667
Profit after income tax	2,557	3,218
Net assets		
Non-current assets	3,676	5,208
Current assets	9,124	10,022
Current liabilities	(4,100)	(3,184)
Non-current liabilities	(2,841)	(2,678)
	5,859	9,368
Group's share of profit after income tax	639	804

18. Finance Lease Receivables



Accounting Policy No. 10

	Minimum Lease Payments		Present Value of Minimum Lease Payments	
	2011 HK\$M	2010 HK\$M	2011 HK\$M	2010 HK\$M
Amounts receivable under finance leases				
Within one year	407	468	142	144
After one year but within five years	1,151	1,485	237	378
Over five years	2,036	2,663	1,610	1,908
	3,594	4,616	1,989	2,430
Less: unearned finance income	(1,605)	(2,186)		
Present value of minimum lease payments receivable	1,989	2,430		
Analysed as:				
Current (recoverable within 12 months)			142	144
Non-current (recoverable after 12 months)			1,847	2,286
			1,989	2,430

The finance lease receivables, accounted for as finance lease in accordance with HK(IFRIC)-Int 4 and HKAS 17, relate to the 20-year power purchase agreement under which CLP India sells all of its electricity output to its off-taker, Gujarat Urja Vikas Nigam Ltd. (GUVNL). The effective interest rate implicit in the finance lease is approximately 13.4% for both 2011 and 2010. The carrying amounts of the finance lease receivables approximate to their fair values.

19. Derivative Financial Instruments

 Accounting Policy No. 5

	2011		2010	
	Assets HK\$M	Liabilities HK\$M	Assets HK\$M	Liabilities HK\$M
Cash flow hedges (note)				
Forward foreign exchange contracts	1,752	28	878	111
Cross currency & interest rate swaps	1,323	216	652	331
Interest rate swaps	2	899	136	172
Energy contracts	1,469	2,797	1,408	566
Fair value hedges				
Cross currency & interest rate swaps	242	39	208	95
Held for trading or not qualifying as accounting hedges				
Forward foreign exchange contracts	108	133	460	152
Cross currency & interest rate swaps	–	–	–	23
Energy contracts	2,289	3,182	603	561
	7,185	7,294	4,345	2,011
Analysed as:				
Current	2,158	2,212	1,609	932
Non-current	5,027	5,082	2,736	1,079
	7,185	7,294	4,345	2,011

 Recall our accounting “mini-series” on [derivatives and hedging?](#)
Please visit our website. 

 Although termed “held for trading or not qualifying as accounting hedges” above, these derivatives are used as “economic hedges” or for the purpose of understanding price movements.

Note: Derivative financial instruments qualifying as cash flow hedges at 31 December 2011 have a maturity of up to 15 years (2010: 14 years) from the end of the reporting period.

The maturities of the derivative financial instruments used for hedging will correlate to the timing of the cash flows associated with the corresponding hedged items. As for the energy contracts that are hedges of anticipated future purchases and sales of electricity (cash flow hedge), any unrealised gains or losses on the contracts recognised are deferred in the hedging reserve (through other comprehensive income) and reclassified to profit or loss, as an adjustment to purchased electricity expense or the billed electricity revenue, when the hedged purchase or sale is recognised.

The notional principal amounts of the outstanding derivative financial instruments are as follows:

	2011 HK\$M	2010 HK\$M
Forward foreign exchange contracts	104,624	86,603
Interest rate swaps / cross currency & interest rate swaps	36,598	24,498
Energy contracts	32,210	14,805

The maximum exposure to credit risk at the reporting date is the carrying value of the financial instruments.

20. Available-for-sale Investments

Accounting Policy

Available-for-sale investments are non-derivative financial assets that are either designated in that category or not classified in any of the other categories of financial instruments including financial assets at fair value through profit or loss, loans and receivables, and held-to-maturity financial assets. Purchases and sales of financial assets are recognised on their trade date – the date on which the Group commits to purchase or sell the asset. They are initially recognised at fair value plus transaction costs and are subsequently carried at fair value.

Changes in the fair value of monetary investments denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the investment and other changes in the carrying amount of the investment. The translation differences on monetary investments are recognised in profit or loss; translation differences on non-monetary investments are recognised in other comprehensive income. Changes in the fair value of monetary and non-monetary investments classified as available-for-sale are recognised in other comprehensive income.

When an investment classified as available-for-sale is sold or impaired, the accumulated fair value adjustments recognised in equity are included in profit or loss.

Dividends on available-for-sale equity investments are recognised in profit or loss when the Group's right to receive payments is established.

The Group assesses at the end of each reporting period whether there is objective evidence that an available-for-sale investment is impaired. A significant or prolonged decline in the fair value of an equity investment below its cost is evidence that the asset is impaired. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity investments are not reversed through profit or loss.

Available-for-sale investments are classified as non-current assets unless management intend to dispose of the investment within 12 months of the end of the reporting period.

The Group's available-for-sale investments are analysed as follows:

	2011 HK\$M	2010 HK\$M
 CGN Wind Power Company Limited (CGN Wind)	1,190	1,190
Others	98	322
	1,288	1,512

In accordance with the Group's accounting policy, the unquoted investment in CGN Wind, which is denominated in Renminbi, is treated for accounting purpose as an available-for-sale investment.

 Although termed "available-for-sale" by the accounting standard, investments in this category are generally held for the long-term.

21. Trade and Other Receivables

Accounting Policy

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtors, probability that the debtor will enter into bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are recognised in profit or loss.

	Group		Company	
	2011 HK\$M	2010 HK\$M	2011 HK\$M	2010 HK\$M
Trade receivables ^(a)	12,702	7,425	–	–
Deposits and prepayments	6,267	3,425	18	13
Dividend receivables ^(b)				
Jointly controlled entities	36	160	–	–
Associated companies	349	48	–	–
Current accounts with ^(b)				
Subsidiaries	–	–	37	31
Jointly controlled entities	65	60	–	–
	19,419	11,118	55	44

Trade and other receivables attributed to overseas subsidiaries amounted to HK\$15,254 million (2010: HK\$8,677 million).

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable.

Notes:

(a) Trade receivables

17% (2010: 26%) and 70% (2010: 53%) of the gross trade receivables relate to sales of electricity in Hong Kong and sales of electricity and gas in Australia respectively. There is no significant concentration of credit risk with respect to these trade receivables as the customer bases are widely dispersed in different sectors and industries. The trade receivables in currencies other than Hong Kong dollar are denominated in the functional currencies of the respective overseas entities.

The Group has established credit policies for customers in each of its retail businesses. CLP Power Hong Kong's credit policy in respect of receivables arising from its principal electricity business is to allow customers to settle their electricity bills within two weeks after issue. Customers' receivable balances are generally secured by cash deposits or bank guarantees from customers for an amount not exceeding the highest expected charge for 60 days of consumption. At 31 December 2011, such cash deposits amounted to HK\$4,152 million (2010: HK\$3,979 million) and the bank guarantees stood at HK\$929 million (2010: HK\$935 million). The customer deposits are repayable on demand, bear interest at the HSBC bank savings rate and their carrying value approximates to their fair value. Impairment provisions on trade receivables are recognised on an individual basis once a receivable is more than 90 days overdue and are calculated by reference to the historical past due recovery pattern together with any customer deposits held. For subsidiaries outside Hong Kong, the credit term for trade receivables ranges from about 14 to 60 days.

TRUenergy in Australia determines its doubtful debt provisioning by grouping together trade receivables with similar credit risk characteristics and collectively assessing them for likelihood of recovery, taking into account prevailing economic conditions. Future cash flows for each group of trade receivables are estimated on the basis of historical loss experience, adjusted to reflect the effects of current conditions. As a result of this credit risk assessment, virtually all of the credit risk groupings have been subject to some level of impairment. Receivable balances relating to known insolvencies are individually impaired. At 31 December 2011, TRUenergy held cash deposits of HK\$145 million (2010: nil) and bank guarantees of HK\$1 million (2010: nil) from Commercial and Industrial customers as security in relation to outstanding receivable balances.

21. Trade and Other Receivables (continued)

Notes (continued):

(a) Trade receivables (continued)

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

	2011				2010			
	Not impaired HK\$M	Impaired HK\$M	Provision for impairment HK\$M	Total HK\$M	Not impaired HK\$M	Impaired HK\$M	Provision for impairment HK\$M	Total HK\$M
Not yet due	8,928	1,576	(103)	10,401	5,165	569	(36)	5,698
Overdue								
1 – 30 days	346	723	(86)	983	277	328	(33)	572
31 – 90 days	89	464	(123)	430	81	239	(63)	257
Over 90 days	652	617	(381)	888	746	502	(350)	898
	10,015	3,380	(693)	12,702	6,269	1,638	(482)	7,425

At 31 December 2011, trade receivables of HK\$1,087 million (2010: HK\$1,104 million) were past due but not impaired. These related to a number of customers for whom there had been no recent history of default and an amount deducted by GUVNL from the past invoices of CLP India netted with refund, totalled HK\$482 million (2010: HK\$647 million) (Note 34 (A)), which is included in the amount aged over 90 days.

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

	2011 HK\$M	2010 HK\$M
30 days or below	10,951	5,534
31 – 90 days	644	771
Over 90 days	1,107	1,120
	12,702	7,425

Movements in the provision for impairment are as follows:

	2011 HK\$M	2010 HK\$M
Balance at 1 January	482	428
Acquisition of business (Note 2(A))	139	–
Provision for impairment	474	267
Receivables written off during the year as uncollectible	(362)	(174)
Amounts reversed	(2)	(80)
Exchange differences	(38)	41
Balance at 31 December	693	482

- (b) The amounts receivable from subsidiaries, jointly controlled entities and associated companies are unsecured, interest-free and have no fixed repayment terms.

“Ageing analysis based on invoice date” is presented to meet the reporting requirements under the Listing Rules of the Hong Kong Stock Exchange, whereas “ageing analysis based on due date” is disclosed in accordance with the requirements under the HKFRS.

Invoice date = Date of issue of an invoice

Due date = Invoice date + credit period granted to customers

22. Bank Balances, Cash and Other Liquid Funds

Accounting Policy

Cash and cash equivalents comprise cash at banks and on hand, demand deposits with banks and other financial institutions, short-term highly liquid investments that are readily convertible to cash, subjected to insignificant risk of change in value and with a maturity of three months or less from date of investment, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

	2011 HK\$M	2010 HK\$M
Trust accounts restricted under TRAA (note)	762	733
Bank deposits	1,272	3,203
Bank balances and cash	1,832	820
	3,866	4,756

Note: Pursuant to Trust and Retention Account Agreements (TRAA) of CLP India and its subsidiaries with their corresponding lenders, various trust accounts are set up for designated purposes.

The Group's bank balances, cash and other liquid funds denominated in the currencies other than the functional currency of the respective entities amounted to HK\$1,087 million (2010: HK\$444 million) which was mostly denominated in Renminbi (2010: U.S. dollar).

23. Trade and Other Payables

Accounting Policy

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

	Group		Company	
	2011 HK\$M	2010 HK\$M	2011 HK\$M	2010 HK\$M
Trade payables ^(a)	8,824	5,026	–	–
Other payables and accruals	6,373	4,807	228	222
Current accounts with ^(b)				
Subsidiaries	–	–	27	24
Jointly controlled entities	1,656	1,425	1	1
Associated companies	137	86	–	–
	16,990	11,344	256	247

Notes:

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

	2011 HK\$M	2010 HK\$M
30 days or below	8,239	4,828
31 – 90 days	247	87
Over 90 days	338	111
	8,824	5,026

At 31 December 2011, trade payables denominated in a currency other than the functional currency of the corresponding Group entities amounted to HK\$311 million (2010: HK\$1,517 million), which were mostly denominated in U.S. dollar and Japanese yen.

(b) The amounts payable to subsidiaries, jointly controlled entities and associated companies are unsecured, interest-free and have no fixed repayment terms. Of these, HK\$1,623 million (2010: HK\$1,375 million) is due to CAPCO.

24. Bank Loans and Other Borrowings

Accounting Policy

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition or issue of a financial liability. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is amortised to profit or loss or capitalised as cost of the qualifying assets over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Under the effective interest method, the effective interest rate is the rate that exactly discounts future cash payments/receipts through the term of the financial liability/asset to its net carrying amount.

24. Bank Loans and Other Borrowings (continued)

	Group		Company	
	2011 HK\$M	2010 HK\$M	2011 HK\$M	2010 HK\$M
 Current				
Short-term bank loans	2,802	1,161	2,638	–
Long-term bank loans	1,301	6,655	–	–
Other long-term borrowings				
MTN programme (USD) due 2012	2,371	–	–	–
MTN programme (HKD) due 2012	1,000	–	–	–
Electronic Promissory Notes (EPN) and MTN programme (AUD) due 2012	5,122	–	–	–
	12,596	7,816	2,638	–
 Non-current				
Long-term bank loans	30,298	13,207	5,040	–
Other long-term borrowings				
MTN programme (USD) due 2020 and 2021 (note)	6,376	6,411	–	–
MTN programme (HKD) due 2013 to 2041 (note)	9,095	9,280	–	–
MTN programme (JPY) due 2021 to 2026 (note)	2,502	1,433	–	–
MTN programme (AUD) due 2021 (note)	434	–	–	–
EPN and MTN programme (AUD) due 2015	394	5,524	–	–
U.S. private placement notes (USD) due 2019 to 2026	3,826	952	–	–
	52,925	36,807	5,040	–
Total borrowings	65,521	44,623	7,678	–

Note: CLP Power Hong Kong issued fixed and floating rates bonds during the year. These comprise bonds with a notional value of HK\$4,613 million in total and tenors of 10 to 30 years under the Medium Term Note (MTN) Programme set up by its wholly-owned subsidiary CLP Power Hong Kong Financing Limited.

Total borrowings included secured liabilities (bank loans and collateralised borrowings) of HK\$11,151 million (2010: HK\$7,997 million), analysed as follows:

	2011 HK\$M	2010 HK\$M
 CLP India and its subsidiaries ^(a)	7,880	5,709
Subsidiaries in Chinese mainland ^(b)	3,271	2,288
	11,151	7,997

Notes:

- (a) Bank loans for CLP India and its subsidiaries are secured by fixed and floating charges over their immoveable and moveable properties with total carrying amounts of HK\$13,034 million (2010: HK\$10,219 million).
- (b) Bank loans for subsidiaries in Chinese mainland are secured by rights of receipt of tariff, fixed assets and land use rights, with the carrying amounts of these fixed assets and land use rights of HK\$5,029 million (2010: HK\$3,714 million).

24. Bank Loans and Other Borrowings (continued)

Bank loans and other borrowings totalling HK\$30,452 million (2010: HK\$19,020 million) were attributed to overseas subsidiaries and are non-recourse to the Company.

At 31 December 2011, the Group's bank loans and other borrowings were repayable as follows:

	Bank Loans		Other Borrowings		Total	
	2011 HK\$M	2010 HK\$M	2011 HK\$M	2010 HK\$M	2011 HK\$M	2010 HK\$M
Within one year	4,103	7,816	8,493	–	12,596	7,816
Between one and two years	5,187	1,329	1,300	8,602	6,487	9,931
Between two to five years	16,872	5,958	4,114	4,414	20,986	10,372
Over five years	8,239	5,920	17,213	10,584	25,452	16,504
	34,401	21,023	31,120	23,600	65,521	44,623

Of the Company's borrowings, HK\$2,638 million (2010: nil) is repayable within one year and HK\$5,040 million (2010: nil) is repayable between two to five years.

Another presentation of the Group's liquidity risk is set out on page 207.

At 31 December 2011 and 2010, all of the Group's borrowings are either in the functional currencies of the corresponding Group entities or hedged into those currencies.

The bank loans and other borrowings of the Group are predominantly issued in or swapped into Hong Kong dollar or Australian dollar. The effective interest rates at the end of the reporting period were as follows:

	2011		2010	
	HK\$	A\$	HK\$	A\$
Fixed rate loans and loans swapped from variable rates	2.3% – 5.0%	6.3% – 8.9%	2.3% – 5.0%	6.3% – 6.5%
Variable rate loans and loans swapped from fixed rates	0.6% – 1.7%	5.2% – 6.6%	0.3% – 1.7%	5.6% – 5.7%

The fair values of bank loans and other borrowings approximate to their carrying amounts. The fair value of long-term borrowings is determined using the expected future payments discounted at market interest rates prevailing at the year end.

At 31 December 2011, the Group had undrawn bank loans and overdraft facilities of HK\$24,377 million (2010: HK\$33,502 million).

25. Obligations under Finance Leases

 Accounting Policy No. 10

The Group's obligations under finance leases arise predominantly from the power purchase arrangement with CAPCO in respect of the operational generating plant and associated fixed assets of the Hong Kong electricity business. CAPCO's power purchase arrangement is accounted for as a finance lease in accordance with HK(IFRIC)-Int 4 and HKAS 17.

		Minimum Lease Payments	
		2011 HK\$M	2010 HK\$M
	Amounts payable under finance leases		
	Within one year	2,200	1,995
	After one year but within two years	2,197	1,992
	After two years but within five years	6,565	5,958
	Over five years	16,434	17,155
		27,396	27,100
Analysed as:			
Amount due for settlement within 12 months		2,200	1,995
Amount due for settlement after 12 months		25,196	25,105
		27,396	27,100

The effective interest rate of the finance lease obligations is a variable rate which moves with reference to the return allowed under the SoC and accordingly, the finance charge has been treated as contingent rent. For 2011, the interest rate was 9.99% (2010: 9.99%). The finance charges associated with the finance leases were charged to profit or loss in the period in which they were actually incurred.

 Recall our accounting "mini-series" on [lease accounting](#)? Please visit our website. 

26. Deferred Tax

 Accounting Policy No. 7

Deferred tax assets and liabilities are netted off when the taxes relate to the same tax authority and where offsetting is legally enforceable. The following amounts, determined after appropriate offsetting, are shown separately on the consolidated statement of financial position:

		2011 HK\$M	2010 HK\$M
	Deferred tax assets	1,276	4,210
	Deferred tax liabilities	(7,979)	(7,590)
		(6,703)	(3,380)

26. Deferred Tax (continued)



Deferred tax asset = income tax recoverable in the future

Deferred tax liability = income tax payable in the future

Most of the deferred tax balances are to be recovered or settled after more than 12 months.

The gross movement on the deferred tax account is as follows:



	2011 HK\$M	2010 HK\$M
At 1 January	(3,380)	(3,654)
Charged to profit or loss (Note 9)	(1,035)	(87)
Credited / (charged) to other comprehensive income	110	(115)
Acquisition of business (Note 2(A))	(2,640)	–
Acquisition of subsidiaries (Note 2(C))	26	–
Withholding tax	80	26
Exchange differences	136	450
At 31 December	(6,703)	(3,380)

The movement in the deferred tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction) during the year is as follows:

Deferred tax assets (prior to offset)



	Tax Losses ^(a)		Accruals and Provisions		Others ^(b)		Total	
	2011 HK\$M	2010 HK\$M	2011 HK\$M	2010 HK\$M	2011 HK\$M	2010 HK\$M	2011 HK\$M	2010 HK\$M
At 1 January	5,636	4,794	471	412	675	430	6,782	5,636
(Charged) / credited to profit or loss	(597)	192	(51)	(1)	886	170	238	361
Credited to other comprehensive income	–	–	67	14	4	–	71	14
Acquisition of business (Note 2(A))	–	–	568	–	–	–	568	–
Acquisition of subsidiaries (Note 2(C))	–	–	–	–	27	–	27	–
Exchange differences	(21)	650	(28)	46	(28)	75	(77)	771
At 31 December	5,018	5,636	1,027	471	1,564	675	7,609	6,782

26. Deferred Tax (continued)

Deferred tax liabilities (prior to offset)

	Accelerated Tax Depreciation		Withholding/ Dividend Distribution Tax		Unbilled Revenue		Intangibles		Others ^(b)		Total	
	2011 HK\$M	2010 HK\$M	2011 HK\$M	2010 HK\$M	2011 HK\$M	2010 HK\$M	2011 HK\$M	2010 HK\$M	2011 HK\$M	2010 HK\$M	2011 HK\$M	2010 HK\$M
At 1 January	(7,668)	(6,974)	(429)	(356)	(578)	(495)	(148)	(306)	(1,339)	(1,159)	(10,162)	(9,290)
Credited/(charged) to profit or loss	451	(568)	(85)	(87)	(292)	(15)	(677)	179	(670)	43	(1,273)	(448)
Credited/(charged) to other comprehensive income	–	–	–	–	–	–	–	–	39	(129)	39	(129)
Acquisition of business (Note 2(A))	(1,905)	–	–	–	(857)	–	(446)	–	–	–	(3,208)	–
Acquisition of subsidiaries (Note 2(C))	(1)	–	–	–	–	–	–	–	–	–	(1)	–
Withholding tax	–	–	80	26	–	–	–	–	–	–	80	26
Exchange differences	17	(126)	56	(12)	10	(68)	21	(21)	109	(94)	213	(321)
At 31 December	(9,106)	(7,668)	(378)	(429)	(1,717)	(578)	(1,250)	(148)	(1,861)	(1,339)	(14,312)	(10,162)

Notes:

- (a) The deferred tax asset arising from tax losses is mainly related to the electricity business in Australia. There is no expiry on the tax losses recognised. Apart from the tax losses in Australia, there are no significant unused tax losses not recognised.
- (b) Others mainly relate to temporary differences arising from derivative financial instruments and lease accounting adjustments.

27. Fuel Clause Account

Cost of fuel consumed by CLP Power Hong Kong is passed on to the customers. The variations between the actual cost of fuel and the fuel cost billed are captured in the fuel clause account. The balance of the account (inclusive of interest) represents amounts over-recovered or under-recovered and is treated as an amount due to or from customers. Interest charged to customers on the amount under-recovered is based on the actual borrowing cost of CLP Power Hong Kong, whilst interest is credited to customers at prime rate on the amount over-recovered. The carrying amount of fuel clause account approximates to its fair value.

28. SoC Reserve Accounts

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

	2011 HK\$M	2010 HK\$M
Tariff Stabilisation Fund (A)	637	1,505
Rate Reduction Reserve (B)	6	4
	643	1,509

28. SoC Reserve Accounts (continued)

The movements in SoC reserve accounts during the year are shown as follows:

	2011 HK\$M	2010 HK\$M
(A) Tariff Stabilisation Fund		
At 1 January	1,505	1,653
Transfer under the SoC ^(a)		
– transfer for SoC (to) / from profit or loss (Note 3)	(586)	76
– charge for asset decommissioning ^(b)	(282)	(224)
At 31 December	637	1,505
(B) Rate Reduction Reserve		
At 1 January	4	1
Interest expense charged to profit or loss (Note 8)	2	3
At 31 December	6	4

The carrying amounts of the SoC reserve accounts approximate to their fair values.

Notes:

- (a) 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 the Tariff Stabilisation Fund is recognised as revenue adjustment to the extent that the return and charges under the SoC are recognised in profit or loss (Note 3).
- (b) Under the SoC, a periodic charge for asset decommissioning is made with corresponding deferred liabilities recognised in the statement of financial position of the SoC Companies. For CLP Power Hong Kong, the balance of the asset decommissioning liabilities account of HK\$445 million (2010: HK\$291 million) recognised under the SoC represents a liability to the Group. The carrying amount of the asset decommissioning liabilities approximates to its fair value.

29. Share Capital

	2011		2010	
	Number of Ordinary Shares of HK\$5 Each	Amount HK\$M	Number of Ordinary Shares of HK\$5 Each	Amount HK\$M
Authorised, at 31 December	3,000,000,000	15,000	3,000,000,000	15,000
Issued and fully-paid, at 31 December	2,406,143,400	12,031	2,406,143,400	12,031

30. Reserves

Group

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

30. Reserves (continued)

Group

	Capital Redemption Reserve ^(a) HK\$M	Translation Reserves HK\$M	Hedging Reserves HK\$M	Other Reserves HK\$M	Retained Profits HK\$M	Total HK\$M
Balance at 1 January 2011	2,492	7,683	1,182	843	54,266	66,466
Earnings attributable to shareholders	—	—	—	—	9,288	9,288
Other comprehensive income						
Exchange differences on translation of						
Subsidiaries	—	(1,246)	—	—	—	(1,246)
Jointly controlled entities	—	279	—	—	—	279
Associated companies	—	(9)	—	—	—	(9)
Cash flow hedges						
Net fair value gains	—	—	1,391	—	—	1,391
Reclassification adjustment for						
amount included in profit or loss	—	—	(1,073)	—	—	(1,073)
Transfer to assets	—	—	1	—	—	1
Tax on the above items	—	—	6	—	—	6
Available-for-sale investments						
Fair value gains	—	—	—	27	—	27
Share of other comprehensive						
income of jointly controlled entities	—	(345)	—	(153)	—	(498)
Reclassification adjustments						
Sales of available-for-sale						
investments	—	—	—	(319)	—	(319)
Tax on the above item	—	—	—	38	—	38
Sale of a jointly controlled entity	—	(346)	26	—	—	(320)
Total comprehensive income						
attributable to shareholders	—	(1,667)	351	(407)	9,288	7,565
Revaluation reserve realised due to						
depreciation of fixed assets	—	—	—	(2)	2	—
Appropriation of reserves of						
jointly controlled entities	—	—	—	24	(24)	—
Dividends paid						
2010 fourth interim	—	—	—	—	(2,214)	(2,214)
2011 first to third interim	—	—	—	—	(3,753)	(3,753)
Balance at 31 December 2011	2,492	6,016	1,533	458	57,565 ^(b)	68,064

30. Reserves (continued)

Company

	Capital Redemption Reserve ^(a) HK\$M	Retained Profits HK\$M	Total HK\$M
Balance at 1 January 2010	2,492	28,158	30,650
Profit and total comprehensive income for the year	–	5,884	5,884
Dividends paid			
2009 final	–	(2,214)	(2,214)
2010 first to third interim	–	(3,753)	(3,753)
Balance at 31 December 2010	2,492	28,075 ^(b)	30,567
Balance at 1 January 2011	2,492	28,075	30,567
Profit and total comprehensive income for the year	–	5,599	5,599
Dividends paid			
2010 fourth interim	–	(2,214)	(2,214)
2011 first to third interim	–	(3,753)	(3,753)
Balance at 31 December 2011	2,492	27,707 ^(b)	30,199

Notes:

- (a) Capital redemption reserve represents the nominal value of the shares repurchased which was paid out of the distributable reserves of the Company.
- (b) The fourth interim dividend declared for the year ended 31 December 2011 was HK\$2,310 million (2010: HK\$2,214 million). The balance of retained profits after the fourth interim dividend of the Group was HK\$55,255 million (2010: HK\$52,052 million) and of the Company was HK\$25,397 million (2010: HK\$25,861 million).

At 31 December 2011, distributable reserves of the Company amounted to HK\$27,707 million (2010: HK\$28,075 million).



Distributable reserves of the Company do not equal to the Group's retained profits because distributable reserves refer to the amount that a company can distribute to its shareholders as a legal entity. Consolidated reserves of the Group are irrelevant in determining the amount of distributable reserves of the Company itself.

31. Note to the Consolidated Statement of Cash Flows

Reconciliation of profit before income tax to net cash inflow from operations:

	2011 HK\$M	2010 HK\$M
Profit before income tax	10,939	11,179
Adjustments for:		
Finance costs	6,005	4,212
Finance income	(146)	(101)
Share of results of jointly controlled entities and associated companies, net of income tax	(3,610)	(2,893)
Depreciation and amortisation	6,353	5,065
Impairment charge	3,233	204
Net loss on disposal of fixed assets	122	183
Gains on sales of available-for-sale investments	(319)	–
Gain on sale of a jointly controlled entity	(457)	–
Gain on sale of a subsidiary	–	(400)
Fair value loss/(gain) on borrowings under fair value hedges and net exchange difference	134	(64)
SoC items		
Increase in customers' deposits	173	127
Decrease/(increase) in fuel clause account (under-recovery)	84	(282)
Decrease in Tariff Stabilisation Fund for asset decommissioning charge for a jointly controlled entity	(128)	(109)
Transfer for SoC	(586)	76
	(457)	(188)
Increase in trade and other receivables	(3,539)	(2,270)
Decrease in finance lease receivables	61	184
(Increase)/decrease in cash restricted for specific purposes	(29)	105
(Increase)/decrease in derivative financial instruments	(440)	211
Increase in trade and other payables	589	1,371
Increase in current accounts due to jointly controlled entities and associated companies	278	12
Net cash inflow from operations	18,717	16,810

32. Commitments

- (A) Capital expenditure on fixed assets, leasehold land and land use rights under operating leases, as well as intangible assets contracted or authorised but not recorded in the statement of financial position is as follows:

	Group		Company	
	2011 HK\$M	2010 HK\$M	2011 HK\$M	2010 HK\$M
Contracted but not provided for	10,158	17,589	54	3
Authorised but not contracted for	14,257	14,294	106	93
	24,415	31,883	160	96

- (B) The Group has entered into a number of joint venture arrangements to develop power projects. Equity contributions required and made by the Group under each project are summarised below:

Project Name	Total Equity Contributions Required	Amount Contributed at 31 December 2011	Remaining Balance to be Contributed	Expected Year for Last Contribution
Haifang wind power project	RMB92 million	RMB18 million (HK\$21 million)	RMB74 million (HK\$91 million)	2013
Natural Energy Development's solar power project	THB773 million	THB474 million (HK\$121 million)	THB299 million (HK\$73 million)	2012
CGN CLP Energy Services (Shenzhen)	RMB29 million	RMB14 million (HK\$17 million)	RMB15 million (HK\$18 million)	2012

- (C) The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2011 HK\$M	2010 HK\$M
Within one year	883	699
Later than one year but not later than five years	2,862	2,573
Over five years	6,704	6,454
	10,449	9,726

Of the above amount, HK\$6,973 million (2010: HK\$6,542 million) relates to the operating lease element of the Electricity Supply Contract between CLP Power Hong Kong and CAPCO, and HK\$2,421 million (2010: HK\$2,655 million) relates to the 20-year Master Hedge Agreement between TRUenergy and Ecogen. Under the latter Agreement, TRUenergy has the right to call upon electricity from the power stations at predetermined charging rates over the life of the Agreement. Other non-cancellable operating leases are for leases of various offices and equipment.

33. Related Party Transactions

Accounting Policy

Related parties are individuals and companies, including subsidiaries, fellow subsidiaries, jointly controlled entities, associated companies and key management personnel, where the individual or company has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and operating decisions. A close family member of any such individual is considered to be a related party.



Related Parties ≠ Connected Parties

They sometimes overlap but should not be confused. Accounting standards define related parties, while the Listing Rules of the Hong Kong Stock Exchange define connected parties.

Below are the more significant transactions with related parties for the year ended 31 December:

(A) Purchases of electricity from jointly controlled entities and associated companies

Details of electricity supply contracts relating to the electricity business in Hong Kong with jointly controlled entities and associated companies are shown below:

	2011 HK\$M	2010 HK\$M
Lease and lease service payment to CAPCO (a)	16,018	14,381
Purchases of nuclear electricity from GNPS (b)	4,879	5,003
Pumped storage service fee to PSDC (c)	512	495
	21,409	19,879

- (a) Under the Electricity Supply Contract between CLP Power Hong Kong and CAPCO, CLP Power Hong Kong is obliged to purchase all of CAPCO's generating capacity. The Electricity Supply Contract provides that the price paid by CLP Power Hong Kong to CAPCO is sufficient to cover all of CAPCO's operating expenses under the SoC, including fuel cost, depreciation, interest expenses and current and deferred taxes, as well as CAPCO's share of the return permitted under the SoC.

Pursuant to the requirements of HK(IFRIC)-Int 4 and HKAS 17, the electricity supply arrangement was assessed to contain leases and service elements. The payment made to CAPCO pursuant to the contract has been allocated to the different leases and service elements according to the requirements of the standards.

- (b) Under the off-take and resale contracts, CLP Power Hong Kong is obliged to purchase the Group's 25% equity share of the output from Guangdong Daya Bay Nuclear Power Station (GNPS) and an additional 45% of such output from Guangdong Nuclear Investment Company, Limited. The price paid by CLP Power Hong Kong for electricity generated by GNPS throughout the terms of the power purchase agreements is determined by a formula based on GNPS's operating costs and a calculation of profits by reference to shareholders' funds and the capacity factor for that year.
- (c) Under a capacity purchase contract, PSDC has the right to use 50% of the 1,200MW capacity of Phase 1 of the Guangzhou Pumped Storage Power Station. CLP Power Hong Kong has entered into a contract with PSDC to make use of this capacity. The price paid by CLP Power Hong Kong to PSDC is sufficient to cover all of PSDC's operating expenses and net return. PSDC's net return is based on a percentage of its net fixed assets in a manner analogous to the SoC, subject to a minimum return level.

Amounts due to the related parties at 31 December 2011 are disclosed in Note 23.

33. Related Party Transactions (continued)

(B) Rendering of services to jointly controlled entities

In accordance with the CAPCO Operating Service Agreement between CLP Power Hong Kong and CAPCO, CLP Power Hong Kong is responsible to CAPCO for the efficient and proper construction, commissioning, operation and maintenance of the electricity generating facilities of CAPCO. In return, CAPCO reimburses CLP Power Hong Kong for all costs incurred in performance of the agreement. The charges from CLP Power Hong Kong to CAPCO during the year amounted to HK\$1,312 million (2010: HK\$1,273 million) and a portion of the charges which is accounted for as operating expenses by CAPCO is covered under the Electricity Supply Contract referred to in (A)(a) above.

Amounts due from the related parties at 31 December 2011 are disclosed in Note 21.

No provision has been made for the amounts owed by the related parties.

(C) The advances made to jointly controlled entities totalled HK\$9,448 million (2010: HK\$8,932 million) (Note 16). Of these, HK\$8,868 million (2010: HK\$8,720 million) was in the form of interest-free advances from CLP Power Hong Kong to CAPCO.

At 31 December 2011, the Group did not have any guarantees which were of a significant amount given to or received from these parties (2010: nil).

(D) The Company provides necessary funding to support its subsidiaries' operations. Of the total advances of HK\$27,779 million (2010: HK\$20,432 million) made to its subsidiaries (Note 15), HK\$19,981 million (2010: HK\$11,343 million) and HK\$5,541 million (2010: HK\$6,417 million) were made to CLP Power Asia Limited and CLP Asia Finance Limited respectively to fund investments in overseas power projects.

The Company also has advances from subsidiaries, which are unsecured, interest-free and have no fixed repayment terms. The total amount of advances from subsidiaries amounted to HK\$232 million (2010: HK\$132 million), of which HK\$232 million (2010: HK\$128 million) was from CLP Properties Group.

(E) Emoluments of key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. It comprises the Non-executive Directors and the Senior Management Group. Members of the Senior Management Group include the Executive Directors and six (2010: ten) senior management personnel. The total remuneration of the key management personnel is shown below:

	2011 HK\$M	2010 HK\$M
Fees	8	8
Base compensation, allowances and benefits in kind	47	51
Tax equalisation, allowances and benefits in kind for secondment to overseas offices	9	8
Performance bonus		
Annual incentive	49	48
Long-term incentive	30	15
Provident fund contributions	6	6
Final payment (note)	17	3
	166	139

Note: The final payment included payment in lieu of notice, discretionary performance bonus, ex-gratia payment and compensation for loss of office paid to two (2010: one) former senior management personnel upon leaving.

33. Related Party Transactions (continued)

(E) Emoluments of key management personnel (continued)

At 31 December 2011, the CLP Holdings' Board was composed of 14 Non-executive Directors and three Executive Directors. Remuneration of all Directors for the year totalled HK\$51 million (2010: HK\$46 million). With respect to the emoluments of the highest paid employees, the five highest paid individuals in the Group during the year included one Director (2010: three Directors), three members of Senior Management (2010: two members) and a former senior executive of the Group. The total remuneration of these five highest paid individuals amounted to HK\$108 million (2010: HK\$69 million). Further details of the remuneration of the Directors and Senior Management, on a named basis, and remuneration paid to the five highest paid individuals by bands are disclosed in sections 6, 7, 8 and 10 (as highlighted) of the Human Resources & Remuneration Committee Report on pages 119 to 121, 124 and 125 respectively. These sections form the "auditable" part of the Human Resources & Remuneration Committee Report and are part of the financial statements.

34. Contingent Liabilities

Accounting Policy

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

Contingent liabilities are possible obligations that arise from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events not wholly within the control of the Group. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote.



An elaboration of the accounting concepts on [provision and contingent liabilities](#) can be found on our website as part of our accounting "mini-series". 

(A) CLP India – Deemed Generation Incentive Payment and Interests on Deemed Loans

Under the original power purchase agreement between CLP India and its off-taker GUVNL, GUVNL was required to make a "deemed generation incentive" payment to CLP India 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 (HK\$1,058 million). CLP India's position, amongst other arguments, is that the CLP India 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 CLP India has wrongly received interest on "deemed loans" under the existing power purchase agreement. GUVNL's claim rests on two main grounds: (i) CLP India 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 (HK\$121 million) (2010: Rs.830 million (HK\$144 million)).

34. Contingent Liabilities (continued)

(A) CLP India – Deemed Generation Incentive Payment and Interests on Deemed Loans (continued)

On 18 February 2009, the GERC made an adjudication on GUVNL's claims. On the issue related to the payment to CLP India of "deemed generation incentive", the GERC decided that the "deemed generation incentive" was not payable when CLP India's plant was declared with availability to generate on naphtha. However, the GERC also decided that GUVNL's claim against CLP India 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 (HK\$422 million). The GERC also dismissed GUVNL's claim to recover interest on the "deemed loans".

CLP India 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 CLP India and GUVNL's appeals and upheld the decision of the GERC. CLP India 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 those 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 (HK\$544 million) from January to March 2010 invoices after adjustment for a previous deposit of Rs.500 million (HK\$73 million), which included tax on incentive relating to deemed generation on naphtha, and delayed payment charges on associated incentive calculated up to March 2010.

Subsequent to the above deduction, CLP India represented to GUVNL that during April 2004 to March 2006, gas was available for generation and therefore should not be considered as availability (deemed generation) on naphtha. GUVNL accepted the representation and refunded the base amount of Rs.292 million (HK\$43 million) and interest of Rs.150 million (HK\$22 million) in March 2011. However, during the first and last quarter of 2011, with the spot gas availability being constrained, CLP India was forced to declare availability on naphtha for certain periods, which resulted in deduction of incentive revenue by GUVNL under deemed generation of Rs.17 million (HK\$3 million). At 31 December 2011, the total amount of the claim plus interest and tax with respect to the "deemed generation incentive" was revised to Rs.8,543 million (HK\$1,245 million) (2010: Rs.8,968 million (HK\$1,555 million)).

On the basis of legal advice obtained, the Directors are of the opinion that CLP India 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.



The application of the [accounting concept](#) to the "deemed generation incentive" lawsuit can be found on our website as part of our accounting "mini-series".

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

CLP Wind Farms (India) Private Limited, CLP India and its subsidiaries ("CLP India group") have invested (or are committed to invest) in around 500MW 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 group, as a customer of EIL, has been named as a pro-forma defendant. Enercon GmbH is also seeking an injunction restraining CLP India group's use of certain rotor blades acquired from EIL. As at 31 December 2011, the Group considered that CLP India group has good prospects of defending these claims and the legal proceedings are unlikely to result in any material outflow of economic benefits from the Group.

Financial Risk Management

1. Financial Risk Factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, fair value and cash flow interest rate risks, and energy price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise the impact of exchange rate, interest rate and wholesale market energy price fluctuations on the Group's financial performance. The Group uses different derivative financial instruments to manage its exposure in these areas. Other than limited energy trading activities for the purpose of understanding price movements engaged by TRUenergy, all derivative financial instruments are employed solely for hedging purposes.

Risk management for Hong Kong operations, predominantly the Company and its major subsidiary CLP Power Hong Kong, is carried out by the Company's central treasury department (Group Treasury) under policies approved by the Board of Directors or the Finance and General Committee of those companies. Overseas subsidiaries conduct their risk management activities in accordance with policies approved by their respective Boards. Group Treasury identifies, evaluates and monitors financial risks in close co-operation with the Group's operating units. The Group has written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and cash management.

Foreign currency risk

The Group operates in the Asia-Pacific region and is exposed to foreign exchange risk arising from future commercial transactions, and from recognised assets and liabilities and net investments in foreign operations. This is primarily with respect to Australian dollars and Indian rupees. Additionally, CLP Power Hong Kong has significant foreign currency obligations relating to its foreign currency denominated debts, U.S. dollar denominated nuclear power purchase off-take commitments and other fuel-related payments. The Group uses forward contracts and currency swaps to manage its foreign exchange risk arising from future commercial transactions, and from recognised assets and liabilities which are denominated in a currency that is not the functional currency of the respective Group entity. Hedging is only considered for firm commitments and highly probable forecast transactions.

CLP Power Hong Kong

Under the SoC, CLP Power Hong Kong is allowed to pass-through foreign exchange gains and losses arising from future commercial transactions and recognised liabilities which are denominated in a currency other than Hong Kong dollars, thus retaining no significant foreign exchange risk over the long term. As a measure of additional prudence, CLP Power Hong Kong uses forward contracts and currency swaps to hedge all its debt repayment obligations denominated in U.S. dollar and Japanese yen for the full tenor, and a significant portion of its U.S. dollar obligations on fuel and nuclear power purchases for up to five years, provided that for U.S. dollar the hedging can be accomplished at rates below the Hong Kong Government's historical target peg rate of HK\$7.8 : US\$1. The objective is to reduce the potential impact of foreign exchange movement on electricity tariffs.

As described above, exchange rate fluctuations will have no ultimate impact on the profit or loss of CLP Power Hong Kong on the basis that all foreign exchange gains and losses are recoverable under the SoC. At the end of the reporting period, the fair value movement of the derivative financial instrument in a cash flow hedge relationship is recorded in equity. The extent of the impact to the hedging reserve under equity due to exchange rate movements, with all other variables held constant, is as follows:

	2011 HK\$M	2010 HK\$M
Hong Kong dollar against U.S. dollar		
If Hong Kong dollar weakened by 0.6% (2010: 0.6%)	499	376
If Hong Kong dollar strengthened by 0.6% (2010: 0.6%)	(499)	(376)
Hong Kong dollar against Japanese yen		
If Hong Kong dollar weakened by 7% (2010: 12%)	77	92
If Hong Kong dollar strengthened by 7% (2010: 12%)	(67)	(72)

Foreign currency risk (continued)

This fluctuation in equity is a timing difference as when the exchange gain or loss is realised in profit or loss, the amount is recoverable under the SoC.

The Group's Asia-Pacific Investments

With respect to the power project investments in the Asia-Pacific region, the Group is exposed to both foreign currency translation and transaction risks.

The Group closely monitors translation risk using a Value-at-Risk (VaR) approach but does not hedge foreign currency translation risk because translation gains or losses do not affect the project company's cash flow or the Group's annual profit until an investment is sold. At 31 December 2011, the Group's net investment subject to translation exposure was HK\$57,906 million (2010: HK\$49,520 million), arising mainly from our investments in Australia, the Chinese mainland, India, and Southeast Asia and Taiwan. This means that, for each 1% (2010: 1%) average foreign currency movement, our translation exposure will vary by about HK\$579 million (2010: HK\$495 million). All the translation exposures are recognised in other comprehensive income and therefore have no impact on our profit or loss.

We consider that the non-functional currency transaction exposures at the individual project company level, if not managed properly, can lead to significant financial distress. Our primary risk mitigation is therefore to ensure that project-level debt financings are implemented on a local currency basis to the maximum extent possible. Each overseas subsidiary and project company has developed its own hedging programme into local currency taking into consideration any indexing provision in project agreements, tariff reset mechanisms, lender requirements and tax and accounting implications.

Most foreign currency exposures of the Company and other Group entities are hedged and/or their transactions are predominantly conducted through the functional currency of the respective entity. The following analysis presents the Group's (apart from CLP Power Hong Kong) sensitivity to a reasonably possible change in the functional currencies of the Group entities against the U.S. dollar, with all other variables held constant. The sensitivity rate in U.S. dollar used is considered reasonable given the current level of exchange rates and the volatility observed both on an historical basis and market expectations for future movement at the end of the reporting period and under the economic environments in which the Group operates. The extent of the impact to post-tax profit or equity due to exchange rate movements of U.S. dollar against different functional currencies of Group entities, with all other variables held constant, is as follows:

	2011 HK\$M	2010 HK\$M
 If U.S. dollar strengthened by 0.6% / 10% (2010: 5% / 10%)		
Post-tax profit for the year	(31)	67
Equity – hedging reserve	10	64
If U.S. dollar weakened by 0.6% / 10% (2010: 5% / 10%)		
Post-tax profit for the year	35	(64)
Equity – hedging reserve	(3)	(79)

Energy price risk

TRUenergy sells and purchases electricity to / from the Australian National Electricity Market. Although TRUenergy has a vertically integrated business structure, generation loads and retail customer demands do not exactly offset each other and therefore, hedging contracts (forward contracts and energy price swaps) are entered into to cover the differences between forecast generation loads and retail customer demands. These contracts fix the price of electricity within a certain range for the purpose of hedging or protecting against fluctuations in the spot market price.

Energy price risk (continued)

In addition to hedging the physical market position through accounting hedge contracts, TRUenergy enters into financial transactions and other contractual commitments that are classified as held for trading or economic hedges. Held for trading transactions represent energy derivatives entered into to support market liquidity or for the purpose of understanding price movements. The overall net exposure of these derivatives is small and closely monitored. Transactions classified as economic hedges are derivative contracts entered into for risk management purposes of future retail or generation activities but which do not meet the requirements for hedge accounting.

TRUenergy manages energy price risk exposures through an established risk management framework consisting of policies which place appropriate limits on overall energy market exposures, delegations of authority on trading, pre-defined product lists, regular reporting of exposures, and segregation of duties. The corporate governance process also includes the oversight by a Risk Management Committee which acts on behalf of TRUenergy's Board.

TRUenergy measures the risk of the fluctuation of the spot market price using VaR analysis and stress testing analysis. VaR is a risk measurement technique that uses probability analyses to calculate the market risk of a portfolio using historical volatility and correlation over a defined holding period. As the VaR calculation is based on historical data, there is no guarantee that it will accurately predict the future. TRUenergy's VaR is determined using a variance-covariance methodology including all long (generation and bought contract) and short (retail and sold contract) positions measured over a four-year horizon. The distribution of value of these positions will vary according to the variability of market prices. This is measured by using historical price distribution and correlations over a holding period of four weeks at a 95% confidence level.

The VaR for TRUenergy's energy contract portfolio at 31 December 2011 was HK\$679 million (2010: HK\$333 million). The change reflects an increase in holding of volatile positions through the NSW Acquisition. During 2011, the VaR ranged between a low of HK\$326 million (2010: HK\$143 million) and a high of HK\$809 million (2010: HK\$356 million).

Analyses below show the effect on post-tax profit and equity if market prices were 15% (2010: 15%) higher or lower with all other variables held constant. Concurrent movements in market prices and parallel shifts in the yield curves are assumed. A sensitivity of 15% (2010: 15%) has been selected based on historical data relating to the level of volatility in the electricity commodity prices. The sensitivity assumed does not reflect the Group's expectations as to the future movement in commodity prices. The extent of impact to post-tax profit or equity due to market price movements, with all other variables held constant, is as follows:

	2011 HK\$M	2010 HK\$M
If market prices were 15% (2010: 15%) higher		
Post-tax profit for the year	603	250
Equity – hedging reserve	(730)	(207)
If market prices were 15% (2010: 15%) lower		
Post-tax profit for the year	(591)	(164)
Equity – hedging reserve	730	207

The potential movement in post-tax profit is mainly attributable to an increase / decrease in the fair value of certain energy derivative instruments which are economic hedges but do not satisfy the requirements for hedge accounting. The potential movement in equity is due to an increase / decrease in the fair value of energy hedging instruments designated as cash flow hedges.

In addition to VaR analysis, TRUenergy introduced Volumetric Limits in 2011. The Volumetric Limits are measures of the net physical energy and capacity exposure to spot and forward markets over time in the portfolio. It is used to provide guidance on portfolio hedging against the maximum long and short volumes allowable in megawatt (MW) terms on an energy and capacity basis for the net spot and forward market exposures.

Energy price risk (continued)

The Group enters into trading and non-trading forward electricity contracts in accordance with the Group's risk management policies. These policies enable the Group to enter into contracts that are considered to be economic hedges against future retail and generation activities. It should be noted that while mark-to-market gains and losses on economic hedges are recognised in earnings in the period in which they occur, they will offset the impact of price movements on future profits relating to retail and generation activities occurring at the time of settlement.

Interest rate risk

The Group's interest rate risk arises from debt borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk, whilst borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group manages its cash flow interest rate risk by using fixed rate borrowings and interest rate swaps which have the economic effect of converting borrowings from floating rates to fixed rates.

The appropriate level of the fixed/floating mix is determined for each operating company subject to a regular review. For instance, CLP Power Hong Kong conducts an annual review to determine a preferred fixed/floating interest rate mix appropriate for its business profile. Each overseas subsidiary and project company has developed its own hedging programme taking into consideration project debt service sensitivities to interest rate movements, lender requirements, tax and accounting implications. At 31 December 2011, 64% (2010: 61%) of the Group's borrowings was at fixed rates.

The sensitivity analysis below presents the effects on the Group's post-tax profit for the year (as a result of change in interest expense on floating rate borrowings) and equity (as a result of change in the fair value of derivative instruments which qualify as cash flow hedges of floating rate borrowings). Such amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged items affect profit or loss, and offset one another in the profit or loss.

The analysis has been determined based on the exposure to interest rates for both derivative and non-derivative financial instruments at the end of the reporting period. For floating rate borrowings, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. The sensitivity to interest rates used is considered reasonable given the market forecasts available at the end of the reporting period and under the economic environments in which the Group operates, with all other variables held constant.

	2011 HK\$M	2010 HK\$M
 Hong Kong dollar		
If interest rates were 0.1% (2010: 0.25%) higher		
Post-tax profit for the year	(13)	(19)
Equity – hedging reserve	–	5
If interest rates were 0.1% (2010: 0.1%) lower		
Post-tax profit for the year	13	7
Equity – hedging reserve	(1)	(3)
Australian dollar		
If interest rates were 0.5% (2010: 0.5%) higher		
Post-tax profit for the year	(17)	(8)
Equity – hedging reserve	151	57
If interest rates were 0.5% (2010: 0.5%) lower		
Post-tax profit for the year	16	8
Equity – hedging reserve	(148)	(60)

The Company's sensitivity to interest rates was not significant and therefore is not presented at 31 December 2011. The Company had no bank loans and other borrowings and interest rate derivative financial instruments at 31 December 2010.

Credit risk

The Group has no significant concentrations of credit risk with respect to the sales of electricity and/or gas in Hong Kong and Australia as their customer bases are widely dispersed in different sectors and industries. The Group has policies in place to monitor the financial viability of counterparties. CLP Power Hong Kong has established a credit policy to allow electricity customers to settle their bills within two weeks after issue. To limit the credit risk exposure, CLP Power Hong Kong also has a policy to require cash deposits or bank guarantees from customers for an amount not exceeding the highest expected charge for 60 days determined from time to time by reference to the usage of the customers. TRUenergy has policies in place to ensure that sales of products and services are made to customers of an appropriate credit quality. For TRUenergy, receivables are due for settlement no more than 14 to 31 days after issue and collectibility is reviewed on an ongoing basis.

CLP India, our subsidiary in India, sells all of its electricity output to GUVNL through a 20-year power purchase agreement (PPA). The credit quality of GUVNL is closely monitored by management.

On the treasury side, all finance-related hedging transactions and deposits of the Company and its principal subsidiaries are made with counterparties with good credit quality in conformance to the Group treasury policies to minimise credit exposure. Good credit ratings from reputable credit rating agencies and scrutiny of the financial position of non-rated counterparties are two important criteria in the selection of counterparties. The credit quality of counterparties will be closely monitored over the life of the transaction. The Group further assigns mark-to-market limits to its financial counterparties to reduce credit risk concentrations relative to the underlying size and credit strength of each counterparty. In an attempt to forestall adverse market movement, the Group also monitors potential exposures to each financial institution counterparty, using VaR methodology. All derivatives transactions are entered into at the sole credit of the respective subsidiaries, jointly controlled entities and associated companies without recourse to the Company.

The Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of each financial asset, including trade and other receivables and derivative financial instruments, as reported in the statement of financial position.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and making available an adequate amount of committed credit facilities with staggered maturities to reduce refinancing risk in any year and to fund working capital, debt servicing, dividend payments, new investments and close out market positions if required. The Group maintains significant flexibility to respond to opportunities and events by ensuring that committed credit lines are available to meet future funding requirements.

Management also monitor rolling forecasts of the Group's undrawn borrowing facilities and cash and cash equivalents on the expected cash flows.

The table in next page analyses the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities and derivative financial liabilities (both net settled and gross settled), which are based on contractual undiscounted cash flows.

Liquidity risk (continued)

	Within 1 year HK\$M	Between 1 and 2 years HK\$M	Between 2 to 5 years HK\$M	Over 5 years HK\$M	Total HK\$M
At 31 December 2011					
Non-derivative financial liabilities					
Bank loans	5,446	6,419	18,780	10,604	41,249
Other borrowings	9,624	2,231	6,454	20,550	38,859
Obligations under finance leases	4,823	4,604	12,473	26,134	48,034
Customers' deposits	4,297	–	–	–	4,297
Trade and other payables	16,990	–	–	–	16,990
SoC reserve accounts	–	–	–	643	643
	41,180	13,254	37,707	57,931	150,072
Derivative financial liabilities					
Net settled					
Interest rate swaps	235	225	296	171	927
Energy contracts	–	24	1,059	887	1,970
Gross settled					
Forward foreign exchange contracts	13,927	15,980	72,554	1,323	103,784
Cross currency & interest rate swaps	3,142	1,286	1,930	15,514	21,872
	17,304	17,515	75,839	17,895	128,553
At 31 December 2010					
Non-derivative financial liabilities					
Bank loans	8,710	2,101	7,886	9,069	27,766
Other borrowings	1,120	8,979	6,058	12,605	28,762
Obligations under finance leases	4,599	4,397	11,980	27,880	48,856
Customers' deposits	3,979	–	–	–	3,979
Trade and other payables	11,344	–	–	–	11,344
SoC reserve accounts	–	–	–	1,509	1,509
	29,752	15,477	25,924	51,063	122,216
Derivative financial liabilities					
Net settled					
Forward foreign exchange contracts	4	–	–	–	4
Interest rate swaps	141	76	12	–	229
Gross settled					
Forward foreign exchange contracts	14,755	12,562	55,973	693	83,983
Cross currency & interest rate swaps	1,626	2,922	2,073	8,249	14,870
	16,526	15,560	58,058	8,942	99,086

At 31 December 2011, the maturity profile of the Company's bank loans, included in the Group amounts shown above, was HK\$2,720 million (2010: nil) repayable within one year, HK\$72 million (2010: nil) between one and two years and HK\$5,226 million (2010: nil) between two to five years.

2. Fair Value Estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using appropriate valuation techniques and making assumptions that are based on market conditions existing at the end of each reporting period. A discounted cash flow method is used to determine the fair value of long-term borrowings. The fair value of forward foreign exchange contracts is calculated as the present value of expected future cash flows relating to the difference between the contract rates and the market forward rates at the end of the reporting period. In measuring the swap transactions, the fair value is the net present value of the estimated future cash flows discounted at the market quoted swap rates.

The carrying values of the current financial assets and current financial liabilities approximate to their fair values.

3. Fair Value Hierarchy of Financial Instruments

HKFRS 7 requires disclosure for financial instruments that are measured at fair value by level of the following fair value measurement hierarchy:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the Group's financial instruments that are measured at fair value at 31 December.

	Level 1 HK\$M	Level 2 HK\$M	Level 3 HK\$M	Total HK\$M
At 31 December 2011				
Assets				
Available-for-sale investments	25	–	1,263	1,288
Forward foreign exchange contracts	–	1,860	–	1,860
Cross currency & interest rate swaps	–	1,565	–	1,565
Interest rate swaps	–	2	–	2
Energy contracts	–	890	2,868	3,758
	25	4,317	4,131	8,473
Liabilities				
Forward foreign exchange contracts	–	161	–	161
Cross currency & interest rate swaps	–	255	–	255
Interest rate swaps	–	899	–	899
Energy contracts	–	395	5,584	5,979
	–	1,710	5,584	7,294

3. Fair Value Hierarchy of Financial Instruments (continued)

	Level 1 HK\$M	Level 2 HK\$M	Level 3 HK\$M	Total HK\$M
At 31 December 2010				
Assets				
Available-for-sale investments	584	–	1,264	1,848
Forward foreign exchange contracts	–	1,338	–	1,338
Cross currency & interest rate swaps	–	860	–	860
Interest rate swaps	–	136	–	136
Energy contracts	–	1,154	857	2,011
	584	3,488	2,121	6,193
Liabilities				
Forward foreign exchange contracts	–	263	–	263
Cross currency & interest rate swaps	–	449	–	449
Interest rate swaps	–	172	–	172
Energy contracts	–	517	610	1,127
	–	1,401	610	2,011

During 2011 and 2010, there were no significant transfers between Level 1 and Level 2.

The movements of Level 3 financial instruments for the years ended 31 December are as follows:

	2011			2010		
	Available- for-sale Investments HK\$M	Energy Contracts HK\$M	Total HK\$M	Available- for-sale Investments HK\$M	Energy Contracts HK\$M	Total HK\$M
Opening balance	1,264	247	1,511	1,263	365	1,628
Total gains/(losses) recognised in						
Profit or loss	(4)	627	623	–	(297)	(297)
Other comprehensive income	–	182	182	–	98	98
Acquisition of business (Note 2(A))	–	(3,338)	(3,338)	–	–	–
Purchases	3	181	184	1	67	68
Sales	–	(5)	(5)	–	–	–
Settlements	–	(610)	(610)	–	14	14
Closing balance	1,263	(2,716)	(1,453)	1,264	247	1,511
Total gains/(losses) for the year included in profit or loss and presented in fuel and other operating expenses	(4)	627	623	–	(297)	(297)
In respect of the assets and liabilities held at the end of the reporting period, the losses for the year and presented in fuel and other operating expenses	–	(534)	(534)	–	(199)	(199)

4. Capital Management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern, maintain a strong credit rating and a healthy capital ratio to support the business and to enhance shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and business strategies. To maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders, issue new shares or raise and repay debts. The Group's capital management objectives, policies or processes were unchanged during 2011 and 2010.

The Group monitors capital using "total debt to total capital" and "net debt to total capital" ratios. These ratios are as follows:

	2011 HK\$M	2010 HK\$M
Total debt ^(a)	65,521	44,623
Net debt ^(b)	61,655	39,867
Total equity	81,352	79,758
Total capital (based on total debt) ^(c)	146,873	124,381
Total capital (based on net debt) ^(d)	143,007	119,625
Total debt to total capital (based on total debt) ratio (%)	44.6	35.9
Net debt to total capital (based on net debt) ratio (%)	43.1	33.3

The increase of total debt to total capital ratio and net debt to total capital ratio was mainly due to additional loans raised during the year to support our overseas business expansion, including the acquisition of certain NSW energy assets and ESG assets in Australia, as well as the construction of the Jhajjar coal-fired project in India, partly offset by the proceeds from the divestment of our interest in EGCO.

Certain entities of the Group are subject to certain loan covenants. For both 2011 and 2010, these entities have fully complied with those loan covenants.

Notes:

- (a) Total debt equals to bank loans and other borrowings.
- (b) Net debt equals to total debt less bank balances, cash and other liquid funds.
- (c) Total capital (based on total debt) equals to total debt plus total equity.
- (d) Total capital (based on net debt) equals to net debt plus total equity.

Scheme of Control Statement

CLP Power Hong Kong Limited and Castle Peak Power Company Limited

Overview

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

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

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

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

Tariff Setting Mechanism

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

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

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

Scheme of Control Statement

Permitted and Net Return

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

- The annual permitted return under the SoC is 9.99% of the SoC Companies' average net fixed assets other than renewable energy investments; and 11% for renewable energy investments.
- The net return is the permitted return after the deduction or adjustment of the following items:
 - (a) interest up to a maximum of 8% per annum on borrowed capital arranged for financing fixed assets;
 - (b) a charge of the average one-month Hong Kong interbank offered rate on the average balance of the Tariff Stabilisation Fund under the SoC, which is credited to the Rate Reduction Reserve;
 - (c) an excess capacity adjustment of 9.99% under the SoC on the average excess capacity expenditure less an allowed interest charge up to 8% per annum on the average excess capacity expenditure;
 - (d) interest up to 8% per annum on the increase in average balance of the customers' deposits in excess of the balance as at 30 September 1998; and
 - (e) incentives/penalties adjustments linked with emission performance, customer performance, energy efficiency and renewables performance. These performance related adjustments are only applicable to each full calendar year of the SoC, and are in the range of -0.43% to +0.2% on the average net fixed assets.
- The rate of return on average net fixed assets of the SoC Companies for the year ended 31 December 2011 was 9.10% (2010: 9.15%).

The net return is divided between the SoC Companies in accordance with the provisions of the agreements between the SoC Companies and ExxonMobil International Holdings Inc. These provisions state that each company will receive that proportion of the total net return represented by the net return that company would receive if it were the only company under the SoC and the net return were calculated solely on the basis of its own financial statements. In year 2011, 63% (2010: 64%) of the net return was allocated to CLP Power Hong Kong and 37% (2010: 36%) to CAPCO. If the actual profit for the SoC, when added to the amount available for transfer from the Tariff Stabilisation Fund is less than the permitted return, the share of any such deficit to be borne by CAPCO is limited to 20%.

The calculations shown on page 213 are in accordance with the SoC and the agreements between the SoC Companies.

For the year ended 31 December

	2011 HK\$M	2010 HK\$M
 SoC revenue	30,928	30,016
Expenses		
Operating costs	3,516	3,467
Fuel	8,784	7,848
Purchases of nuclear electricity	4,879	5,003
Provision for asset decommissioning	282	224
Depreciation	3,863	3,427
Operating interest	742	677
Taxation	1,528	1,597
	23,594	22,243
Profit after taxation	7,334	7,773
Interest on increase in customers' deposits	–	–
Interest on borrowed capital	841	763
Adjustment for performance incentives/penalties	(45)	(43)
Adjustments required under the SoC (being share of profit on sale of electricity to the Chinese mainland attributable to the SoC Companies)	(62)	(73)
Profit for SoC	8,068	8,420
Transfer from Tariff Stabilisation Fund	868	148
Permitted return	8,936	8,568
Deduct interest on / Adjustment for		
Increase in customers' deposits as above	–	–
Borrowed capital as above	841	763
Performance incentives/penalties as above	(45)	(43)
Tariff Stabilisation Fund to Rate Reduction Reserve	2	3
	798	723
Net return	8,138	7,845
Divisible as follows:		
CLP Power Hong Kong	5,139	4,985
CAPCO	2,999	2,860
	8,138	7,845
CLP Power Hong Kong's share of net return		
CLP Power Hong Kong	5,139	4,985
Interest in CAPCO	1,200	1,144
	6,339	6,129

Five-year Summary : CLP Group Statistics

Economic

	2011	2010	2009	2008	2007
 Consolidated Operating Results, HK\$M					
Revenue					
Electricity business in Hong Kong (HK)	31,518	29,944	28,297	30,191	29,684
Energy business in Australia	56,325	25,182	19,166	19,432	18,018
Others	3,791	3,284	3,205	4,674	3,087
Total	91,634	58,410	50,668	54,297	50,789
Operating profit	13,188	12,397	10,847	13,307	13,304
Earnings					
Electricity business in HK	6,339	6,129	5,964	7,549	7,589
Energy business in Australia	2,911	1,303	736	604	227
Other investments / operations	1,581	2,173	2,271	1,960	1,893
Gains on sales of assets	876	356	153	657	1,797
Provisions for fixed assets / jointly controlled entities / associated companies	(1,933)	(258)	(477)	–	–
Valuation gain on Hok Un redevelopment	225	–	–	–	–
Tax consolidation benefit from Australia	–	989	–	–	–
Other one-off items from Australia	(192)	97	(17)	19	(503)
Unallocated net finance costs	(48)	(18)	(21)	(21)	(90)
Unallocated Group expenses	(471)	(439)	(413)	(345)	(305)
Total	9,288	10,332	8,196	10,423	10,608
Dividends	6,063	5,967	5,967	5,971	5,973
Capital expenditure, owned and leased assets	15,798	20,032	9,713	7,760	8,271
Depreciation & amortisation, owned and leased assets	6,353	5,065	4,332	4,055	4,650
Consolidated Statement of Cash Flows, HK\$M					
Net cash inflow from operating activities	18,062	16,085	14,529	15,238	14,823
Consolidated Statement of Financial Position, HK\$M					
SoC fixed assets	60,142	57,247	54,712	52,132	49,684
Other fixed assets	70,240	60,213	44,146	36,991	38,925
Goodwill and other intangible assets	27,369	9,150	8,105	6,324	8,135
Interests in jointly controlled entities	18,226	20,476	18,838	17,791	17,684
Interests in associated companies	1,465	2,378	1,813	242	299
Other non-current assets	9,791	11,177	9,588	8,166	8,272
Current assets	27,055	18,714	19,329	11,185	13,278
Total assets	214,288	179,355	156,531	132,831	136,277
Shareholders' funds	81,259	79,661	70,761	63,017	63,901
Non-controlling interests	93	97	107	105	95
Equity	81,352	79,758	70,868	63,122	63,996
Bank loans and other borrowings	65,521	44,623	39,431	26,696	28,360
Obligations under finance leases	27,396	27,100	21,855	21,765	22,216
SoC reserve accounts	643	1,509	1,654	1,826	2,300
Other current liabilities	23,642	16,420	14,023	11,205	11,538
Other non-current liabilities	15,734	9,945	8,700	8,217	7,867
Total liabilities	132,936	99,597	85,663	69,709	72,281
Equity and total liabilities	214,288	179,355	156,531	132,831	136,277
Per Share Data, HK\$					
Shareholders' funds per share	33.77	33.11	29.41	26.19	26.53
Earnings per share	3.86	4.29	3.41	4.33	4.40
Dividends per share	2.52	2.48	2.48	2.48	2.48



Per Share Data, HK\$ (continued)

	2011	2010	2009	2008	2007
Closing share price					
Highest	74.95	64.65	57.55	70.50	59.95
Lowest	59.95	52.15	51.15	42.85	50.25
As at year-end	66.05	63.10	52.45	52.60	53.25

Ratios

Return on equity, %	11.5	13.7	12.3	16.4	17.7
Total debt to total capital, %	44.6	35.9	35.7	29.7	30.7
Net debt to total capital, %	43.1	33.3	30.7	29.1	28.6
Interest cover, times	4	7	8	9	8
Price/Earnings, times	17	15	15	12	12
Dividend yield, %	3.8	3.9	4.7	4.7	4.7
Dividend pay-out (total earnings), %	65.3	57.8	72.8	57.3	56.3
Dividend pay-out (operating earnings), %	58.8	65.2	69.9	61.3	64.1

Group generating capacity

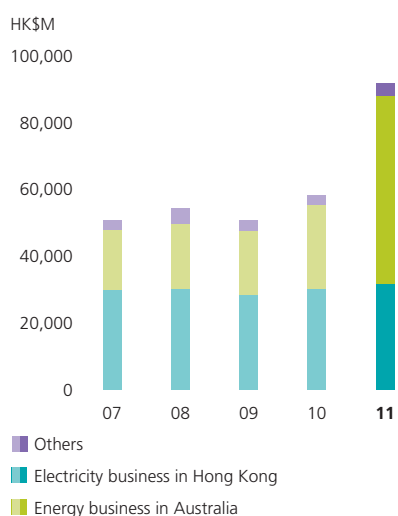
(owned/operated/under construction) *, MW

– by region					
Hong Kong	6,908	6,908	6,908	6,908	6,908
Australia	5,616	3,211	3,188	3,132	3,112
Chinese mainland **	5,957	5,899	5,578	5,206	4,477
India **	2,594	2,461	2,420	2,183	680
Southeast Asia & Taiwan	282	868	832	796	728
	21,357	19,347	18,926	18,225	15,905
– by status					
Operational	19,707	17,145	16,473	15,636	14,693
Construction	1,650	2,202	2,453	2,589	1,212
	21,357	19,347	18,926	18,225	15,905

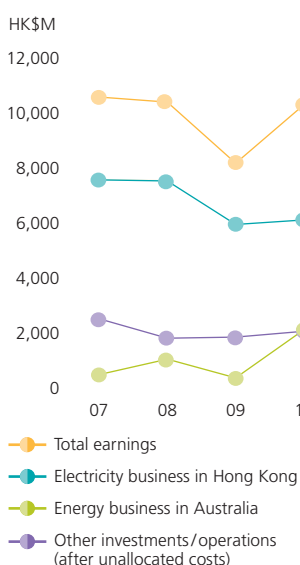
* Group generating capacity (in MW) is incorporated on the following basis: (a) CAPCO on 100% capacity as stations operated by CLP Power Hong Kong; (b) PSDC and Ecogen on 100% as having right to use; and (c) other stations on the proportion of the Group's equity interests.

** Including our interests in wind farms held through Roaring 40s for 2007 to 2008. CLP acquired these wind farms from Roaring 40s during 2009.

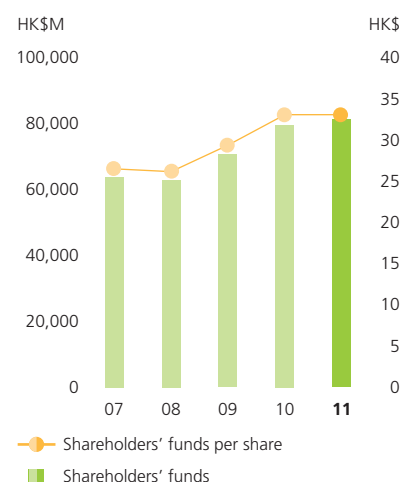
Revenue



Earnings



Shareholders' Funds



A ten-year summary is on our website

Environmental

Performance Indicators	Units	2011	2010	2009	2008	2007	Global Reporting Initiative Reference
Resource Use & Emissions ⁽¹⁾							
Coal consumed (for power generation)	TJ	419,357	370,427 ⁽²⁾	469,509	445,211	413,188	EN3
Gas consumed (for power generation)	TJ	101,166	135,556	102,160	105,821	93,763	EN3
Oil consumed (for power generation)	TJ	1,508	1,272	7,185	6,452	868	EN3
Biomass consumed (for power generation)	TJ	1,848	1,375	1,012	—	—	EN3
Carbon dioxide equivalent (CO ₂ e) emissions (from power generation)	kT	44,450	41,908 ⁽²⁾	49,761	—	—	EN16
Carbon dioxide (CO ₂) emissions (from power generation) ⁽³⁾	kT	44,298	41,784 ⁽²⁾	49,631	44,251	34,148	EN16
Nitrogen oxides emissions (NO _x) ⁽⁴⁾	kT	48.1	39.3	43.8	47.6	57.1	EN20
Sulphur dioxide emissions (SO ₂) ⁽⁴⁾	kT	35.8	37.4 ⁽⁵⁾	53.0 ⁽⁵⁾	55.3	70.4	EN20
Total particulates emissions ⁽⁴⁾	kT	6.2	6.4	6.8	6.8	6.3	EN20
Water withdrawal ⁽⁴⁾							EN8
from marine water resources	Mm ³	4,688.6	4,670.7	3,163.9	—	—	
from freshwater resources	Mm ³	37.9	41.7	42.0	—	—	
from municipal sources	Mm ³	5.5	4.3	4.1	—	—	
Total	Mm ³	4,732.0	4,716.6	3,210.0	—	—	
Water discharged ⁽⁴⁾							EN21
cooling water to marine water bodies	Mm ³	4,688.6	4,670.7	3,163.9	—	—	
treated wastewater to marine water bodies	Mm ³	0.8	0.8	1.0	—	—	
treated wastewater to freshwater bodies	Mm ³	18.1	18.4	15.5	—	—	
wastewater to sewerage	Mm ³	1.8	1.6	1.7	—	—	
wastewater to other destinations	Mm ³	0.6	0.7	0.7	—	—	
Total	Mm ³	4,710.0	4,692.1	3,182.9	—	—	
Hazardous waste produced ⁽⁶⁾	T (solid) / kl (liquid)	799 / 912 ⁽⁷⁾	803 / 1,167	771 / 1,011	—	—	EN22
Hazardous waste recycled ⁽⁶⁾	T (solid) / kl (liquid)	36 / 831 ⁽⁷⁾	39 / 844	57 / 636	—	—	EN22
Non-hazardous waste produced ⁽⁶⁾	T (solid) / kl (liquid)	6,301 / 0 ⁽⁷⁾	8,029 / 2	5,160 / 0	—	—	EN22
Non-hazardous waste recycled ⁽⁶⁾	T (solid) / kl (liquid)	3,699 / 0 ⁽⁷⁾	3,199 / 0	2,369 / 0	—	—	EN22
Environmental regulatory non-compliances resulting in fines or prosecutions	number	0	0	0	—	—	EN28
Environmental licence limit exceedances & other non-compliances	number	5	3	1	—	—	EN28
Climate Vision 2050 Target Performance ⁽⁸⁾							
Total renewable energy generation capacity (equity basis)	% (MW)	18.3 (2,424)	16.8 (2,286)	11.3 (1,494)	8.4 (1,066)	—	EN6
Non-carbon emitting generation capacity (equity basis)	% (MW)	22.0 (2,916)	20.4 (2,778)	15.0 (1,986)	12.3 (1,558)	—	
Carbon dioxide emissions intensity of CLP Group's generation portfolio (equity basis)	kg CO ₂ / kWh	0.80	0.80	0.83	0.84	—	EN16

Notes:

- (1) Covered operating facilities where CLP has operational control for the full calendar reporting year.
- (2) Yallourn's coal consumed, CO₂e and CO₂ emissions data have been updated to align with local regulatory reporting requirements.
- (3) Includes Yallourn and Hallett facilities' CO₂e emissions as CO₂ emissions data were not available.
- (4) Data updated to align with updated reporting scope in 2011.
- (5) Yallourn's 2009 and 2010 SO₂ emissions have been re-estimated using coal sulphur measurements.
- (6) Waste categorised in accordance with local regulations.
- (7) Waste data of Huaiji hydro in the Chinese mainland not included as data were not verifiable.
- (8) "Equity basis" includes all majority and minority share facilities in the CLP Group portfolio.

All environmental data on this page have been independently verified by ERM-Hong Kong, Limited.

Social

Performance Indicators	Units	2011	2010	2009	2008	2007	Global Reporting Initiative Reference
							
Employees							
Employees based on geographical location							LA1
Hong Kong	number	4,259	4,228	4,164	4,165	4,238	
Chinese mainland	number	552	574	546	525	420	
Australia	number	1,111	939	841	856	890	
India	number	374	309	207	143	119	
Other locations (Southeast Asia & Macau)	number	20	25	19	28	28	
Total	number	6,316	6,075	5,777	5,717	5,695	
Employees eligible to retire within the next five years ⁽¹⁾							EU15
Hong Kong	%	13.4%	12.5%	11.4%	9.9%	8.1%	
Chinese mainland	%	9.6%	11.3%	7.3%	2.1%	0%	
Australia	%	9.6%	9.5%	10.1%	8.6%	9.5%	
India	%	1.1%	1.3%	1.5%	1.4%	1.7%	
Other locations (Southeast Asia & Macau)	%	0%	0%	0%	0%	0%	
Group	%	11.6%	11.3%	10.3%	8.8%	7.6%	
Voluntary staff turnover rate	%	4.9%	5.3%	2.7%	5.8%	6.1%	LA2
Training per employee	average man days	5.4	5.5	4.9	5.9	6.5	LA10
Safety							
Fatalities (employees only) ⁽²⁾	number	0 ⁽³⁾	1	0	0	0	LA7
Cases of disabling injuries (employees only) ⁽²⁾	number	9	2	3	9	4	
Days lost/charged (employees only) ⁽²⁾	number	674	6,010	45	109	39	
Governance							
Convicted cases of corruption	case	0	0	0	0	0	SO2
Breaches of Code of Conduct	case	6	4	8	8	9	SO8

Notes:

- (1) The percentages given refer to the full-time permanent staff (based on the location of their employing Group entity) within each location, and of the Group as a whole, who are eligible to retire within the next five years.
- (2) Covered operating facilities where CLP has operational control for the full calendar reporting year.
- (3) There was no employee fatality in 2011 in our majority-owned facilities under operation. However, we recorded 5 contractor fatalities in our majority-owned facilities under construction and 3 other contractor fatalities in minority-owned facilities.

All social data on this page have been independently verified by ERM-Hong Kong, Limited.

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

CLP Power Hong Kong Limited and Castle Peak Power Company Limited

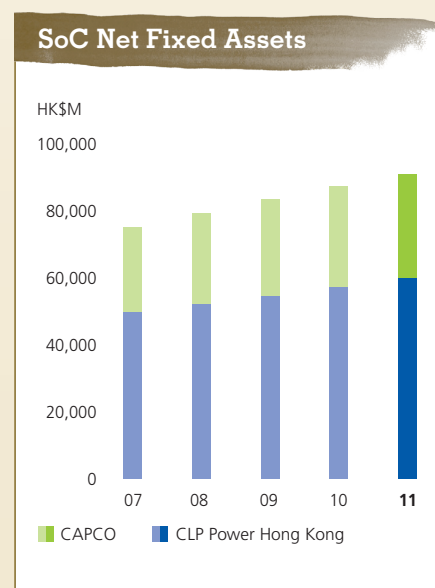
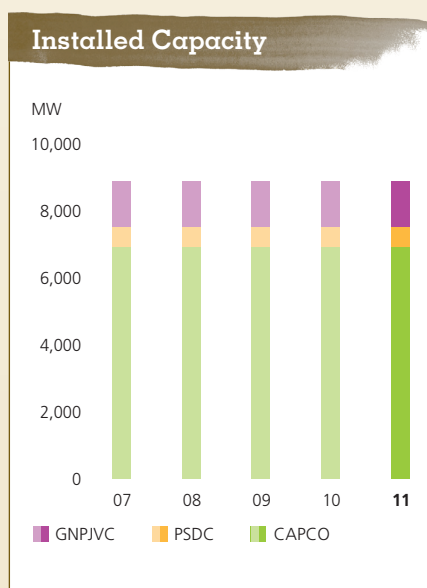
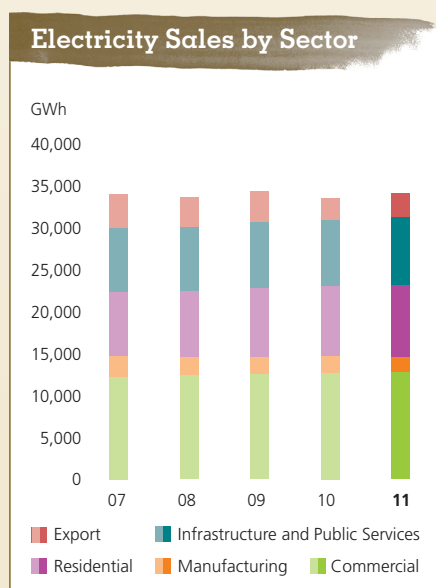


	2011	2010	2009	2008	2007
SoC Financial Statistics, HK\$M					
Combined Profit & Loss Statement					
Profit for SoC	8,068	8,420	8,052	10,418	10,367
Transfer (to)/ from Tariff Stabilisation Fund / Development Fund *	868	148	103	(133)	353
Permitted return	8,936	8,568	8,155	10,285	10,720
Less: Interest on / Adjustment for					
Increase in customers' deposits	–	–	–	2	33
Borrowed capital	841	763	625	608	728
Performance incentives / penalties	(45)	(43)	(41)	–	–
Tariff Stabilisation Fund / Development Fund * and Special provision account	2	3	3	132	202
Net return	8,138	7,845	7,568	9,543	9,757
Combined Balance Sheet					
Net assets employed					
Fixed assets	91,187	87,713	83,811	79,445	75,239
Non-current assets	2,310	1,698	774	1,552	533
Current assets	4,913	4,367	3,929	3,612	3,504
	98,410	93,778	88,514	84,609	79,276
Less: current liabilities	17,439	15,194	17,658	14,394	14,429
Net assets	80,971	78,584	70,856	70,215	64,847
Exchange fluctuation account	(1,428)	(962)	(346)	(165)	51
	79,543	77,622	70,510	70,050	64,898
Represented by					
Shareholders' funds	41,845	39,960	37,197	42,366	40,404
Long-term loans and other borrowings	25,283	25,248	21,598	16,616	13,828
Deferred liabilities	11,778	10,909	10,062	9,312	8,549
Tariff Stabilisation Fund / Development Fund *	637	1,505	1,653	1,756	2,117
	79,543	77,622	70,510	70,050	64,898
Other SoC Information					
Total electricity sales	30,824	29,917	28,349	30,288	29,236
Capital expenditure	7,774	7,748	7,798	7,665	6,123
Depreciation	3,863	3,427	3,149	3,005	3,699
SoC Operating Statistics					
Customers and Sales					
Number of customers (thousand)	2,378	2,347	2,321	2,291	2,261
Sales analysis, millions of kWh					
Commercial	12,670	12,642	12,488	12,312	12,144
Manufacturing	1,886	1,952	1,938	2,202	2,418
Residential	8,594	8,457	8,331	7,890	7,724
Infrastructure and Public Services	8,018	7,878	7,813	7,661	7,676
Local	31,168	30,929	30,570	30,065	29,962
Export	2,957	2,609	3,731	3,552	4,035
Total Electricity Sales	34,125	33,538	34,301	33,617	33,997
Annual change, %	1.8	(2.2)	2.0	(1.1)	(0.3)
Local consumption, kWh per person	5,373	5,365	5,353	5,260	5,301
Local sales, HK¢ per kWh (average)					
Basic tariff	80.1	80.1	77.5	85.6	88.1
Fuel clause charge	14.1	11.5	11.8	7.3	2.0
SoC rebate	–	–	(0.2)	(0.8)	(1.1)
Special rebate	–	–	–	(1.6)	(1.8)
Total	94.2	91.6	89.1	90.5	87.2
Annual basic tariff change, %	–	3.4	(9.5)	(2.8)	0.1
Annual total tariff change, %	2.8	2.8	(1.5)	3.8	0.1



	2011	2010	2009	2008	2007
Generation (Including Affiliated Generating Companies)					
Installed capacity, MW	8,888	8,888	8,888	8,888	8,888
System maximum demand					
Local, MW	6,702	6,766	6,389	6,749	6,284
Annual change, %	(0.9)	5.9	(5.3)	7.4	(2.3)
Local and the Chinese mainland, MW	7,798	7,349	7,616	8,199	7,730
Annual change, %	6.1	(3.5)	(7.1)	6.1	(7.1)
System load factor, %	55.3	57.2	56.4	51.1	55.0
Generation by CAPCO stations, millions of kWh	26,800	26,019	26,410	25,722	26,698
Sent out, millions of kWh –					
From own generation	24,955	24,552	24,920	24,324	25,200
Net transfer from/(to)					
Landfill gas generation	5	5	5	5	6
GNPS/GPSPS	10,558	10,350	10,773	10,653	10,164
Total	35,518	34,907	35,698	34,982	35,370
Fuel consumed, terajoules –					
Oil	1,044	844	895	1,048	868
Coal	188,407	148,229	169,753	153,565	179,599
Gas	57,665	83,007	70,393	77,487	63,552
Total	247,116	232,080	241,041	232,100	244,019
Cost of fuel, HK\$ per gigajoule – Overall	35.33	34.13	29.14	29.06	20.14
Thermal efficiency, % based on units sent out	36.4	38.1	37.2	37.7	37.2
Plant availability, %	85.4	79.2	83.0	85.8	90.0
Transmission and Distribution					
Network, circuit kilometres					
400kV	555	554	555	554	554
132kV	1,531	1,528	1,488	1,386	1,346
66kV & 33kV	27	27	60	62	88
11kV	11,809	11,658	11,444	11,240	11,076
Transformers, MVA	59,454	58,929	57,700	57,187	56,423
Substations –					
Primary	213	213	214	214	202
Secondary	13,361	13,208	13,074	12,914	12,784
Employees and Productivity					
No. of SoC employees	3,734	3,709	3,708	3,758	3,861
Productivity, thousands of kWh per employee	8,375	8,340	8,189	7,892	7,755

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



A [ten-year summary](#) is on our website

How Can You Contact Us?

Annual Report

Printed in English and Chinese languages, available on our website at www.clpgroup.com on 12 March 2012 and posted to Shareholders on 28 March 2012. 🌐

Those Shareholders who (a) received our 2011 Annual Report electronically and would like to receive a printed copy or vice versa; or (b) received our 2011 Annual Report in either English or Chinese language only and would like to receive a printed copy of the other language version or to receive printed copies of both language versions in the future, are requested to write to the Company Secretary or the Company's Registrars.

Shareholders may at any time change their choice of the language or means of receipt of the Company's corporate communications free of charge by notice in writing to the Company Secretary or the Company's Registrars.

Information for American Depositary Receipts Holders

The Group's financial statements are prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS). HKFRS differ in certain respects from United States Generally Accepted Accounting Principles.

The Company's duty to file or submit reports under Sections 13(a) or 15(d) of the United States Securities Exchange Act of 1934, as amended (the Exchange Act) was terminated on 30 January 2008 after the Company filed a Form 15F with the United States Securities and Exchange Commission on 31 October 2007. The information contemplated in Rule 12g3-2(b)(1)(iii) under the Exchange Act is and will be published on the Company's [website](http://www.clpgroup.com). 🌐

Annual General Meeting (AGM)

To be held on 8 May 2012. Details of the AGM including shareholders' right to demand a poll are set out in the Notice of AGM sent to Shareholders together with a proxy form on 28 March 2012.

Register of Shareholders

To be closed on 13 March 2012 for the 2011 fourth interim dividend and closed from 7 May 2012 to 8 May 2012, both days inclusive, for the 2012 AGM.

Company's Registrars

Computershare Hong Kong Investor Services Limited

Address: 17th Floor, Hopewell Centre,
183 Queen's Road East, Hong Kong
Telephone: (852) 2862 8628
Facsimile: (852) 2865 0990
E-mail: hkinfo@computershare.com.hk

Share Listing

CLP Holdings shares are listed on the Stock Exchange of Hong Kong and are traded over the counter in the United States in the form of American Depositary Receipts.

Our Stock Code

The Stock Exchange of Hong Kong: 00002
Bloomberg: 2 HK
Reuters: 0002.HK
Ticker Symbol for ADR Code: CLPHY
CUSIP Reference Number: 18946Q101

Contact Us

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April Chan
Company Secretary



Gloria Kwan
Head of Investor Relations

Helping Our Community

Every year since 2003 CLP, with the generous support of our shareholders and other stakeholders, has made use of its Annual Report and Sustainability Report as an opportunity to support deserving community initiatives. We do this by donating HK\$60 to charity for each shareholder who elects to receive our corporate communications electronically and for each feedback that we receive on the [online Sustainability Report](#), up to a maximum donation of HK\$300,000. 🌱

Shareholders who do not yet receive their corporate communications electronically can help support this community initiative by electing for electronic communication through returning to us the notification form which accompanies this Annual Report, using the provided pre-paid mailing label or via email to cosec@clp.com.hk or clp.ecom@computershare.com.hk, on or before 30 June 2012.



Families of SMA Charitable Trust (FSMA)

Last year CLP donated HK\$300,000 to FSMA. This amount comprised HK\$297,720 for our shareholders who have chosen electronic communication, plus HK\$2,280 for those stakeholders who provided feedback on our Sustainability Report (we gave HK\$60 for each feedback received).

As an organisation serving persons suffering from Spinal Muscular Atrophy (SMA), FSMA (www.fsma.org.hk) provides life-saving and life-sustaining para-medical machinery, financial assistance, self-help programmes and outings for SMA patients and their families. FSMA also supports international medical research into this disease. FSMA applied CLP's donation to two projects.

The first was the purchase of stand-by life saving medical machinery. This involved the purchase of life-saving and life-sustaining medical machinery which was then lent to patients for use in their home.

The second project is the home-based rehabilitation programme. This allows SMA patients to receive visits from professional therapists in their homes to assess, advise and monitor patients' conditions. Visits were provided to 11 patients during 2011, including services from Dietitians, Physiotherapists and Occupational Therapists ensuring that adequate and specialist care is provided to patients in need.

Hong Kong Neuro-Muscular Disease Association (HKNMDA)

This year our donation will go to the HKNMDA Charitable Organisation (www.hknmda.org.hk). This was founded in Hong Kong in 1998 with the aim to improve the quality of life for people suffering from Neuro-Muscular diseases including; Spinocerebellar Ataxia (SCA), Multiple Sclerosis (MS), Spinal Muscular Atrophy (SMA), Muscular Dystrophy (MD) and Motor Neuron Disease (MND). These are degenerative diseases and for which there is unfortunately currently no cure.

HKNMDA provides support services to patients and their families including; mutual support groups, psycho-educational programmes, volunteer visits, social and recreational activities, policy advocacy, information giving and public education activities.

With your support HKNMDA would like to implement two training programmes; "Handicraft Training Programme" and "Computer Purchase and Training Programme". Both programmes aim to improve the muscle strength, mobility and coordination of patients and to improve their general psychological well-being through participation. In addition computer equipment will be purchased for use by patients to provide new skills and alternate means of communication for them.



This year, as every year, we thank you for your support.



Section A – Feedback on 2011 Annual Report

The Annual Report is a key document in the communication between us and our shareholders and other stakeholders.

1. To enhance the quality of our annual reporting, please let us have your views, by circling the appropriate number below.

	Easy to understand?				Did this provide helpful information?			
	strongly disagree		strongly agree		strongly disagree		strongly agree	
2 5-Minute Annual Report	1	2	3	4	1	2	3	4
6 Chairman's Statement	1	2	3	4	1	2	3	4
10 CEO's Strategic Review	1	2	3	4	1	2	3	4
Economic Value								
20 Financial Review	1	2	3	4	1	2	3	4
32 Shareholder Value	1	2	3	4	1	2	3	4
Performance and Business Outlook								
36 Hong Kong	1	2	3	4	1	2	3	4
44 Australia	1	2	3	4	1	2	3	4
52 Chinese Mainland	1	2	3	4	1	2	3	4
58 India	1	2	3	4	1	2	3	4
63 Southeast Asia and Taiwan	1	2	3	4	1	2	3	4
Resources								
66 Values	1	2	3	4	1	2	3	4
67 People	1	2	3	4	1	2	3	4
71 Expertise	1	2	3	4	1	2	3	4
74 Financing	1	2	3	4	1	2	3	4
Process								
85 Corporate Governance Report	1	2	3	4	1	2	3	4
103 Risk Management Report	1	2	3	4	1	2	3	4
114 Audit Committee Report	1	2	3	4	1	2	3	4
116 Sustainability Committee Report	1	2	3	4	1	2	3	4
118 Human Resources & Remuneration Committee Report	1	2	3	4	1	2	3	4
Financials								
134 How Can You Approach Our Financial Statements?	1	2	3	4	1	2	3	4
136 Accounting Mini-series	1	2	3	4	1	2	3	4
139 Financial Statements	1	2	3	4	1	2	3	4
Questions and Answers with CLP Management	1	2	3	4	1	2	3	4

2. Your overall rating of this Annual Report is:
(Please "✓" appropriate box)

Poor ☐

Fair ☐

Good ☐

Very Good ☐

Excellent ☐

.../cont'd

3. Was there any additional information you expected to receive in the Annual Report? Please specify.

4. Do you have any question to be addressed in next year's Annual Report or answered on the "[Frequently Asked Questions](#)" section of the Company's website? If so, please ask. 

5. Any other comments / suggestions?

Section B – Request for Additional Information

Our Annual Report identifies those areas where additional information, beyond that set out in the Report itself, is available through our website (www.clpgroup.com) or in other printed publications. 

You can get hard copies of that web information (if you do not have ready access to the Internet) and / or printed copies of other publications by indicating as appropriate below:

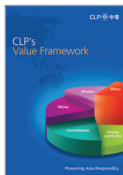
Name of Shareholder(s) _____

Address _____

(Please "✓" appropriate box)

☐ Web Information Required
(Please specify which)

☐ CLP's Value Framework
(2012 update)



☐ CLP Code on Corporate Governance
(2012 update)



Please send your feedback or requests for additional information to CLP Holdings Limited by:

- i) cutting and sticking the mailing label below on an envelope to
CLP Holdings' Registrars, Computershare Hong Kong Investor Services Limited
- ii) fax: (852) 2678 8390
- iii) e-mail: cosec@clp.com.hk

PERSONAL INFORMATION COLLECTION STATEMENT

Your supply of Personal Data to CLP Holdings is on a voluntary basis. "Personal Data" in this statement has the same meaning as "personal data" in the Personal Data (Privacy) Ordinance, Cap 486 ("PDPO"), which may include your name, identity card number, mailing address, telephone number, e-mail address, login name and / or your opinion. Your personal data may be used in connection with our management of your request, inquiry, comments and suggestions or conducting and publishing statistical and data analysis.

Your Personal Data will be retained for such period as may be necessary for our record, verification and notification purposes. You have the right to request access to and / or correction of your Personal Data in accordance with the provisions of the PDPO. We have the right to charge a reasonable fee for processing any Personal Data access request. Any such request for access to and / or correction of your Personal Data should be in writing by either of the following means:

By mail to: Personal Data Privacy Officer
Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

By e-mail to: hkinfo@computershare.com.hk

MAILING LABEL

**Please cut the mailing label and stick it on an envelope
to return your feedback to us.
No postage is necessary if posted in Hong Kong.**



Computershare Hong Kong Investor Services Limited
Freepost No. 37
Hong Kong



Our thanks to students from the Hong Kong Design Institute
whose artwork prompted the design theme for this Report –
and for sharing their work with children.

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