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Announcement of Annual Results
from 1 January 2009 to 31 December 2009,
Dividend Declaration and Closure of Books

Financial Highlights

- Group operating earnings down by 12.4% to HK$8,537 million with total earnings (including one-off items) falling by 21.4% to HK$8,196 million.
- Consolidated revenue dropped by 6.7% to HK$50,668 million.
- Earnings from our electricity business in Hong Kong decreased by 21.0% to HK$5,964 million with revenue down by 6.3% to HK$28,297 million, primarily due to the reduction of the permitted return.
- Earnings from our businesses outside Hong Kong and other earnings increased by 17.3% to HK$3,007 million.
- Electricity sales in Hong Kong grew by 1.7% to 30,570 GWh; total sales (which include sales to the Chinese mainland) increased by 2.0% to 34,301 GWh.
- Final dividend of HK$0.92 per share; including interim dividends paid, total dividends for 2009 amount to HK$2.48 per share (2008: HK$2.48 per share).

CHAIRMAN'S STATEMENT

In this Chairman's Statement, I wish to say a little more about the values and abilities on which our business is built.

Values

A firm commitment to a set of business principles and ethics which help drive the Company forward has been central to CLP's success over the past century. These principles extend to all aspects of our operations – whatever they may be and wherever they are carried out. They cover how we treat our own people and our relationships with investors, business partners, governments, the wider communities in which we operate and the natural environment.

In 2003, we issued "From Vision to Reality", CLP's value framework, in order to present our corporate values in a comprehensive and structured way. This framework is set out in full on our website so that our shareholders and all stakeholders can see the standards we have set ourselves and judge whether our actions reflect those standards.

In 2008, we revisited the value framework to see whether it had stood the test of time and experience. To ensure that this review was critical and objective, we consulted internal and external stakeholders, such as staff, academics and non-governmental organisations. The feedback we received gave us new ideas on how better to express some of our existing values. It was clear from this feedback that our value framework was welcomed by our stakeholders and that it continued to represent the right commitments to business principles and ethics, as well as a vision of what we wished to be as a business and as individuals. However, while our values are constant and consistent, the business environment and social attitudes change and evolve – as they always have and will. We thus made a few changes to the value framework to reflect this and the input from our stakeholders, such as further strengthening our emphasis on managing the long-term environmental implications of our activities, especially with regard to climate change, and a growing awareness of our role in helping our employees maintain a proper work-life balance.

However, most elements of the value framework remained unchanged. This included our Code of Conduct which translates our commitments to all our stakeholders into a set of formal written requirements and reminds us that CLP is committed to act with integrity in all its activities. In other words, we care how results are obtained, not just that they are obtained. This is both right in itself and supports a vital company asset, our reputation, which helps our business prosper.

Abilities

Having a clear understanding of our strengths and weaknesses is the first step to success. We have made a rational, self-critical assessment of our own abilities. We concentrate on what, in our best judgment, we are good at (and focus our energies and resources on this). Conversely, we understand and recognise those things that we are not good at (and which we should either get better at doing or avoid). Within the range of our abilities, we aim to look most closely at those areas where we have strengths and advantages relative to other competitors.

I have no doubt that CLP has world-class skills and abilities in the construction, operation and maintenance of electricity supply infrastructure. I believe that these skills extend across the "electricity value chain", from fuel procurement, through generation and transmission to distribution and customer service. The history of CLP and the quality of our asset portfolio and operating performance are the best evidence for this belief. We have also noted that whenever we have moved beyond the reach of our electricity-based skills, such as our venture into a Hong Kong-based telecommunications business in the early 2000s, our efforts have not usually been accompanied by success.

Even within the power business, we must adapt and extend our abilities to new trends, technologies, markets and regulations. CLP does have the capability to exploit its existing capabilities and anticipate or respond to transformation in our business environment. For example, we have steadily moved from almost entirely coal-based generation towards nuclear and gas-fired generation. Our total renewable energy portfolio, which consisted of just over 100 equity MW in 2004 when "Our Manifesto on Air Quality and Climate Change" was published, now comprises more than 1,400 equity MW, with a range of renewable energy sources such as wind, hydro and biomass. We believe that we have become the largest external investor in renewable energy in the Chinese mainland and the largest investor, foreign or domestic, in wind energy in India. However, whilst we have the ability to move into new technologies, we should again be conscious of the limits of our capabilities. Our unsuccessful investment in Solar Systems, which is reflected

in a loss of HK$346 million recorded in our 2009 accounts reminds us of the care we must take when considering investments in early stage technology development, as compared to the deployment of more mature and proven technology.

We demonstrate responsibility in managing the environmental implications of our business. In doing so, we respect one of our core values, namely care for the environment. The growth of our renewable energy portfolio is one example of this. Another example is the massive reductions we have achieved in emissions from power generation in our Hong Kong electricity business. Since 1990, our emissions of sulphur dioxide (SO_2), nitrogen oxides (NO_x) and particulates have fallen by 64%, 78% and 73% respectively, despite a 83% increase in local electricity consumption over that period. Our Climate Vision 2050, which expresses our goal of making massive cuts in the carbon emissions intensity of our generating portfolio, also shows our determination to be amongst leading companies in the effective management of the environmental aspects of our business.

This leads me to a further area which I think is amongst CLP's strengths – our knowledge of, commitment to, and standing within our markets. Electricity is a public service. There is a strong political and community dimension to our activities. If we do not recognise this we will not understand these markets and we will not be welcome within them. A combination of honesty, good operating skills, environmental responsibility and a commitment to a long-term presence has enabled us to move outwards from our base in Hong Kong and establish a presence in the Chinese mainland, Taiwan, Thailand, India and Australia on such a scale that we are now one of the largest external investors in each of these electricity markets. Set against our strength within the Asia-Pacific region is our lack of familiarity with markets elsewhere. We recognise this. There are plenty of opportunities within our existing markets. I do not expect CLP to pursue investments beyond the Asia-Pacific region in the foreseeable future.

Of course, we know that whilst market understanding is a strength, it will not always operate as an absolute defence to external influences. The most notable example of this is the continuing vulnerability of our electricity business in Australia, TRUenergy, to political intervention in the form of the Federal Government's Carbon Pollution Reduction Scheme (CPRS). This, if implemented in its proposed form, would have a major adverse impact on the operations of our brown-coal fired power station at Yallourn and the value of that asset. To put it politely, the Australian political scene is unpredictable and volatile. At times, the political discourse about emissions from brown-coal fired generation has been frankly surprising – with unwillingness to consider the implications of policy on electricity supply reliability being accompanied by a willingness, perhaps almost eagerness, to destroy the value of the investments made by existing asset-owners, particularly foreign shareholders. But even here, we have been a strong voice in the debate on the treatment of the power generation sector as this embarks on the transition to cleaner generation – a transition in which CLP would like to play a full part, if a sensible legislative framework ultimately emerges.

Economic Performance

Strong values and a clear awareness of our abilities are worth little unless these translate into the delivery of economic value to our shareholders. Our performance in this regard is set out in considerable detail in our financial statements. Nonetheless, I wish to add a few words here.

The Group's operating earnings in 2009 were HK$8.5 billion, a decline of 12.4% compared to the previous year. This was predominantly due to the reduced rate of permitted return under the new Scheme of Control (SoC) in Hong Kong which took effect on 1 October 2008. The Group's total earnings which take into account the provisions associated with CLP's investment in Solar Systems and OneEnergy were HK$8.2 billion, a decline of 21.4% against 2008. Even so, against

a volatile and challenging financial and market environment in recent months, CLP's financial performance has been resilient.

This particularly manifested itself in the significant improvement in our earnings over the second half of 2009, notably in our Chinese mainland activities. Earnings from Australia, India, Southeast Asia and the Chinese mainland all showed substantial increases from the previous year. The improved earnings from these businesses reinforces the decision that we took some years ago to diversify our activities beyond our Hong Kong electricity business and to persevere with these activities, even though they have presented a higher level of risk, uncertainty and volatility compared to our more mature Hong Kong business.

Despite the fall in total earnings, the Board has been able to recommend a final dividend for 2009 of HK$0.92 per share. This together with the three interim dividends paid during the year, would result in a total dividend of HK$2.48 per share, the same as in 2008.

The Board is confident that all of our major business streams, in Hong Kong and elsewhere, present investment opportunities with the potential to create shareholder value. The combination of our values and our abilities will continue to enable CLP to exploit those opportunities during the years ahead.

The Hon. Sir Michael Kadoorie

BUSINESS PERFORMANCE AND OUTLOOK

Electricity Business in Hong Kong

Business Environment

Hong Kong has a small open economy which is closely tied to the economic conditions prevailing in its major trading partners, especially the Chinese mainland and North America. Hong Kong's growth prospects will follow the pace of recovery of the global economy. In the past decade and more, Hong Kong's economy has matured and the HKSAR has moved from a manufacturing-based economy to one based on services. Electricity demand has tracked these developments – since 1990, electricity demand growth for local customers has averaged 3% per annum, compared to 17%, 10% and 9% in the 1960s, 70s and 80s respectively. In the longer term, we expect Hong Kong's economic growth, and therefore electricity demand growth, to be moderate – perhaps in the region of 2% per annum. We also expect that neighbouring Guangdong Province will reduce its reliance on power supply from CLP as its own electricity supply and demand moves into balance.

Even though underlying electricity demand growth may be moderate, there will still be a need for substantial ongoing investment in Hong Kong's electricity infrastructure. First, to maintain the reliability and quality of supply which Hong Kong has come to expect. Secondly, to comply with increasingly stringent environmental regulations. In that regard, the HKSAR Government has published the final study report on Hong Kong's Air Quality Objectives. This envisages a number of measures on emissions control, including increasing the share of natural gas used in local electricity generation and further tightening of emissions from our coal-fired generating plant. Over time, it may be that Government will seek to phase out entirely the use of coal in electricity generation to serve Hong Kong – although the implications of this on energy security, supply reliability and tariff have not yet been fully evaluated. The specific proposals emanating from Hong Kong's Air Quality Objectives will be accompanied by growing public awareness of environmental issues. This may lead to more initiatives on demand side management and energy

efficiency and conservation. The increasing focus on climate change may also lead to close scrutiny of the carbon footprint of electricity generation and, in turn, support CLP's gradual shift towards more nuclear power and gas-fired generation – building on the transition that started in the 1990s when CLP moved from exclusively coal-fired generation to a balanced mix of coal, gas and nuclear.

The current SoC is scheduled to end in 2018. The development of the Hong Kong electricity market after that time remains uncertain. Government has commissioned a consultancy study to analyse options for regulatory models after 2018. The introduction of competition in wholesale and retail power markets has been a main policy direction in a number of countries in recent years. However, these models are being re-evaluated, especially in the light of concerns about the ability of market forces to support policy objectives on matters such as environmental performance and timely investment in electricity network infrastructure. CLP will engage with Government and its advisors on the shape of Hong Kong's future electricity market. We are also working with both Government and Hongkong Electric on whether and, if so, how, enhanced interconnection between the two companies could benefit Hong Kong – this study is expected to conclude in 2010.

In December 2008, the Central People's Government announced the "Outline of the Plan for the Reform and Development of the Pearl River Delta 2008 – 2020". The continuing economic integration of Hong Kong with the Delta will bring both opportunities and challenges to Hong Kong – and to CLP. However, we look at this process with some confidence. We were an early mover in cross-border links in the electricity sector with our investment in, and interconnection with, Daya Bay Power Station in the early 1990s. The Government-to-Government Memorandum of Understanding (MOU) on energy supply signed in 2008 is also an example of how CLP is playing a full role in the growing integration of Hong Kong with neighbouring Guangdong Province – we are working constructively and productively with the Central People's Government and our Mainland counterparties to secure the continuing supply of nuclear electricity and natural gas to Hong Kong which will be critical both for maintaining power supply reliability and meeting our environmental objectives.

Performance

During 2009, our performance centred on four main objectives:

- meeting Hong Kong's electricity demand in a reliable, cost-efficient and environmentally responsible manner;
- making the capital investment necessary to maintain the quality of Hong Kong's electricity infrastructure;
- making the best and most efficient use of our resources; and
- implementing the MOU between the Central People's Government and the HKSAR Government on the continued supply of nuclear energy and natural gas to Hong Kong.

Meeting the Demand for Electricity

Overall, local sales in 2009 grew by 1.7%, compared to only 0.3% in 2008. This growth, particularly in the residential sector, was primarily attributable to warmer weather which increased the cooling load and an improving economy. The decline in sales continued in the manufacturing sector. Such sales now only represent 6.3% of CLP's local total sales volume, compared to around 45% in 1976. This is a vivid illustration of the scale and speed of Hong Kong's transformation from a manufacturing-based economy towards a service-based economy in

the past decades.

Sector	2009 Number of customers ('000)	2009 Electricity sales (GWh)	Sales increase / (decrease) over 2008 (%)	Average annual sales change over 2005-2009 (%)	Notes on 2009 performance
Residential	2,016	8,331	5.6	3.1	Warmer summer and cooler autumn compared to 2008
Commercial	184	12,488	1.4	2.4	Warmer summer and positive sentiment about the economic recovery
Infrastructure and public services	96	7,813	2.0	0.6	Commissioning of public facilities
Manufacturing	25	1,938	(12.0)	(7.3)	Sales reduction continued, particularly in the textile industry
Total local sales	2,321	30,570	1.7	1.3	
Export sales	-	3,731	5.0	3.9	Notable growth in demand for electricity in Guangdong
Total Sales	2,321	34,301	2.0	1.6	

Sales to the Chinese mainland rose by 5% compared to 2008 levels, mainly driven by the strong demand growth as a result of the economic recovery in Guangdong during the second half of the year.

Overall, total unit sales by CLP in 2009, including sales to Guangdong, increased by 2.0% from 2008, as against a decrease of 1.1% in 2008.

Capital Investment

The largest capital investment currently underway in the Hong Kong electricity business is the emissions control project at Castle Peak "B" Power Station. This HK$9 billion project is being commissioned in phases from 2009 to 2011. The work includes the installation of flue gas desulphurisation equipment, nitrogen oxides reduction plant and other facilities. Upon completion of the emissions control project, over 90% of SO_2 emissions and over 50% of NO_x emissions from Castle Peak "B" Power Station can be removed, while particulates can be further reduced from the existing low level. This resulting emissions performance is expected to be comparable to European Union standards. The timely and successful completion of this work is essential in order for CLP to comply with tightening emissions regulations. Currently, there are about 2,700 staff and contractors working on this project and works are progressing largely to schedule.

During 2009, we invested approximately HK$7.8 billion in generation, transmission and distribution network, customer services and other supporting facilities – all aimed to enhance supply quality, reliability and customer service levels as well as to meet the demand created by ongoing infrastructure development projects.

We have also taken forward the feasibility study for an offshore wind farm development in Hong Kong, involving an initial phase of 90MW with further potential expansion up to a total of 180MW. The Environmental Impact Assessment (EIA) study was presented for public consultation in June 2009. The EIA report was approved and the environmental permit was awarded by the Environmental Protection Department in August. The current stage of this project involves the collection of onsite environmental data as well as the review of the underlying business case for the project, including the quality of the wind resources.

Maximising our Resources

We go to considerable lengths to save costs and enhance productivity.

For example, in our network operations, we have adopted the strategy of minimising the total life cycle cost of electrical equipment. This means that we calculate the total cost to customers of equipment over its entire working life, from initial capital investment through to operating and maintenance costs, costs of mid-life refurbishment and, ultimately, retirement or replacement. Our maintenance strategy is moving from basically routine preventive maintenance, which is based on the time between maintenance inspections, to more condition-based preventive maintenance which focuses on the latest performance condition of the equipment. This has been accompanied by the application of online monitoring technology. This allows us to assess the condition of equipment continuously so that maintenance can be carried out at the right time – striking the best balance between using the equipment to its maximum capability and minimising disruption from possible failure.

We are in the process of applying smart grid technologies to our supply network in order to deliver clean energy, better services and value to customers. The fundamental concept of a “smart grid” is the integration of digital, telecommunication, information and metering technologies with the power system itself, so as to improve monitoring, analysis control and information collection capabilities. This is a long-term and challenging project. The enhanced capabilities which we seek include enhanced substation and network automation, self-healing and condition monitoring, improved network efficiency, flexible connections with renewable energy sources, electric vehicles and energy storage installation, as well as smart metering and advanced metering infrastructure for better connection with customers.

Implementing the MOU

The inter-governmental MOU (which can be viewed at www.epd.gov.hk) contemplates the delivery of gas for electricity generation in Hong Kong from three sources:

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

All of these three sources are essential to the continued adequacy and reliability of Hong Kong’s electricity supply. Good progress was made on each in 2009. For example, preliminary arrangements are in place with China National Offshore Oil Corporation (CNOOC) and PetroChina International Company for long-term gas supplies starting early this decade. Significant strides were made in the permitting, design, and commercial arrangements for a new pipeline necessary to deliver natural gas from new sources in the Mainland. Work advanced on the preliminary design and PRC approval process for the Shenzhen LNG terminal, the

shareholding structure for the terminal joint venture was agreed between PetroChina (51%), Shenzhen Gas (24%) and CLP (25%), and the future terminal use arrangements are taking shape. The formal submission of the EIA was made in December 2009, in cooperation with Environment Bureau. An area of concern remains the speed at which the HKSAR Government will be able to issue the environmental and other necessary permits for the gas pipeline from the Shenzhen LNG terminal to the gas receiving station at Black Point Power Station – timing is becoming tight if security of gas supply is to be ensured.

The MOU also contemplated the ongoing supply of nuclear electricity to Hong Kong. An extension of the Guangdong Daya Bay Nuclear Power Station joint venture and supply contracts was approved by the HKSAR Government in September. The contracts were signed in Beijing in the presence of the Vice President of the PRC, Mr. Xi Jinping and the Chief Executive of the HKSAR, Mr. Donald Tsang. These contracts will enable the continued supply of non-carbon emitting electricity to Hong Kong for a further term of 20 years from 2014.

Business Outlook

Although the future shape of Hong Kong's electricity sector should the current SoC come to an end in 2018 is uncertain, we look forward to the continuing growth of our Hong Kong electricity business. We have achieved, and aim to improve where possible, excellence in supply reliability, tariff levels, customer service and environmental performance. In all of these respects, we compare more than favourably to the electricity supply system in neighbouring Guangdong Province. We believe that continuing excellence in all these areas offers the best guarantee of the future success of our business under any fair and reasonable electricity regulatory regime.

In "Towards a Greener Pearl River Delta – a Roadmap for Clean Energy Generation for Hong Kong" issued in 2009, we set out CLP's vision for energy for the next 10 years. We are closely aligned with PRC and HKSAR Government objectives for climate change and air quality. Securing more clean energy to continue our contribution to addressing climate change and improving Hong Kong's air quality is a cornerstone of CLP's operations, both now and in the future. As our Energy Vision explains, the outlook for our business will include the development of clean and reliable electricity generation on three levels:

- strengthening infrastructure integration – notably through gas supplies and nuclear power imported from or through Guangdong;

- adopting a cleaner fuel mix – which will involve using more gas, importing more nuclear energy, reducing the reliance on coal and promoting local renewable energy sources (even if these sources may be constrained by local geographical, climatic and land use factors); and

- promoting energy efficiency – we will help and encourage our customers to boost energy conservation through energy efficiency related services and public education, as well as offering advice on using more energy efficient products, the better design of buildings and optimal equipment selection for business.

The tasks that we have set ourselves for 2010 fall within this Energy Vision, and within our overarching responsibility to provide an electricity supply to Hong Kong of a quality that our customers demand. These tasks will include:

- continuing to implement the MOU signed between the HKSAR and Central People's Government in August 2008 to bring new, long-term gas supplies to Hong Kong;

- completing the emissions reduction project at Castle Peak "B" Power Station on schedule, within our budget and without safety incidents;

- engaging the HKSAR Government on a practical plan for meeting climate change goals and achieving air quality objectives;

- driving (literally and metaphorically) electric vehicle market development;

- supporting the development of local renewable energy projects;

- stepping up efforts on achieving and promoting energy efficiency; and

- managing critical business issues, including tariff, environment and electricity market development, through excellence in operations and clarity and credibility of communication.

Energy Business in Australia

Business Environment

The most significant challenge for the energy industry in Australia during the year continued to be the uncertainty around the final form of the Australian Government's CPRS and its potential impact on existing generators, particularly those operating brown-coal fired power stations.

The Government has indicated that the amended legislation in the form most recently rejected is now its policy, and re-introduced the legislation into the Parliament for a third time at the beginning of 2010. The CPRS is currently expected to return to the Senate in May 2010. The Opposition continues to oppose the current form of the CPRS legislation, and instead supported a direct action policy on climate change, outside any emissions trading scheme. It is not yet clear the extent to which the outcome of the Copenhagen Summit on climate change, widely regarded in Australia as disappointing, will affect Government policy. Nothing about this situation is predictable. However, the result may be that the Government goes to an election later in the year with its current CPRS as policy. The political impasse means that in the short-term there will be ongoing uncertainty about the final policy framework.

In New South Wales (NSW) the State Government has continued with its electricity reform plan, although with some delay. This plan includes the sales of the State's three retail businesses – EnergyAustralia, Integral Energy and Country Energy – and the sale of generation development sites. The process excludes the sale of state-owned generators and instead opts for a complex trader model whereby the rights to the output of these state-owned generators are sold.

Investors were invited to submit Expressions of Interest in November 2009, with potential bidders expected to be short-listed in early 2010 under the original reform plan. TRUenergy lodged an Expression of Interest. In December, Kristina Keneally replaced Nathan Rees as Premier, the State's third since the last State elections in 2007. Shortly after her appointment, the Premier recommitted the State to the privatisation process. However, the State Government's ability and determination to see through the privatisation process, either in its present form or to the revised timetable, remains unclear.

As regards renewable energy, the Australian Government introduced legislative amendments to the 2% Mandatory Renewable Energy Target (MRET) in August 2009. The amendments, which became effective from 9 September 2009, increased the amount of electricity that retailers are required to source from renewable energy generation by 2020 to 20%, or 45,000 GWh. The new

Renewable Energy Target (RET) also absorbed existing and proposed State and Territory renewable schemes into one national scheme.

Under the previous MRET and the new RET, retailers are required to purchase increasing amounts of renewable energy using tradeable renewable energy certificates (RECs). The RET came into effect on 1 January 2010. It significantly expands the target for renewable energy usage to 12,500 GWh in 2010, up from 8,100 GWh in 2009.

Each REC is equivalent to one MWh of electricity generated. RECs can be produced by accredited renewable energy generators or are deemed to offset electricity consumption, as is the case for solar water heaters. RECs must be surrendered to the Office of the Renewable Energy Regulator to show that each retailer is meeting the RET target and therefore contributing to the development of additional renewable energy in Australia. In 2009 TRUenergy surrendered 555,000 renewable certificates, which corresponded to 3.91% of the company's total Australian sales. TRUenergy holds power purchase agreements (PPAs) with major wind farms and bioenergy plants which provide it with additional ongoing RECs. During the year the price for RECs fell substantially and the Council of Australian Governments (COAG) initiated a review of the factors impacting the market. It was widely considered that a large uptake of residential solar hot water systems was a major contributing factor.

Performance

Asset Management

The 420MW combined cycle gas-fired Tallawarra Power Station began commercial operations on 23 January 2009 and officially opened on 31 March. Following unscheduled outages in the early stages of operation, the plant has generally performed well.

Total generation from Yallourn Power Station during 2009 set a new record for a calendar year with gross generation totalling 11,641 GWh. This follows the upgrade and overhaul of Unit 2 in March 2008.

The Hallett Power Station operated with a start reliability of 97% against a plan of 96% during 2009 with a high capture of the peak pricing in South Australia to support the TRUenergy portfolio. During the year a project to increase the output of Hallett during hot weather was approved and implemented. The objective was to increase Hallett's output at an ambient temperature of 40℃ by 20MW by fogging the air inlet of the gas turbine. On 16 December the new equipment was tested with the results corresponding to more than a 22MW increase at the project's reference conditions.

The Iona Gas Plant performed well during the year, ensuring consistent and reliable supply of gas. A key measure of good performance is safety – Iona reached a significant safety milestone in July when it achieved 10 years without a lost time injury. In September the plant was granted a five-year licence as a major hazardous facility, following submission of a safety case and external assessment of the plant's safety and management systems. The Iona Gas Plant expansion project, which aims to increase daily processing capacity from 320 terajoules to 500 terajoules and gas storage capacity from 12 petajoules to 22 petajoules, is moving to completion. The additional storage capacity was completed by December and Iona is accepting additional gas. Full commissioning and performance testing of compression equipment is scheduled to occur shortly.

Retail

TRUenergy launched a Retail Profit Improvement Programme in 2009. The aim of the

programme is to coordinate, prioritise and fast-track key initiatives aimed at improving the profitability of the retail business. The programme should deliver meaningful savings and earnings enhancement towards sustained annual profit improvement by 2013. The business has made good progress towards meeting this target. Key improvements delivered through this programme have included:

- initiatives to reduce revenue leakage;
- management of credit risk; and
- process changes to ensure retention of most profitable customers.

TRUenergy has focused strongly on the way it manages retail credit risk. There have been improvements to our processes at the point of sale, as well as in our collections department. As a result the business expects lower bad debt write-offs in 2010.

In January 2009, Victoria fully deregulated energy pricing. This allowed our prices to better reflect the cost to serve customers. TRUenergy also substantially changed its retail pricing strategy for South Australia, the Australian Capital Territories, Queensland and NSW by creating our own market-based tariff, rather than one reflecting the government tariffs. This improved profitability in these states.

Development of a new retail customer service and back office information technology platform (we call this Project Odyssey) is underway. A comprehensive review of the functionality and processes built to date was undertaken during the year. That review highlighted the need for further work on both the proposed platform design, as well as the quality of data in our existing system, to support a smooth transition. As a result, we agreed with IBM on a new delivery timeline, including formal customer pilot testing. This agreement has led to improved resources being made available by the suppliers to the project. Nonetheless, Project Odyssey remains a challenging exercise, which we are supervising closely. In the event of further slippage beyond an end-2010 delivery of the first phase, we shall need to review the viability of the current system solution.

Renewable Energy

The Paralana geothermal project deep well in South Australia was successfully cased and cemented to a depth of 3,725 metres. The Paralana joint venture is led by Petratherm and includes TRUenergy and Beach Energy. Completion of the drilling programme was slower than anticipated because the rock formations below 600 metres were significantly harder than expected. Following well completion, evaluation of the well was undertaken using techniques which allow us to better determine the long-term well temperature and the viability of the project as a geothermal source. Assessment of data in early December strongly indicated natural fractures below 3,400 metres. Expectations are that the target temperature can be achieved. Well completion and release of the special rig occurred late in December. The joint venture will undertake testing and stimulation of the zones below 3,400 metres during 2010.

In August, Roaring 40s announced that contracts and financing for the 111MW Waterloo wind farm project in South Australia were in place. The turbine manufacturer, Vestas, has begun supplying the 3MW turbines and has entered a long-term operating and maintenance agreement with Roaring 40s. Major civil and construction works are well advanced. The wind farm, involving 37 turbines, is expected to be fully commissioned in late 2010. This will be Roaring 40s' fourth wind farm in Australia.

Solar Systems, the solar technology development company in Australia in which CLP holds a 20% equity stake, had difficulty raising further capital to enable the continuous development and eventual commercialisation of its solar technology. Although Solar Systems' technology shows technical promise, its fund raising efforts took place in a very challenging financial market, particularly for start-up solar companies facing the difficulties of obtaining financing for large scale projects, uncertain valuations and increased competition from established solar companies, who have reduced their margins in response to the recent demand slowdown. We did not believe that it was justifiable for CLP to continue funding a technology business without an additional strategic or financial partner to share the ongoing development risks. Therefore, in accordance with our prudent approach towards our financial accounts, in our Interim Report we made a provision for the investment in Solar Systems resulting in a net loss to the Group of HK$346 million. In September, Solar Systems was placed in voluntary administration. In February 2010 Australian listed company, Silex Systems Ltd, in a statement to the Australian Stock Exchange, advised that it had entered a conditional agreement to acquire the Solar Systems assets from the company's Administrators and that subject to finalisation of various arrangements, completion was expected to take place in mid-March 2010.

The placing of Solar Systems into voluntary administration in 2009 was a setback for our move towards solar energy. We will take a more cautious approach to future technology investment opportunities which involve early-stage technology. However we will continue to look at solar opportunities both as an investor and operator. While we have lodged an interest in the Federal Government's Solar Flagship programme, we will only take forward any investment if we are satisfied that the maturity of the chosen solar technology, and the level of government support, is sufficient to provide the necessary level of confidence in the commercial viability of any project.

Business Development

Permitting for a Tallawarra Stage B gas-fired power station is now in its final stages with a submission completed by TRUenergy following public exhibition, as well as review and comment on the proposed development by the Department of Planning and other statutory bodies, including the Department of Environment and Climate Change, the Civil Aviation Safety Authority and the Wollongong & Shellharbour Councils.

Initial site assessment and concept study work has been undertaken for a gas-fired power station at Yallourn. This allowed us to better understand the development and site challenges associated with developing a co-located integrated gasified combined cycle plant and identifying a separate suitable site at Yallourn for a gas-fired combined cycle plant.

TRUenergy entered into a MOU with Ignite Energy Resources (IER) enabling IER to develop a commercial demonstration plant of their direct coal-to-oil and upgraded dry coal processes using the brown coal at Yallourn. IER's supercritical water technology transforms brown coal into high-value oil and coal products. A study commissioned by IER predicts that CO_2 emissions could be reduced by more than 40% by using IER's upgraded coal for power generation, compared to brown coal (carbon capture would further reduce greenhouse gas emissions). IER's initial module is expected to be operating in 2010.

In January 2010 TRUenergy was offered funding under the Victorian Government's Energy Technology Innovation Strategy (ETIS) for pre-feasibility studies for three Carbon Capture and Storage (CCS) projects. The projects include work in partnership with Southern Company to assess a low emissions integrated gasification combined cycle plant with pre-combustion carbon capture at Yallourn, a multi-user carbon storage and transport system in Gippsland, which is being undertaken with Carbon Store Australia and Mitsubishi Corporation, and a proposal in conjunction with Loy Yang Power and Mitsubishi Heavy Industries and Worley Parsons to

demonstrate large scale post-combustion carbon capture at Loy Yang A Power Station.

Business Outlook

The major challenge for participants in Australia's National Electricity Market will continue to be emissions trading policy uncertainty. The final form of the Australian Government's emissions trading scheme, known as the CPRS, has yet to be finally determined. Under the current form of the government's proposed CPRS, the ability of all existing participants to invest in new opportunities will be severely affected. This is particularly true of brown coal-fired generators such as TRUenergy which would be faced with impairment of their balance sheets and increased difficulties in raising finance for new investment.

The demand for new gas-fired generation creates an opportunity to build Tallawarra Stage B in NSW, as well as the transformation of the coal-fired Yallourn Power Station to gas-fired generation. However, TRUenergy's decision on any such major investments is going to depend on an outcome on the CPRS which provides adequate financial compensation for the balance-sheet impact on our existing brown-coal fired power station at Yallourn, and which provides a fair, rational and stable investment platform for large-scale, long-term investment in gas and renewable generation. This is especially important in circumstances where the ability to raise capital is critical. The combination of regulatory uncertainty in the domestic Australian power industry and the generally challenging conditions in the international capital markets is likely to hinder TRUenergy's ability to raise capital on a scale and on terms which will allow us to grow the business, support the enhancement of Australia's energy structure and contribute to the competitive landscape in the power sector. To this end, we continue to advocate for a clear regulatory framework under which large, experienced operators, such as TRUenergy, can continue to invest with confidence in the Australian power sector.

In retail markets our focus will be on delivering the profit improvement programme, reducing our bad debt levels and retaining profitable customers.

In February 2010 the NSW government announced a revised timetable for its electricity privatisation programme with the due diligence phase not expected until the middle of the year. In its announcement the Government indicated that it expected transactions to be completed later this year. Privatisation will create opportunities for large-scale market entry to NSW, Australia's major electricity market. TRUenergy will assess the opportunities on their merits and will consider the structure of the privatisation, the overall market attractiveness as well as the need for bidding discipline, particularly given the experience of other participants in the previous Queensland retailer privatisation process.

The growing demand for energy and the need to transition Australia to cleaner generation will likely create opportunities for new investment, particularly in new gas-fired capacity and renewable energy. Since 1 January 2010 renewable energy is being supported by the new RET. The RET has encouraged Roaring 40s to commit to the 111MW Waterloo wind farm, which it expects to commission by the end of 2010. The new farm will further assist TRUenergy to meet the higher obligations under the RET. Whilst the current REC prices in Australia do not support commercial investment in new wind farm developments right now, our Roaring 40s joint venture has strong capabilities and an attractive pipeline of wind farm opportunities for investment once market conditions are more favourable.

Within this overall context, TRUenergy envisages 2010 as being "the year of retail" with five key focus areas

- achieving customer growth and maintaining retail margins in all the states in the National Energy Market; in particular focusing on maintaining and expanding our profitable customer segments and managing our retail bad debt position;

- improving the business-as-usual processes within our retail operation and ensuring a high level of customer service;

- preparing our meter data systems to manage the roll-out of advanced metering infrastructure;

- delivering Project Odyssey (our new retail customer service and back office IT platform) to plan and on schedule – or assessing alternative courses if this outcome appears not realisable; and

- assessing the potential acquisition of a NSW retailer.

But we will also aim to move forward in other areas, including

- formulating and implementing a response to prospective carbon legislation, if and when it passes into effect, including:
  - understanding its impact on our business value;
  - minimising that adverse impact; and
  - developing a strategic response which will allow us to carry TRUenergy's business forward;

- safely maintaining all our power plant operations, at the highest levels of commercial availability;

- maintaining planned generating output from Yallourn and Tallawara;

- commissioning the expansion project at the Iona Gas Plant and achieving expected performance; and

- maintaining current credit ratings, while refinancing existing debt facilities, when due, and obtaining loans for new projects. We will also investigate the availability of new capital to fund the long-term growth of our Australian business.

Electricity Business in the Chinese Mainland

Business Environment

In line with underlying economic conditions, electricity demand bottomed-out in August 2009 with a sustained recovery in electricity demand from then to December. By the year end the total power consumption in 2009 was 5.96% higher than the previous year.

On the supply side, installed generating capacity showed a 10.23% year-on-year increase during 2009, reaching 874GW. The combination of over-capacity, slow economic recovery and reduced exports meant that the average utilisation rate of power plant in the Mainland declined in comparison with 2008.

The availability of hydro generation also has a significant impact on the use of thermal plants, such as CLP's Fangchenggang Power Station. Unlike 2008, which was a "wet" year with abundant hydro generation, 2009 was a "dry" year, with a corresponding reduction in hydro generation output. Although such things are by nature highly uncertain, 2010 is forecast to be between "average" and "dry" with corresponding implications for thermal plant output.

In the first half of 2009, production of raw coal in China increased by 8.7% year-on-year. With coal supply and demand achieving reasonable equilibrium in the near term, coal prices (both contract and spot prices) fell during 2009. They are expected to remain relatively stable with a slight increase in 2010 compared to the highly volatile prices of 2008.

In November, the Central authorities announced a nationwide average increase of RMB2.8 fens/kWh in the electricity tariff for non-residential use. The benchmark tariffs for coal-fired plants will increase in 10 provinces and will reduce in seven provinces. The impact of this tariff adjustment to CLP is minimal. The timing and magnitude of the next coal price-linked tariff adjustment remains uncertain.

Also in November, the PRC Government announced an ambitious target of a 40-45% cut in China's carbon intensity relative to economic output by 2020, from the 2005 level. Emissions standards are steadily being tightened as Government continues to strengthen environmental protection measures. These measures will increase the costs of conventional coal-fired generating assets in the PRC.

Performance

Asset Management

Our Fangchenggang Power Station (2 x 630MW supercritical coal-fired units) entered its second year of operation with reliable plant performance. During the first half of 2009, the despatch of Guangxi's coal-fired plants was adversely affected by both a slump in electricity demand as a result of the economic downturn and a surplus of hydropower supply due to high rainfall. The situation turned around in July 2009 on the back of the rebound of the domestic economy. Coal-fired generation increased significantly due to the increase in power demand and reduced hydro generation, with both Fangchenggang units operating at almost full load in the fourth quarter of 2009. We believe the upward trend of utilisation is sustainable for 2010, due to the continuing recovery of the Guangxi economy.

The Daya Bay Nuclear Power Station has operated safely and efficiently since commissioning in 1994. In 2009, this contributed about 30% of the electricity supplied to our customers in Hong Kong. Continuous monitoring since Daya Bay started operations has shown no significant effect on the local environment. The excellent operating, safety and environmental performance of Daya Bay has given us the experience, expertise and confidence to seek to develop our involvement in the Chinese nuclear power industry through a strengthened relationship with China Guangdong Nuclear Power Holding Company (CGNPC), our longstanding partner at Daya Bay.

Our cooperation with Shenhua Group through CSEC Guohua International Power Company Limited (CSEC Guohua) is progressing well. The construction of two 1,000MW coal-fired units at Suizhong II in Liaoning Province is on schedule and commercial operation is planned for the second quarter of 2010. At the joint venture level, CLP completed its final injection of registered capital in June 2009, so that its equity interest in CSEC Guohua now stands at 30%.

Our Anshun II Power Station (2 x 300MW coal-fired units) has operated well since commissioning in 2003. Operating hours and profitability rose towards the end of 2009, in line

with the overall economic recovery. Anshun II's operating and financial performance has been good against the background of high utilisation levels and low coal prices in Guizhou Province which has extensive coal resources. However, there is a complicated and sub-optimal operating regime at Anshun II, which shares common facilities and despatch arrangements with adjoining Anshun I (which has different owners). A restructuring of the ownership arrangements for the two projects, either through sale or merger, is actively being explored in order to allow both stations to operate in the most efficient manner and to realise the maximum value for their respective shareholders.

Renewable Energy

The major focus of CLP's renewable energy activities in 2009 was the expansion of our wind energy business. We used three channels to increase our presence in this sector, all of which showed growth during the year:

- a range of minority interests in individual wind farms;
- our participation in CGN CLP Wind Power Co. Ltd. (CGN Wind); and
- the development of wholly-owned wind projects.

CLP acquired a 50% equity interest in a wholly-owned subsidiary of China WindPower Group which owns two wind farms in Fuxin City, Liaoning Province with a total installed capacity of 99MW (CLP's equity capacity: 24MW). We also acquired Roaring 40s' stakes in wind farm projects in the Mainland. Capacity growth from CLP minority-owned projects is expected to come primarily from subsequent phases of these ex-Roaring 40s' wind farms.

The Ministry of Commerce of the People's Republic of China (MOFCOM) approved CLP's acquisition of 32% of CGN Wind. The injection of initial equity of HK$1.2 billion is expected in early 2010. As the growth targets and strategy of CGN Wind became significantly more aggressive than originally expected, CLP has decided to not inject additional equity, and to accept a dilution of our holding in CGN Wind.

The start of construction of Qian'an Wind Farm Phase I (49.5MW) in September 2009 was a significant milestone. This is CLP's first wholly-owned wind project in China. The expertise and experience gained on this project will be the base from which we can move on to expand our portfolio of wholly-owned wind farms.

In addition to wind projects, CLP has a substantial presence in hydro power. Our major project is a 330MW project at Jiangbian in Sichuan Province. This is targeted for commissioning in 2011. We are constructing this project in a location subject to earthquakes, landslides and flooding. We also experience rock bursts within the tunnels and power house. These occur without warning on recently excavated surfaces, shooting fragments of rock into the working areas. As a result construction has been delayed, but we have reprogrammed work as far as possible to mitigate the effect on the overall project schedule. On 1 February 2010, CLP agreed with its joint venture partner, Sichuan Basic Power Company Limited (Basic Power) to acquire Basic Power's 35% interest in the Jiangbian hydro project. Upon completion of the acquisition, CLP will own a 100% interest in the Jiangbian hydro project company. This acquisition will enable CLP to take full control of the joint venture and give CLP greater flexibility in deploying its resources to develop the project company's business.

Dali Yang_er in Yunnan Province is a 49.8MW hydro project we acquired part way through construction and which entered service in the second half of 2009. The acquisition of a partly

complete project did not turn out to be a good approach and we found various problems with construction quality. The start of operation was delayed and costs increased. Nonetheless, it was commissioned in September 2009 and the on-grid tariff was approved in November 2009. At our Huaiji Project in Guangdong, the total generation for the 12 small hydro power stations in 2009 was 18% lower than that of 2008, mainly due to reduced rainfall in 2009.

Business Outlook

CLP had already adjusted its China strategy to position ourselves in line with the PRC Government's move towards cleaner electricity generation, as part of our Group policy of reducing the carbon intensity of our generation portfolio. Over the next 3-5 years, we aim to rebalance our project portfolio from one centred on coal-fired generation to one which prioritises low carbon emissions. This re-orientation of our Mainland electricity business will include exploring investment opportunities where CLP has a competitive advantage, developing projects which have a synergy with existing investments or relationships and pursuing clean energy projects in selected regions. 2010 and beyond should see the following specific initiatives being pursued.

On coal-fired generating capacity, we will:

- reduce fuel costs by pursuing long-term coal supply contracts and sourcing alternative coal supplies when needed;

- continue to lobby for higher despatch for our power stations, and maintain high despatch at Fangchenggang;

- rationalise the project structure of Anshun II through merger or sale;

- implement efficiency improvement projects at those power stations in which we have an interest through joint ventures;

- support CSEC Guohua, our joint venture with Shenhua, to explore expansion opportunities; and

- explore the possibility of a Fangchenggang Phase II project.

On wind energy, we will:

- only grow our investments in minority-owned wind farms in the form of expansion projects to existing sites;

- pursue wind projects through our CGN Wind platform, to the extent that the quality of the projects being undertaken by CGN Wind corresponds to appropriate investment standards; and

- build on our experience at Qian'an to grow our capability to undertake wholly-owned wind projects, for example, Penglai Wind Farm Phase I (48MW) in Shandong will be the second wholly-owned wind project to be built in 2010.

On other renewable energy projects, we will:

- take the Jiangbian hydro project towards completion in early 2011, with a high priority on construction safety; and

- complete the modification works underway at our Boxing Biomass Power Station. These should improve the station's economics by increasing its capacity to earn revenue through electricity generation, as opposed to steam sales.

Electricity Business in India

Business Environment

During the global economic crisis, Indian GDP growth dropped to 6% in 2009, compared to 9% the previous year. However, the impact on the power sector was minimal due to a sustained shortage in electricity supply, since the addition of new generating capacity continues to trail the growth in electricity demand. The per capita electricity consumption in India remains low, being between a quarter and one-fifth of that of China for example. The gap between supply and demand at peak levels remains at around 14% nationwide.

The Union Government is continuing to promote a competitive bidding model for new electricity infrastructure projects, both in generation and transmission. The authorities and domestic power producers are showing a preference for merchant generation projects, as opposed to those supported by long-term PPAs at set tariff rates.

Both the Union Government and state governments are making available transmission projects for private sector investment through competitive bidding. Such projects, especially when located in progressive states, offer openings for small to medium size investments (HK$600 million to HK$3 billion) and are attractive vehicles for project financing, possibly with gearing levels of up to 80%.

2009 has also seen a more pragmatic approach in the formulation of renewable energy policy, with a focus on long-term sustainability and growth.

In the new Indian cabinet formed after the 2009 general elections, the Ministry of New and Renewable Energy has been accorded the rank of a full cabinet minister with greater executive powers than before. In April 2009, the cabinet approved the National Solar Mission which aims to generate 20,000MW of power by 2022. About US$900 million has been sanctioned by the Government for use in various aspects of solar power development (including research and development). In September 2009, India's Central Electricity Regulatory Commission (CERC) announced new regulations that include a system of feed-in tariffs for renewable energy, incentivising both wind and solar energy. This was closely followed by the announcement of the "Generation-based Incentive (GBI) policy" in December 2009 which encourages independent power producer (IPP) projects. The GBI scheme is applicable only to those IPPs whose capacities are commissioned for sale of power to the grid. Under the policy, investors, apart from receiving the tariff as determined by the respective State Regulatory Commissions will also receive an incentive of Rs.0.50 per unit of electricity for a period of 10 years, provided they do not claim the benefit of accelerated depreciation. This policy is expected to give a major boost to the wind power sector in India and promote higher efficiencies in wind electricity generation.

Performance

As in 2008, our activities centred on three areas: the successful management of our existing power station at Gujarat Paguthan Energy Corporation Private Limited (GPEC), the growth of our renewable energy investments and progress on the greenfield coal-fired power station project at Jhajjar. In addition, we sought to explore opportunities in transmission projects.

GPEC

A longstanding dispute where Gujarat Urja Vikas Nigam Ltd. (GUVNL) is claiming repayment of amounts totalling around HK$1,207 million for deemed generation is working its way through the Indian legal and regulatory system. In February 2009 the Gujarat Electricity Regulatory Commission (GERC) made an adjudication on GUVNL's claim which dismissed a substantial element of that claim, whilst upholding part of GUVNL's claim in relation to "deemed generation incentive" paid to GPEC when it declares availability to generate on naphtha, rather than gas. The total amount of the claim allowed by GERC against GPEC was thereby reduced to around HK$482 million. Both GPEC and GUVNL appealed the GERC decision to the Appellate Tribunal for Electricity (ATE) of India. The ATE's judgment was delivered in January 2010 and confirmed the GERC decision. We are appealing to the Supreme Court of India in respect of that proportion of GUVNL's claim against GPEC which was allowed by the ATE. We have been advised that we have a strong case in this dispute – which is also our own assessment. GUVNL's claim is treated as a contingent liability under Note 18 on page 44.

During the year, the GPEC plant operated at a high level of availability of 92.94%. GPEC delivers all electricity generated to its off-taker, GUVNL. GPEC's high operating standards were recognised when it was awarded the "Five Star NOSA Rating" status, having scored 94.85% in the NOSA 4th Grading Audit of the SHE Management System.

Our efforts to secure long-term gas supply for GPEC led to a 5-year contract with Reliance Industries Limited for 1.3 mmcmd of gas. Long-term contracts for gas supply are now in place to meet 66% of GPEC's full load capacity.

Renewable Energy

CLP is the largest wind power developer in India, with a renewable energy portfolio, in operation and under construction, of 446MW.

The first phase of our Samana project (50.4MW) was commissioned in March 2009. Construction of Samana phase II (50.4MW) and Saundatti (82.4MW) is well underway, with commissioning expected in the first half of 2010. Construction is also in hand on our 113.6MW wind project at Andhra Lake in Maharashtra – the single largest wind project being developed anywhere by the CLP Group. This project is scheduled for completion in two equal phases by June and December 2010 respectively.

Jhajjar

We started construction of our 1,320MW domestic coal-based power plant in Jhajjar District, Haryana in January 2009, using equipment and other resources from PRC suppliers and contractors. We chose to use a PRC main contractor with previous experience in India. Initially, we encountered problems as increases in the cost of raw materials and unfavourable currency movements during the financial crisis impeded progress. As a result it became necessary to amend the contract price. Even so, the increased pricing reflected in the revised agreement is still well below international market levels. Financial documents for the project were signed with a

consortium of Indian banks and financial institutions in September 2009 and the first draw-down was achieved in December 2009. Construction is progressing satisfactorily, with the first unit of the plant due for commissioning in December 2011, followed by the second unit in May 2012. Progress towards completion, on time and to budget was the major focus of management's attention in 2009. It will remain so during the year ahead.

Transmission Projects

There are considerable opportunities available for private sector investment in transmission infrastructure. CLP has been prepared to bid for such projects provided these correspond to our investment criteria, including:

- location in reforming states;
- favourable project returns;
- creditworthy off-takers;
- credible partners, especially engineering, procurement and construction (EPC) contractors; and
- the opportunity to take a majority stake.

Although we have extensive experience in the construction, operational and maintenance of our transmission network in Hong Kong, this would be a new venture for CLP in India. Our intention is to approach such investments on a "step-by-step" basis, first testing the concept and capturing the necessary experience, before deciding to move on to further projects in this sector. In line with that approach, we have identified a number of transmission projects coming up in the near term which appear to meet our criteria. In late 2009 we submitted a bid for two transmission projects in Rajasthan, in joint venture with Gammon India Ltd., a leading Indian engineering contractor. The results of the bid are still awaited.

Business Outlook

The outlook for CLP in India is good, with the opportunity to build a balanced portfolio of value-creating investments across the electricity supply chain, including a range of generating technologies and transmission projects. At the moment we do not envisage to invest in distribution. This is because the opportunities elsewhere in the power sector are more attractive and the potential returns from distribution projects may be out of proportion to the demands they can make on management time and resources.

Although we are positive about our future in India, we intend to invest at a steady pace. In practice this means at a speed and on a scale which is consistent with our organisational and capital resources, not getting ahead of ourselves in terms of our capacity and capabilities and ensuring that we learn from experience before moving on to the next step in growing our business. Our future investments may involve partners or other stakeholders when needed. Our growth in India must also be consistent with the CLP Group's Climate Change Strategy – in other words we need to achieve and maintain a sensible mix of fuels and technologies within our Indian generating portfolio. Finally, our investments in India, as elsewhere in the CLP Group, must be aligned with our values – including our ethical practices and our priority on safety.

During the coming year our priorities will be to:

- continue the construction of Jhajjar according to schedule and budget;
- commission our wind farms at Samana Phase II, Saundatti, Andhra Lake and Theni;
- establish processes for clean development mechanism (CDM) registration and sale – enabling us to maximise revenues from carbon credits for wind projects;
- participation in generation and transmission bids, including the development of greenfield coal-fired and gas-fired projects and, subject to the availability of sufficient long-term gas supply, exploring an expansion to GPEC; and
- continue the expansion of our renewable portfolio. This will mostly be in the form of wind energy, but we are actively considering opportunities in solar energy and small to medium-sized hydro projects, especially run-of-the river projects.

Electricity Business in Southeast Asia and Taiwan

Business Environment

CLP's business in the Southeast Asia and Taiwan markets comprises our longstanding investments in Electricity Generating Public Company Limited (EGCO) of Thailand and the Ho-Ping project in Taiwan, and also a pipeline of development projects including coal-fired projects in Vietnam and renewable projects in Thailand. The majority of these investments and development projects are held through OneEnergy, the vehicle that we jointly set up with Mitsubishi Corporation in 2006. During 2009 we restructured OneEnergy, such that while it remains a strong alliance for greenfield developments, the corporate organisation and overheads have been substantially simplified and reduced. The restructuring also provided more flexibility for the two partners to pursue acquisition opportunities as they arise.

While CLP has pursued, and will continue to pursue, strategic acquisitions to strengthen its regional business, its advantages lie in greenfield developments where we can manage the whole cycle of project identification, development, construction through operations. To be successful in new greenfield projects, CLP, like other developers, will need competitive equipment and construction costs, long-term and low-cost financing, and fuel supply management capabilities. CLP has successfully built the coal-fired Fangchenggang power plant in China, which went on line in 2007 and 2008 using Chinese equipment and service providers. Based on this experience, we have also used a Chinese EPC contractor for the coal-fired Jhajjar project in India which is currently under construction. We believe that CLP's experience with Chinese equipment in China and outside provide us with an edge in our efforts to achieve competitive EPC solutions for new power plant projects that we pursue within the Southeast Asian region.

The Bureau of Energy and Taipower asked IPPs, including Ho-Ping, to review the possibility of revising the formulae for calculating capacity charges under their respective PPAs by indexation to the prevailing Taiwan government bond yields. The IPPs raised objections to this change, but nevertheless appointed advisors to review the matter and to formulate a formal response to the Government in early 2010. CLP believes, and has expressed its position to the authorities, that the contractual terms of the PPA need to be respected and enforced, and that any mid-term changes will affect investor confidence, especially of overseas investors. In 2009 Taiwan passed the Renewable Energy Act. This provides a mechanism for the Government to collect renewable energy levies from conventional fuel power generators to provide subsidies and higher tariffs for new infrastructure projects. Ho-Ping will be subject to the levy, but the legislation also provided

for recovery of the levies through the tariffs charged to the energy users. The government has also initiated discussions on carbon emission-related taxes, but no details or the timeline for implementation are yet available.

Performance

Asset Management

All major power plants in our portfolio achieved good operational performance in 2009.

All of the operating power plants have long-term PPAs with credit-worthy off-takers.

The coal-fired Ho-Ping project in Taiwan has been affected in past years by plant problems and extreme weather conditions, which have included turbine blade failures, coal storage domes damaged during strong typhoons, and heavy rain affecting the transportation of wet coal in the damaged domes. These problems were tackled painstakingly by Ho-Ping, with technical support from CLP, and have been largely resolved with turbine blade replacements and complete rebuilding of stronger coal domes in 2009. This has enabled Ho-Ping to achieve record operational results for the year in terms of plant availability and generation. Under the PPA with Taipower, Ho-Ping's annual energy tariff is adjusted to reflect Taipower's actual prior year average coal costs. Consequently, Ho-Ping's 2009 energy tariff reflected the surge in coal prices sustained by Taipower during 2008. This together with the operational performance and more reasonable coal price in 2009 culminated in a year of record earnings for Ho-Ping. We expect that the earnings for 2010 will return to a more normal and sustainable level, provided Ho-Ping continues to maintain its availability and manage its fuel costs.

Development Activities

During 2009, our major development activities were focused on progressing two coal-fired projects in Vietnam and renewable projects in Thailand. CLP, Mitsubishi Corporation and local partners established a project company in 2007 to develop the 2 x 660MW coal-fired Vung Ang 2 project located in Central Vietnam. In 2009 the focus was on finalising the engineering design and commencing the EPC tendering process. The project company has engaged a team of financial, legal, tax and accounting, technical, environmental advisors to assist in the upcoming financing discussions and PPA negotiations. CLP, Mitsubishi Corporation, state-owned electricity company Vietnam Electricity and a local shareholder have also joined forces to develop the 3 x 660MW coal-fired Vinh Tan 3 project in Southern Vietnam. The project company, organisation and staffing were set up in 2009. The project company has initiated the feasibility study and environmental and health impact assessment.

Renewable Energy

In line with the overall objective of contributing to the CLP Group's aim to reduce the carbon intensity of its generating portfolio, we have in recent years explored the possibilities for investment in renewable energy in Southeast Asia and Taiwan. The Thai authorities have announced a supportive regime for solar projects. This includes permitted tariff levels which may allow solar energy to be viable in circumstances where it would otherwise be prohibitively expensive, when compared with conventional, higher carbon-emitting forms of generation. In response to this initiative from the Thai authorities, CLP in partnership with Mitsubishi Corporation and EGCO has been developing a 55MW solar project. Discussions with the EPC contractors are at an advanced stage. CLP and EGCO are also studying the development of a 60MW wind project, for which wind resource measurement is ongoing.

Business Outlook

Opportunities for new IPP solicitation in Thailand will be limited in the near term future. EGCO has placed its focus on preparing plans for the Rayong and Khanom power plants, the PPAs of which will expire in five to six years. It is also reviewing Small Power Producer and Very Small Power Producer Projects which are being promoted by the Thai government for efficiency and environmental benefits. Following the successful acquisition of a 26% interest in the Quezon project in the Philippines, EGCO will continue to look for investment opportunities in the Philippines and other emerging ASEAN countries such as Indonesia.

Taiwan is not expected to require new IPP capacity for a few years and therefore the expansion project at Ho-Ping had been put on hold. Meanwhile, Ho-Ping is exploring opportunities in solar and wind projects which will benefit from higher tariffs and other benefits provided under the recently passed Renewable Energy Act.

In the circumstances, our future development activities will focus on the solar energy and wind farm projects in Thailand on which we are working in partnership with Mitsubishi Corporation and EGCO. On a considerably larger scale, the development of the two coal-fired projects in Vietnam on which CLP is working with Mitsubishi Corporation and local partners are likely to receive increased attention and resources during the course of 2010. At present, CLP holds an effective 24.2% interest in the 1,320MW project at Vung Ang 2 and a 24.5% interest in the 1,980MW project at Vinh Tan 3. It is possible that some further restructuring of the various shareholding interests may occur, in which case CLP might consider taking a larger stake in these projects should they move forward.

There are presently 11 built-operate-transfer (BOT) projects in active development in Vietnam. It is unlikely that all of these will proceed. Success on Vung Ang 2 and Vinh Tan 3 will depend on a range of factors, including a supportive regulatory framework from the Vietnamese authorities and long-term PPAs with the Vietnamese state-owned electric utility (EVN). A particular challenge for CLP and its project partners will be to structure the project in a way which achieves low tariffs through efficient procurement of plant and equipment, but on a basis which nonetheless enables project finance to be obtained from international lenders (the Vietnamese capital market is unable to support such large-scale projects). Our assessment is that only expertly-developed projects with clear national importance to Vietnam as well as experienced and committed shareholders are likely to get done. Our challenge is to make that happen with one or both of the projects in which we are engaged.

Against this background, the outlook for CLP's activities in the Southeast Asia and Taiwan markets is progress in:

- the ongoing management of the operating assets to achieve good financial, operational and safety and environmental performance;

- strengthening our position in EGCO and assist EGCO in pursuing its growth strategies focused mainly on ASEAN markets and renewable energy;

- leveraging CLP's strength in equipment supply, construction and fuel supply management to compete in greenfield developments;

- strategic acquisitions as opportunities arise; and

- contributing towards the Group objective of reducing carbon intensity, while recognising each target market's characteristics.

Within this overall direction, our plans for 2010 are to:

- maintain operational performance at Ho-Ping;
- finalise the EPC contract, financing arrangements and PPA negotiations for the Vung Ang 2 project in Vietnam;
- complete the feasibility study, environmental and safety impact assessment and EPC tendering for the Vinh Tan 3 project in Vietnam;
- commence construction of the 55MW solar project and progress development of wind projects in Thailand; and
- strengthen our position in EGCO and support EGCO to grow through acquisition and greenfield opportunities in ASEAN countries.

Safety

Our objective is to provide a safe environment for our employees, our contractors and all others working with us on all our sites regardless of project complexity and cultural considerations. We want everybody to go home safely to their families when they finish their work.

2009 saw an even greater effort and level of resources than ever before devoted to safety improvement activities and initiatives. This has resulted in significantly better safety performance, with no fatalities on our sites, and a reduction in the injury rate to our employees.

Other achievements in 2009 were the GPEC power station in India reaching 11 years without a lost time injury to employees and the Iona gas plant in Australia reaching 10 years. There were 25 awards to CLP Power Hong Kong from the Occupational Safety and Health Council in Hong Kong. GPEC and Ho-Ping have also separately earned the recognition of NOSA five star and four star safety ratings respectively.

Construction sites are still the highest risk areas. We face particular challenges at Jhajjar in India and Jiangbian in China. We cannot completely eliminate risks but we strive hard to raise safety standards substantially above the locally prevailing norms. Jiangbian has been recognised as a model site in Sichuan. Jhajjar has just achieved 3 million man-hours without a lost time injury.

We will continue to apply Group and Regional level resources to support all those working with us and to provide the necessary management tools and skills to create a culture of zero injuries. We will require our partners and contractors to demonstrate a clear commitment to the same goal.

Human Resources

On 31 December 2009, the Group employed 5,777 staff (2008: 5,717), of whom 3,973 were employed in the Hong Kong electricity and related business, 1,499 by our businesses in Australia, India, Chinese mainland, Southeast Asia and Taiwan, as well as 305 by CLP Holdings. Total remuneration for the year ended 31 December 2009 was HK$3,153 million (2008: HK$3,100 million), including retirement benefits costs of HK$265 million (2008: HK$235 million).

Environment

In 2009, emissions of sulphur dioxide (SO_2), nitrogen oxides (NO_X) and particulates from all our three power stations in Hong Kong were below the regulated base caps in 2009. However, total air emissions in 2009 increased compared to 2008 levels due mainly to a decrease in natural gas coupled with an increase in coal consumption. We continue to face the challenge of the fast depleting gas reserve in the Yacheng field, which resulted in the need to ensure sufficient gas reserves is available for meeting the emission caps for 2010 onwards.

Our efforts to reduce our emissions in Hong Kong include the ongoing Emission Control project at Castle Peak Power Station, and to secure more natural gas to Hong Kong. The Emission Control project includes the retrofit of equipment to reduce emission of SO_2 and NO_X. The first NOx reduction equipment unit was in operation three months ahead of schedule in September 2009, while the commissioning of the first Flue Gas Desulphurisation (FGD) unit is expected to operate by mid 2010. These equipments will enable us to meet the emission caps in 2010 while we continue to secure natural gas to Hong Kong, which will not come online until 2013. On natural gas supply to Hong Kong, we continue to pursue options as stated in the Memorandum of Understanding on cross border energy supply signed in August 2008 between the Government of Hong Kong SAR and the Central People's Government. Work in 2009 was focused on constructing the submarine natural gas pipelines connecting the Black Point Power Station with gas export facilities in the Mainland and associated gas receiving facilities at Black Point Power Station. This is a joint commercial venture between Castle Peak Power Company Limited (CAPCO) and PetroChina. We have commenced work on an Environmental Impact Assessment for the pipelines in Hong Kong waters based upon a study brief issued by the Hong Kong Environmental Protection Department in mid July 2009. Other regulatory approvals are anticipated to be completed by the end of 2010 with construction commencing in 2011. The necessary environmental approvals from Mainland government for the project are handled by our Mainland partners.

2009 saw a year of active climate change discussions in the run up to the United Nations Framework Convention on Climate Change (UNFCCC)'s COP15 at Copenhagen which we were present to witness. The Copenhagen Accord was a disappointing outcome, though not unexpected. We will continue to be involved in this important international negotiation through business sector participation. We hope the Copenhagen Accord will at least help strengthen the move towards an international agreement in Mexico later this year.

What happened at the UNFCCC Climate Summit in Copenhagen reinforces our belief that national policies, not international ones, will have a greater impact on achieving carbon emissions reduction. We recognise that to meet our carbon reduction targets stated in our Climate Vision 2050, support from government policies is essential. In November 2009, we released "Beyond Copenhagen – Powering Asia Responsibly", a follow-up publication to Climate Vision 2050 detailing our progress and plans and reiterating our key messages to policy makers.

Our Group carbon emission intensity has stabilised at a similar level to 2008. We are still on track to meet our 2010 target of reducing our carbon intensity to 0.8kg CO_2/kWh, although this will be a challenge given the lead time it takes to commission energy infrastructure projects. Our Hong Kong carbon emission intensity increased in 2009 compared to 2008 since the gas portion of our fuel mix fell while the coal portion increased.

FINANCIAL PERFORMANCE

Operating earnings before one-off items decreased by HK$1,210 million to HK$8,537 million, while total earnings decreased by HK$2,227 million to HK$8,196 million. One-off items include a gain arising from the sale of Power Generation Services Company Limited (PGS), the operator of BLCP power station in Thailand and provisions for Solar Systems Pty Ltd (Solar Systems) and OneEnergy Limited (OneEnergy) in 2009, and gains arising from the disposal of SEAGas in Australia and the deemed disposal on the restructuring of CSEC Guohua International Power Company Limited (CSEC Guohua) in 2008.

	2009		2008		Increase/ (decrease)
	HK$M	**HK$M**	HK$M	HK$M	HK$M
Electricity business in Hong Kong (HK)		**5,964**		7,549	(1,585)
Electricity sales to Chinese mainland from HK	**74**		80		
Generating facilities in Chinese mainland serving HK	**748**		931		
Other power projects in Chinese mainland	**371**		5		
Energy business in Australia	**736**		604		
Electricity business in India	**446**		320		
Power projects in Southeast Asia and Taiwan	**525**		116		
Other earnings	**107**		508		
Earnings from other investments/operations		**3,007**		2,564	443
Unallocated net finance costs		**(21)**		(21)	
Unallocated Group expenses		**(413)**		(345)	
Operating earnings		**8,537**		9,747	(1,210)
Other income		**153**		657	
Provisions for Solar Systems and OneEnergy		**(477)**		-	
TIPS* related contracts – MTM amortisation		**(16)**		(108)	
Yallourn coal mine subsidence (costs)/insurance recovery		**(1)**		127	
Total earnings		**8,196**		10,423	(2,227)

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

Earnings from HK electricity business fell because of the lower Scheme of Control (SoC) permitted return, which was partially offset by higher net fixed assets and lower interest borne by shareholders.

The reduced earnings from generating facilities in Chinese mainland serving HK were mainly due to lower earnings from Guangdong Nuclear Power Joint Venture Company, Limited (GNPJVC) because of lower shareholders' funds after dividend distributions and the write-back of provision of HK$76 million for dividend withholding tax in 2008.

The sharp rise in earnings from other power projects in Chinese mainland was mainly contributed by Fangchenggang as a result of higher generation output in the second half of 2009. Our Chinese mainland projects also benefited by the full year effect of tariff increases in July/August 2008. The performance of wind projects has improved owing to the earnings contributed by the newly acquired projects from Roaring 40s Renewable Energy Pty Ltd.

Despite the negative effect of a lower average exchange rate of Australian dollar, the earnings from Australia were boosted by improved electricity retail and gas gross margins and favourable Yallourn generation output.

In India, the net exchange gain of Jhajjar's foreign currency forward contracts more than offset the adverse impact of the lower average exchange rate of Indian rupee and the pre-operating expenses incurred for Jhajjar and other wind projects. Gujarat Paguthan Energy Corporation Private Limited (GPEC) continued to operate reliably.

Earnings from Southeast Asia and Taiwan showed significant improvement in 2009. The higher energy tariff (reflecting Taipower's high prior year average coal cost) at Ho-Ping Power Company and increased generation revenues from Electricity Generating Public Company Limited (EGCO)'s existing and new plants contributed to the increase.

Other earnings in 2008 included a one-off gain from the write-back of HK$389 million deferred tax due to the reduction in Hong Kong profits tax rate.

Other income in 2009 represented the gain on sale of 60% interest in PGS. In 2008, the other income comprised the gains of HK$432 million on sale of SEAGas and HK$225 million on deemed disposal from the CSEC Guohua restructuring.

Owing to the difficulty in raising further capital for continuous operation and development of the solar energy technology, a provision for the Group's 20% interest in Solar Systems was made and resulted in a loss of HK$346 million. A provision of HK$131 million was also made for investment in OneEnergy.

The financial information set out in this announcement below does not constitute the Group's statutory accounts for the year ended 31 December 2009, but represents an extract from those accounts. The financial information has been reviewed by the Audit Committee and agreed by the Group's external auditors, PricewaterhouseCoopers.

Consolidated Income Statement

for the year ended 31 December 2009

	Note	**2009 HK$M**	2008 HK$M
Revenue	*5*	**50,668**	54,297
Expenses			
Purchases of electricity, gas and distribution services		**(18,306)**	(18,235)
Operating lease and lease service payments		**(9,201)**	(9,102)
Staff expenses		**(1,819)**	(1,755)
Fuel and other operating expenses		**(6,316)**	(8,570)
Depreciation and amortisation		**(4,332)**	(4,055)
		(39,974)	(41,717)
Other income	*6*	**153**	727
Operating profit	*7*	**10,847**	13,307
Finance costs	*8*	**(3,477)**	(4,245)
Finance income	*8*	**69**	124
Share of results, net of income tax			
Jointly controlled entities		**2,675**	2,624
Associated companies		**(260)**	(27)
Profit before income tax		**9,854**	11,783
Income tax expense	*9*	**(1,665)**	(1,349)
Profit for the year		**8,189**	10,434
Loss/(profit) attributable to minority interests		**7**	(11)
Earnings attributable to shareholders		**8,196**	10,423
Dividends	*10*		
Interim dividends paid		**3,753**	3,757
Final dividend proposed		**2,214**	2,214
		5,967	5,971
Earnings per share, basic and diluted	*11*	**HK$3.41**	HK$4.33

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2009

	2009		2008	
	HK$M	**HK$M**	HK$M	HK$M
Profit for the year		**8,189**		10,434
Other comprehensive income				
Exchange differences on translation of				
Subsidiaries	**4,637**		(4,741)	
Jointly controlled entities	**371**		267	
Associated companies	**62**		(60)	
		5,070		(4,534)
Cash flow hedges				
Net fair value gains	**402**		65	
Reclassification adjustment for amounts included in profit or loss	**(145)**		218	
Transfer to assets	**(7)**		14	
Translation difference	**50**		(30)	
Tax on the above items	**(80)**		(38)	
		220		229
Available-for-sale investments				
Fair value gains	**109**		28	
Tax on the above item	**(18)**		(13)	
		91		15
Revaluation surplus on step-acquisition of subsidiaries		**15**		-
Share of other comprehensive income of jointly controlled entities		**120**		(625)
Reclassification adjustment relating to disposal of jointly controlled entities		**-**		(319)
Other comprehensive income/(loss) for the year, net of tax		**5,516**		(5,234)
Total comprehensive income for the year		**13,705**		5,200
Total comprehensive income attributable to:				
Shareholders of the Company		**13,711**		5,190
Minority interests		**(6)**		10
		13,705		5,200

Consolidated Statement of Financial Position

as at 31 December 2009

	Note	**2009 HK$M**	2008 HK$M
Non-current assets			
Fixed assets	*12(A)*	**96,604**	86,873
Leasehold land and land use rights	*12(B)*	**2,254**	2,250
Goodwill and other intangible assets		**8,105**	6,324
Interests in jointly controlled entities		**18,838**	17,791
Interests in associated companies		**1,813**	242
Finance lease receivables		**2,379**	2,387
Deferred tax assets		**3,355**	2,992
Fuel clause account		**14**	800
Derivative financial instruments		**1,821**	1,505
Available-for-sale investments		**1,692**	224
Other non-current assets		**327**	258
		137,202	121,646
Current assets			
Inventory – stores and fuel		**715**	662
Trade and other receivables	*13*	**9,018**	8,239
Finance lease receivables		**130**	128
Derivative financial instruments		**1,472**	1,374
Bank balances, cash and other liquid funds		**7,994**	782
		19,329	11,185
Current liabilities			
Customers' deposits		**(3,854)**	(3,722)
Trade and other payables	*14*	**(8,926)**	(5,919)
Income tax payable		**(208)**	(366)
Bank loans and other borrowings	*15*	**(6,892)**	(3,313)
Obligations under finance leases		**(1,523)**	(1,403)
Derivative financial instruments		**(1,035)**	(1,198)
		(22,438)	(15,921)
Net current liabilities		**(3,109)**	(4,736)
Total assets less current liabilities		**134,093**	116,910
Financed by:			
Equity			
Share capital		**12,031**	12,031
Share premium		**1,164**	1,164
Reserves	*17*		
Proposed dividends		**2,214**	2,214
Others		**55,352**	47,608
Shareholders' funds		**70,761**	63,017
Minority interests		**107**	105
		70,868	63,122
Non-current liabilities			
Bank loans and other borrowings	*15*	**32,539**	23,383
Obligations under finance leases		**20,332**	20,362
Deferred tax liabilities		**7,009**	6,435
Derivative financial instruments		**617**	837
SoC reserve accounts	*16*	**1,654**	1,826
Other non-current liabilities		**1,074**	945
		63,225	53,788
Equity and non-current liabilities		**134,093**	116,910

Notes:

1. General Information

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

The financial operations of the Company's major subsidiary, CLP Power Hong Kong Limited (CLP Power Hong Kong), and its jointly controlled entity, Castle Peak Power Company Limited (CAPCO), are governed by a SoC entered with the Hong Kong Government. Our electricity business in Hong Kong is therefore also referred to as the SoC business. The current SoC Agreement took effect from 1 October 2008 (2008 SoC), immediately after the expiry of the previous SoC which covered the period from 1 October 1993 to 30 September 2008 (1993 SoC).

These financial statements have been approved for issue by the Board of Directors on 25 February 2010.

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2009 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

2. Basis of Preparation

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 are measured at fair values.

The accounting policies used in the preparation of the Group's financial statements are consistent with those set out in the Group's financial statements for the year ended 31 December 2008, except that the Group has adopted the following new/revised standards and interpretations:

- HKAS 1 (Revised) "Presentation of Financial Statements"
- HKAS 23 (Revised) "Borrowing Costs"
- HKFRS 8 "Operating Segments"
- HK(IFRIC)-Int 16 "Hedges of a Net Investment in a Foreign Operation"
- HK(IFRIC)-Int 18 "Transfers of Assets from Customers"
- Amendments to HKAS 27 "Consolidated and Separate Financial Statements" – Cost of an investment in a Subsidiary, Jointly Controlled Entity or Associate
- Amendments to HKFRS 7 "Financial Instruments: Disclosures" – Improving Disclosures about Financial Instruments
- Amendments to HK(IFRIC)-Int 9 "Reassessment of Embedded Derivatives" and HKAS 39 "Financial Instruments: Recognition and Measurement" – Embedded Derivatives
- Amendment to HK-Int 4 "Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases"
- HKICPA's improvements to HKFRS published in October 2008

Apart from certain presentational changes, the adoption of these new/revised standards and interpretations has no significant impact on the Group's financial statements.

3. Critical Accounting Estimates and Judgments

The Carbon Pollution Reduction Scheme (CPRS) as stated in the 2008 Annual Report is updated with the latest developments.

Australia Carbon Pollution Reduction Scheme

Introduction

Recent developments in climate change policy in Australia pose potentially significant financial risks to the Group's business in Australia. The position up to 31 December 2008 was disclosed on pages 156 to 157 of the 2008 Annual Report.

Background

The Australian Government (the "Government") released its White Paper (the "White Paper"[1]) on the CPRS on 15 December 2008. The White Paper recognised that some coal-fired electricity generators are unlikely to be able to pass on their full carbon costs, because they are constrained by competing generators with lower emissions intensity.

An exposure draft of the CPRS legislation was subsequently introduced on 10 March 2009. This set out what would be required of participants in the CPRS and the mechanics of the CPRS. The Government sought feedback from stakeholders on the terms of the draft legislation and its effectiveness in delivering the White Paper's policy positions.

New measures for the CPRS were announced by the Government on 4 May 2009, including a one year delay in the proposed start date for the CPRS to July 2011, a fixed price for carbon permits for the first year (A$10/tonne) and a target of 25% reduction of 2000 levels by 2020.

The Government introduced a package of 11 emissions trading scheme bills into the Parliament on 14 May 2009[2]. On 4 June 2009, the lower house of parliament (House of Representatives) passed the legislation, allowing it to proceed to a vote in the upper house Senate. The legislation passed by 74 votes to 63 in the lower house, where the Government holds a majority. The bills were debated in the upper house (Senate) during the June and August sittings of the Parliament and were ultimately defeated at a vote of 42 to 30 on 13 August 2009.

The Government then reintroduced the bills to the Parliament in mid November. After progressing again through the House of Representatives, the bills moved on to broader debate in the Senate focussed on an agreed set of amendments between the Government and the Opposition leadership. The Senate voted down the CPRS by 41 to 33.

The CPRS version that was amended in November 2009, following discussions with the Opposition, was reintroduced a third time to the Parliament in February 2010. The Opposition under new leadership, has backed bipartisan emissions targets but has ruled out support for an emissions trading scheme or a carbon tax. Instead the new Opposition policy is proposed to be developed focussed on direct action through land management and energy efficiency measures.

Potential Implications for Electricity Generators

In recognition of the impact on the most emissions intensive electricity generators, the Government has proposed to provide a once-and-for-all allocation of permits to such generators under the Electricity Sector Adjustment Scheme ("ESAS"). Assistance is to be targeted at the most emissions intensive generators as they are unlikely to be able to pass on the full costs of the permits they must buy.

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[1] Refer to Australian Government website: http://climatechange.gov.au/publications/cprs/white-paper/cprs-whitepaper.aspx

[2] Refer to Australian Government website: http://climatechange.gov.au/government/initiatives/cprs/cprs-progress/legislation.aspx

3. Critical Accounting Estimates and Judgments (continued)

Australia Carbon Pollution Reduction Scheme (continued)

In the December 2008 White Paper, the Government estimated the total value of the permits allocated in the ESAS as A$3.5 billion[3] (HK$24 billion). This was based on an assumed carbon price starting at A$25 per tonne, consistent with their modelled scenario of a 5% cut on 2000 emission levels by 2020. However, there remains significant uncertainty over the expected carbon price path with the first CPRS emissions caps not being finalised until 2010 and ongoing international negotiations, the outcome of which is likely to dictate Australian carbon prices. The current draft of the legislation has been amended to increase the quantum of assistance available under the ESAS from 130.7 million permits to 228.7 million permits (a 75% increase) and to extend the period over which ESAS is provided from five years to ten.

Assuming legislation is ultimately passed in line with these amended terms and conditions, these permits will be distributed to eligible companies over the first ten years of the CPRS (mid 2011 through mid 2021). The amount of assistance applicable to companies and assets will be determined prior to the start date of the CPRS. The Government will allocate assistance through ESAS to coal-fired electricity generators according to a methodology that weighs assistance by the historical energy output of each generator and the extent by which the ESAS regulator's estimate of the emissions intensity of each generator exceeds the Government's threshold level of emissions intensity. However, to ensure that assistance does not lead to windfall gains, a review will be held in 2018 to determine whether generators in receipt of ESAS assistance are likely to earn windfall profits, taking into account actual and forecast net revenues, compared to those predicted when assistance was originally estimated.

Potential Implications for TRUenergy

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

Given the lack of support from the Opposition for the existing CPRS proposal, uncertainty remains regarding the timing and structure of any CPRS. As such, the introduction of the CPRS presents an unquantifiable, but potentially material risk to the Group. At 31 December 2009, no impact of the CPRS has been reflected in the Group's financial statements (including impairment model cash flows, assumptions on discount rate, asset useful lives, outage rates and capital expenditure) on the basis that there is currently uncertainty in relation to the likely structure, timing and impact of any CPRS.

The carrying amount of the Yallourn power station assets which comprised a single cash generating unit, was A$1,662 million or HK$11,592 million at 31 December 2009 (2008: A$1,682 million or HK$9,036 million). Other parts of the Group in Australia may also be impacted adversely or favourably.

[3] In 2008/09 Australian dollars

4. Segment Information

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

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

	Hong Kong HK$M	Australia HK$M	Chinese Mainland HK$M	India HK$M	Southeast Asia & Taiwan HK$M	Unallocated Items HK$M	Total HK$M
For year ended 31 December 2009							
Revenue	28,484	19,166	180	2,786	43	9	**50,668**
Operating profit/(loss)	8,689	1,752	(100)	756	163	(413)	**10,847**
Share of results, net of income tax							
Jointly controlled entities	1,107	(40)	1,218 [(a)]	-	390	-	**2,675**
Associated companies	-	(354)	94 [(a)]	-	-	-	**(260)**
Profit/(loss) before net finance costs and income tax	9,796	1,358	1,212	756	553	(413)	**13,262**
Finance costs	(2,673)	(666)	(35)	(82)	-	(21)	**(3,477)**
Finance income	11	30	5	23	-	-	**69**
Profit/(loss) before income tax	7,134	722	1,182	697	553	(434)	**9,854**
Income tax expense	(989)	(349)	(70)	(251)	(6)	-	**(1,665)**
Profit/(loss) for the year	6,145	373	1,112	446	547	(434)	**8,189**
Loss attributable to minority interests	-	-	7	-	-	-	**7**
Earnings/(loss) attributable to shareholders	6,145	373	1,119	446	547	(434)	**8,196**
Capital additions	6,105	1,349	239	2,111	3	30	**9,837**
Depreciation and amortisation	3,088	1,132	68	35	-	9	**4,332**
Impairment charge	-	264	19	16	-	-	**299**
At 31 December 2009							
Fixed assets	74,567	17,283	1,730	2,960	3	61	**96,604**
Interests in							
Jointly controlled entities	7,545	1,144	7,447	-	2,702	-	**18,838**
Associated companies	-	37	1,776	-	-	-	**1,813**
Deferred tax assets	-	3,291	64	-	-	-	**3,355**
Other assets	5,895	15,277	1,919	7,331	244	5,255	**35,921**
Total assets	88,007	37,032	12,936	10,291	2,949	5,316	**156,531**
Bank loans and other borrowings	22,429	11,155	784	3,063	-	2,000	**39,431**
Current and deferred tax liabilities	6,425	24	139	629	-	-	**7,217**
Obligations under finance leases	21,838	17	-	-	-	-	**21,855**
Other liabilities	9,939	4,804	1,263	965	3	186	**17,160**
Total liabilities	60,631	16,000	2,186	4,657	3	2,186	**85,663**

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
For year ended 31 December 2008							
Revenue	30,471	19,432	169	4,197	24	4	54,297
Operating profit/(loss)	10,839	2,022	282	528	(13)	(351)	13,307
Share of results, net of income tax							
Jointly controlled entities	1,581	21	889 [(a)]	-	133	-	2,624
Associated companies	-	(27)	-	-	-	-	(27)
Profit/(loss) before net finance costs and income tax	12,420	2,016	1,171	528	120	(351)	15,904
Finance costs	(3,409)	(731)	(31)	(45)	-	(29)	(4,245)
Finance income	15	46	3	52	-	8	124
Profit/(loss) before income tax	9,026	1,331	1,143	535	120	(372)	11,783
Income tax (expense)/credit	(883)	(276)	29	(215)	(4)	-	(1,349)
Profit/(loss) for the year	8,143	1,055	1,172	320	116	(372)	10,434
Profit attributable to minority interests	-	-	(11)	-	-	-	(11)
Earnings/(loss) attributable to shareholders	8,143	1,055	1,161	320	116	(372)	10,423
Capital additions	5,465	1,757	258	424	-	24	7,928
Depreciation and amortisation	2,944	1,047	51	9	-	4	4,055
Impairment charge/(reversal)	2	122	(55)	62	-	-	131
At 31 December 2008							
Fixed assets	71,869	13,001	1,588	373	-	42	86,873
Interests in							
Jointly controlled entities	7,014	864	7,540	-	2,373	-	17,791
Associated companies	-	242	-	-	-	-	242
Deferred tax assets	-	2,925	67	-	-	-	2,992
Other assets	6,892	11,476	652	5,746	121	46	24,933
Total assets	85,775	28,508	9,847	6,119	2,494	88	132,831
Bank loans and other borrowings	14,848	9,087	824	1,271	-	666	26,696
Current and deferred tax liabilities	6,210	10	57	524	-	-	6,801
Obligations under finance leases	21,752	13	-	-	-	-	21,765
Other liabilities	9,594	3,917	62	678	14	182	14,447
Total liabilities	52,404	13,027	943	2,473	14	848	69,709

Note (a): Out of the amounts, HK$784 million (2008: HK$896 million) was attributed to investments in GNPJVC and Hong Kong Pumped Storage Development Company, Limited (PSDC), whose generating facilities serve Hong Kong.

5. Revenue

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

	2009	2008
	HK$M	HK$M
Sales of electricity	**42,754**	44,249
Lease service income	**2,327**	3,754
Finance lease income	**368**	428
Sales of gas	**4,775**	5,093
Other revenue	**587**	966
	50,811	54,490
Transfer for SoC (note)	**(143)**	(193)
	50,668	54,297

Note: Under the SoC, if the gross tariff revenue in Hong Kong in a period is less than or exceeds the total of the SoC operating costs, permitted return and taxation charges, such deficiency shall be deducted from, or such excess shall be added to, the Tariff Stabilisation Fund under the 2008 SoC – previously the Development Fund under the 1993 SoC. In any period, the amount of deduction from or addition to these funds is recognised as revenue adjustment to the extent that the return and charges under the SoC are recognised in profit or loss.

6. Other Income

	2009	2008
	HK$M	HK$M
Gain on sale of PGS (note)	**153**	-
Gain on sale of SEAGas	**-**	502
Gain on deemed disposal from CSEC Guohua restructuring	**-**	225
	153	727

Note: In December 2009, CLP sold its entire 60% interest in PGS, a jointly controlled entity in Thailand, to EGCO and Banpu Power Limited at total considerations of US$20 million (HK$156 million) resulting in a gain of HK$153 million.

7. Operating Profit

Operating profit is stated after charging the following:

	2009 **HK$M**	2008 HK$M
Auditors' remuneration		
Audit	**27**	25
Permissible non-audit services	**10**	13
Net loss on disposal of fixed assets	**172**	140

8. Finance Costs and Income

	2009 **HK$M**	2008 HK$M
Finance costs		
Interest expenses on		
Bank loans and overdrafts	**713**	831
Other borrowings		
Wholly repayable within five years	**165**	120
Not wholly repayable within five years	**450**	527
Tariff Stabilisation Fund/Development Fund (note)	**3**	132
Customers' deposits, fuel clause over-recovery and others	**-**	10
Finance charges under finance leases	**2,190**	2,930
Other finance charges	**207**	100
Fair value (gain)/loss on derivative financial instruments		
Cash flow hedges, reclassify from equity	**6**	5
Fair value hedges	**67**	(151)
(Gain)/loss on hedged items in fair value hedges	**(56)**	121
Other net exchange loss on financing activities	**50**	-
	3,795	4,625
Less: amount capitalised	**(318)**	(380)
	3,477	4,245
Finance income		
Interest income on short-term investments, bank deposits and fuel clause under-recovery	**69**	124

Note: CLP Power Hong Kong is required to credit, to a Rate Reduction Reserve in its financial statements, a charge of the average of one-month Hong Kong interbank offered rate on the average balance of the Tariff Stabilisation Fund under the 2008 SoC, and 8% per annum on the average balance of the Development Fund under the 1993 SoC.

9. Income Tax Expense

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

	2009	2008
	HK$M	HK$M
Current income tax		
Hong Kong	**613**	817
Outside Hong Kong	**151**	127
	764	944
Deferred tax		
Hong Kong (note)	**376**	68
Outside Hong Kong	**525**	337
	901	405
	1,665	1,349

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits for the year. Income tax on profits assessable outside Hong Kong has been provided at the rates prevailing in the respective jurisdictions.

Note: The amount in 2008 included a write-back of deferred tax liabilities of HK$327 million as the Hong Kong profits tax rate was reduced from 17.5% to 16.5%.

10. Dividends

	2009		2008	
	HK$ per share	**HK$M**	HK$ per share	HK$M
Interim dividends paid	**1.56**	**3,753**	1.56	3,757
Final dividend proposed	**0.92**	**2,214**	0.92	2,214
	2.48	**5,967**	2.48	5,971

At the Board meeting held on 25 February 2010, the Directors recommended a final dividend of HK$0.92 per share (2008: HK$0.92 per share). Such dividends are to be proposed at the Annual General Meeting on 27 April 2010 and are not reflected as dividends payable in the financial statements, but as a separate component of the shareholders' funds at 31 December 2009.

11. Earnings per Share

The earnings per share is computed as follows:

	2009	2008
Earnings attributable to shareholders (HK$M)	**8,196**	10,423
Weighted average number of shares in issue (thousand shares)	**2,406,143**	2,407,873
Earnings per share (HK$)	**3.41**	4.33

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 2009 (2008: nil).

12. Fixed Assets, Leasehold Land and Land Use Rights

Fixed assets, leasehold land and land use rights totalled HK$98,858 million (2008: HK$89,123 million). Included in fixed assets is plant under construction of book value of HK$7,825 million (2008: HK$7,503 million). Movements in the accounts are as follows:

(A) Fixed Assets

	Freehold Land HK$M	Building Owned HK$M	Building Leased [(a)] HK$M	Plant, Machinery and Equipment Owned HK$M	Plant, Machinery and Equipment Leased [(a)] HK$M	Total HK$M
Net book value at 1 January 2009	182	8,110	4,615	56,800	17,166	86,873
Acquisition of subsidiaries	14	-	-	403	-	417
Additions	526	922	110	6,564	1,494	9,616
Transfers and disposals	-	(15)	(5)	(148)	(122)	(290)
Depreciation	-	(179)	(268)	(2,490)	(1,116)	(4,053)
Impairment charge	-	(4)	-	(46)	-	(50)
Exchange differences	67	48	-	3,966	10	4,091
Net book value at 31 December 2009	**789**	**8,882**	**4,452**	**65,049**	**17,432**	**96,604**
Cost	789	11,682	9,790	99,388	37,898	159,547
Accumulated depreciation and impairment	-	(2,800)	(5,338)	(34,339)	(20,466)	(62,943)
Net book value at 31 December 2009	**789**	**8,882**	**4,452**	**65,049**	**17,432**	**96,604**

Note (a): The leased assets included mainly CAPCO's operational plant and associated fixed assets of net book value of HK$21,838 million (2008: HK$21,752 million), which are deployed for the generation of electricity supplied to CLP Power Hong Kong under the Electricity Supply Contract between the two parties. This arrangement has been accounted for as a finance lease in accordance with HK(IFRIC)-Int 4 and HKAS 17.

(B) Leasehold Land and Land Use Rights

	2009 HK$M
Net book value at 1 January	2,250
Acquisition of subsidiaries	1
Additions	97
Transfers and disposals	(40)
Amortisation	(54)
Net book value at 31 December	**2,254**
Cost	2,571
Accumulated amortisation	(317)
Net book value at 31 December	**2,254**

13. Trade and Other Receivables

	2009 HK$M	2008 HK$M
Trade receivables	**6,150**	5,655
Deposits and prepayments	**2,593**	2,085
Dividend receivables from jointly controlled entities and associated company	**194**	452
Current accounts with jointly controlled entities	**81**	47
	9,018	8,239

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

During the year ended 31 December 2009, TRUenergy in Australia revised its methodology in relation to doubtful debt provisioning to reflect a more conservative approach. The rationale for the change in provisioning methodology came about due to changes in the economic climate, a competitive market and an increasing trend in bad debt levels. Currently the provision for doubtful debts is determined by grouping together trade receivables with similar credit risk characteristics and collectively assessing them for likelihood of recovery, taking into account prevailing economic conditions and the days overdue. 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 2009, TRUenergy held bank guarantees of HK$27 million (2008: nil) from large industrial and commercial customers as security in relation to outstanding receivable balances.

The ageing analysis of the trade receivables at 31 December is as follows:

	2009				2008			
	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	**4,938**	**543**	**(42)**	**5,439**	5,173	28	(3)	5,198
Overdue								
1 – 30 days	**138**	**297**	**(35)**	**400**	285	23	(23)	285
31 – 90 days	**30**	**206**	**(57)**	**179**	58	75	(36)	97
Over 90 days	**16**	**410**	**(294)**	**132**	2	268	(195)	75
	5,122	**1,456**	**(428)**	**6,150**	5,518	394	(257)	5,655

14. Trade and Other Payables

	2009	2008
	HK$M	HK$M
Trade payables	**3,368**	2,113
Other payables and accruals	**4,038**	2,376
Current accounts with jointly controlled entities	**1,520**	1,430
	8,926	5,919

The ageing analysis of the trade payables at 31 December is as follows:

	2009	2008
	HK$M	HK$M
Below 30 days (including amount not yet due)	**3,334**	2,099
31 – 90 days	**8**	9
Over 90 days	**26**	5
	3,368	2,113

15. Bank Loans and Other Borrowings

	2009	2008
	HK$M	HK$M
Current		
Short-term bank loans	**1,838**	2,600
Long-term bank loans	**5,054**	713
	6,892	3,313
Non-current		
Long-term bank loans	**15,370**	11,323
Other long-term borrowings		
MTN programme (USD) due 2012	**2,523**	2,578
MTN programme (HKD) due 2012 to 2023	**8,520**	5,740
MTN programme (JPY) due 2024	**1,260**	-
Electronic Promissory Notes (EPN) and MTN programme (AUD) due 2012 to 2015	**4,866**	3,742
	32,539	23,383
Total borrowings	**39,431**	26,696

16. SoC Reserve Accounts

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

	2009	2008
	HK$M	HK$M
Tariff Stabilisation Fund	**1,653**	1,756
Rate Reduction Reserve	**1**	70
	1,654	1,826

17. Reserves

	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 2009	2,492	(1,203)	272	562	47,699	49,822
Revaluation reserve realised upon depreciation	-	-	-	(3)	3	-
Appropriation of reserves of jointly controlled entities	-	-	-	10	(10)	-
Total comprehensive income attributable to shareholders	-	5,069	290	156	8,196	13,711
Dividends paid						
2008 final	-	-	-	-	(2,214)	(2,214)
2009 interim	-	-	-	-	(3,753)	(3,753)
Balance at 31 December 2009	**2,492**	**3,866**	**562**	**725**	**49,921** [(b)]	**57,566**

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) After the proposed final dividends of HK$2,214 million (2008: HK$2,214 million), the balance of retained profits at 31 December 2009 was HK$47,707 million (2008: HK$45,485 million).

18. Contingent Liabilities

(A) GPEC - Deemed Generation Incentive Payment

Under the original power purchase agreement between GPEC and its off-taker Gujarat Urja Vikas Nigam Ltd (GUVNL), GUVNL was required to make a "deemed generation incentive" payment to GPEC when the plant availability was above 68.5% (70% as revised subsequently). GUVNL has been making such payments since December 1997. In September 2005, GUVNL filed a petition before the Gujarat Electricity Regulatory Commission (GERC) claiming that the "deemed generation incentive" payment should not be paid for the period when the plant was declared with its availability 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 amounts to about Rs.7,260 million or HK$1,207 million (2008: Rs.7,260 million or HK$1,157 million).

On 18 February 2009, the GERC made an adjudication on GUVNL's claim. On the substantive issue, the GERC decided that the "deemed generation incentive" was not payable when GPEC's plant was declared with its availability on naphtha. However, the GERC also decided that GUVNL's claim in respect of deemed generation payments up to 14 September 2002 was time-barred under the Limitations Act of India. Hence, the total amount of the claim allowed by the GERC was reduced to Rs.2,896 million or HK$482 million. GPEC filed an appeal with the Appellate Tribunal for Electricity ("ATE") against the decision of the GERC.

GUVNL also filed an appeal in the ATE against an Order of the GERC rejecting GUVNL's claims on interest on deemed loan and the time barring of the deemed generation claim to 14 September 2002.

On 19 January 2010, the ATE dismissed both GPEC and GUVNL's appeals and upheld the decision of the GERC. GPEC intends to appeal the ATE order to the Supreme Court.

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

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

CLP Wind Farms (India) Private Limited, GPEC and CLP India group companies ("CLP India") have invested (or are committed to invest) in around 350MW of wind power projects to be developed with Enercon India Limited ("EIL"). EIL's major shareholder, Enercon GmbH, has commenced litigation against EIL claiming infringement of intellectual property rights. CLP India, as a customer of EIL, has been named as a pro-forma defendant. As at 31 December 2009, the Group considered that CLP India is an innocent purchaser and the legal proceedings will not result in material outflow of economic benefits to the Group.

SUPPLEMENTARY INFORMATION ON TREASURY ACTIVITIES

The Group engaged in new financing activities in 2009 to support the expansion of our electricity business in Hong Kong and overseas. During the year, CLP Power Hong Kong arranged a total of HK$8.9 billion new financing. This comprises of HK$4.0 billion bond issuance with tenor of 3 to 15 years at fixed interest rates ranging from 2.25% to 4.62% under the MTN Programme and HK$4.9 billion bank loan facilities.

TRUenergy in Australia rolled over a A$300 million (HK$2.1 billion) working capital loan in June 2009 and completed refinancing of a A$350 million (HK$2.4 billion) long-term credit facility in August 2009. In India, Jhajjar Power Limited completed a Rs.39 billion (HK$6.5 billion) project level loan in September 2009 to fund the construction of the 1,320MW coal-fired project.

As at 31 December 2009, financing facilities totalling HK$59.4 billion were available to the Group, including HK$24.0 billion for TRUenergy and subsidiaries in India. Of the facilities available, HK$39.4 billion had been drawn down, of which HK$14.2 billion relates to TRUenergy and subsidiaries in India. Facilities totalling HK$68.9 billion were available to the Group and CAPCO, of which HK$47.5 billion had been drawn down.

The Group's total debt to total capital ratio was 35.7% as at 31 December 2009 (2008: 29.7%), and was 30.7% (2008: 29.1%) after netting off bank balances, cash and other liquid funds at 31 December 2009. The interest cover was 8 times (2008: 9 times).

In June 2009, Moody's re-affirmed the A2 and S&P re-affirmed the A- credit ratings of CLP Holdings, both with stable outlook. At the same time, Moody's and S&P also re-affirmed the A1 and A credit ratings of CLP Power Hong Kong respectively, both with stable outlook.

According to the credit rating agencies, the ratings of CLP Holdings and CLP Power Hong Kong reflected the strong and predictable cash flows generated from CLP Power Hong Kong under a stable regulatory environment in Hong Kong as well as its sound liquidity profile, supported by the Group's good track record in accessing domestic and international bank and capital markets, and its well-managed debt maturity profile. On the other hand, the lowering of SoC permitted return and leverage up of the SoC business would weaken CLP Holdings' financial profile from a strong level, and CLP Holdings' further expansion into non-regulated merchant energy and retail business in the region could raise the Group's overall business risk profile.

In May 2009, S&P downgraded TRUenergy Holdings' rating from BBB to BBB- to reflect TRUenergy's diminishing financial flexibility in the medium term due to significant uncertainty on the implications of any CPRS. Rating outlook was revised from negative to stable after TRUenergy had completed a A$350 million 3-year bank facility refinancing.

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

The fair value of the Group's outstanding derivative instruments as at 31 December 2009 was at a surplus of HK$1,641 million, which represents the net amount we would receive if these contracts were closed out at 31 December 2009.

As at 31 December 2009, the Group had gross outstanding derivative instruments amounting to HK$99.8 billion.

CORPORATE GOVERNANCE

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

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

Throughout the year, the Company met the Code Provisions as set out in the Stock Exchange Code contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong. Details of the continuing evolution of our corporate governance practices in 2009 are set out in the Corporate Governance Report.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the financial statements for the year ended 31 December 2009. It has also reviewed the findings and opinion of Group Internal Audit and management on the effectiveness of the Company's system of internal control. All of the Audit Committee members are appointed from the Independent Non-executive Directors, with the Chairman, Professor Judy Tsui and Mr. Nicholas C. Allen having appropriate professional qualifications and experience in financial matters.

Since 1989, the Company has adopted its own Code for Securities Transactions by Directors, largely based on the Model Code set out in Appendix 10 of the Listing Rules. Our Code is periodically updated to reflect new regulatory requirements, as well as our strengthened regime of disclosure of interests in our securities. This Code is on terms no less exacting than the required standard set out in the Model Code. All Directors have confirmed, following specific enquiry by the Company, that throughout the year ended 31 December 2009 they complied with the required standard set out in the Model Code and our own Code for Securities Transactions.

We have voluntarily extended the ambit of the CLP Code for Securities Transactions to cover Senior Management (comprising the 13 managers, whose biographies are set out in the Annual Report and on CLP's website) and other "Specified Individuals" such as senior managers in the CLP Group. With respect to this voluntary extension of the CLP Securities Code to Senior Management, a member of the Senior Management who is not a Director of the Company advised the Company in July 2009 that his spouse had purchased 2,000 shares in CLP Holdings in June 2009. As soon as he himself became aware of this purchase, he brought the matter to the attention of the Company and updated the Company with the details of his interests in CLP Holdings' securities. The other members of the Senior Management have all confirmed, following specific enquiry by the Company, that throughout the year ended 31 December 2009 they complied with the required standard set out in the Model Code and CLP Securities Code.

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

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the year ended 31 December 2009.

FINAL DIVIDENDS

The final dividend of HK$0.92 per share (2008: HK$0.92 per share) will be payable on all shares of HK$5.00 each in issue as at the close of business on 16 April 2010 after deducting any shares repurchased and cancelled up to the close of business on 16 April 2010. As at 31 December 2009, 2,406,143,400 shares of HK$5.00 each were in issue. If approved, the final dividend of HK$0.92 per share will be payable on 28 April 2010 to shareholders registered as at 27 April 2010.

The Register of Shareholders will be closed from 19 April 2010 to 27 April 2010, both days inclusive. To rank for the final dividend, all transfers should be lodged with the Company's Registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 16 April 2010.

ANNUAL GENERAL MEETING

The twelfth Annual General Meeting (AGM) will be held at Jockey Club Auditorium, The Hong Kong Polytechnic University, Hung Hom, Kowloon, Hong Kong on Tuesday, 27 April 2010, at 11:00 a.m. The Notice of AGM will be published on the websites of the Company and the Stock Exchange of Hong Kong Limited and despatched to Shareholders on or about 24 March 2010.

By Order of the Board
April Chan
Company Secretary

Hong Kong, 25 February 2010

The Company's Annual Report containing the Directors' Report and Financial Statements for the year ended 31 December 2009 will be published on the Company's website at www.clpgroup.com and the website of the Stock Exchange of Hong Kong on or about 11 March 2010. The Annual Report, the CLP Group Sustainability Report and the Notice of Annual General Meeting will be despatched to shareholders on or about 24 March 2010. All of these will be made available on the Company's website.

CLP Holdings Limited

(incorporated in Hong Kong with limited liability)

(Stock Code: 00002)

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

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

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