



CLP Power Hong Kong Financing Limited

(incorporated with limited liability under the laws of the British Virgin Islands)
unconditionally and irrevocably guaranteed by

CLP Power Hong Kong Limited

中華電力有限公司

(incorporated with limited liability under the laws of Hong Kong)

U.S.\$4,500,000,000

Medium Term Note Programme

On 3rd April, 2002, CLP Power Hong Kong Financing Limited (the “**Issuer**”) established a U.S.\$1,500,000,000 Medium Term Note Programme (the “**Programme**”) and issued an offering circular on that date describing the Programme. The size of the Programme was increased on 2nd July, 2009 from U.S.\$1,500,000,000 to U.S.\$2,500,000,000, on 31st May, 2011 from U.S.\$2,500,000,000 to U.S.\$3,500,000,000 and was further increased on 31st May, 2013 from U.S.\$3,500,000,000 to U.S.\$4,500,000,000. This Offering Circular supersedes any previous offering circular and any supplement thereto issued in respect of the Programme prior to the date of this Offering Circular. Any Notes (as defined below) issued under this Programme on or after the date of this Offering Circular are issued subject to the provisions described herein. This does not affect any Notes issued prior to the date of this Offering Circular.

Under this Programme, the Issuer may from time to time issue notes (the “**Notes**”) denominated in any currency agreed between the Issuer, the Guarantor (as defined below) and the relevant Dealer (as defined below).

The payments of all amounts due in respect of the Notes will be unconditionally and irrevocably guaranteed by CLP Power Hong Kong Limited (the “**Guarantor**”, the “**Company**” or “**CLP Power**”).

Notes may be issued in bearer or registered form (respectively “**Bearer Notes**” and “**Registered Notes**”). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed U.S.\$4,500,000,000 (or its equivalent in other currencies calculated as described herein), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under “Summary of the Programme” and any additional Dealer appointed under the Programme from time to time by the Issuer (each a “**Dealer**” and together the “**Dealers**”), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the “**relevant Dealer**” shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

Application has been made to The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”) for the listing of the Programme by way of debt issues to professional investors only during the 12 month period from the date of this Offering Circular on the Hong Kong Stock Exchange. Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under “Terms and Conditions of the Notes”) of Notes will be set out in a pricing supplement (the “**Pricing Supplement**”) which, with respect to Notes to be listed on the Hong Kong Stock Exchange, will be delivered to the Hong Kong Stock Exchange on or before the date of issue of the Notes of such Tranche.

The Programme provides that Notes may be listed on such other or further stock exchange(s) as may be agreed between the Issuer, the Guarantor and the relevant Dealer. The Issuer may also issue unlisted Notes.

Moody’s Investors Service Inc. has assigned (P)A1/(P)P-1 senior unsecured/short term ratings to the Programme and Standard & Poor’s Rating Services, a division of the McGraw Hill Companies Inc., has assigned A/A-1 long term/short term ratings to the Programme. Tranches of Notes issued under the Programme may be rated or unrated. Where a Tranche of Notes is rated, such rating will not necessarily be the same as the ratings assigned to the Programme. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The Notes and the Guarantee (as defined under “Terms and Conditions of the Notes”) have not been and will not be registered under the U.S. Securities Act of 1933, as amended, (the “**Securities Act**”) or with any securities regulatory authority of any state or other jurisdiction of the United States and the Notes may include bearer notes that are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered or sold or, in the case of Bearer Notes, delivered, in the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act or, in the case of Bearer Notes, the U.S. Internal Revenue Code of 1986, as amended). See “Form of the Notes” for a description of the manner in which Notes will be issued. Registered Notes are subject to certain restrictions on transfer (see “Subscription and Sale and Transfer and Selling Restrictions”).

The Issuer, the Guarantor and the Trustee (as defined herein) may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event (in the case of Notes intended to be listed on the Hong Kong Stock Exchange) a supplementary offering circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

Arranger

HSBC

Dealers

ANZ
BNP PARIBAS
Citigroup
Crédit Agricole CIB
Deutsche Bank
HSBC
MUFG
Morgan Stanley
Standard Chartered Bank (Hong Kong) Limited

Barclays
BofA Merrill Lynch
Commonwealth Bank of Australia
Credit Suisse
Goldman Sachs (Asia) L.L.C.
J.P. Morgan
Mizuho Securities
Oversea-Chinese Banking Corporation Limited
UBS

The date of this Offering Circular is 2 April, 2015

This Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “HKSE Rules”) for the purpose of giving information with regard to each of the Issuer and the Guarantor. Each of the Issuer and the Guarantor accepts full responsibility for the accuracy of the information contained in this Offering Circular and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular.

This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see “*Documents Incorporated by Reference*”). This Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of this Offering Circular.

To the fullest extent permitted by law, none of the Dealers, the Trustee or the Arranger accepts any responsibility for the contents of this Offering Circular or for any other statement, made or purported to be made by the Arranger, the Trustee or a Dealer or on its behalf in connection with the Issuer, the Guarantor, or the issue and offering of the Notes. The Arranger, the Trustee and each Dealer accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement. Neither any Dealer nor the Trustee accepts any liability in relation to the information contained or incorporated by reference in this Offering Circular or any other information provided by the Issuer or the Guarantor in connection with the Programme.

No person is or has been authorised by the Issuer or the Guarantor to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Guarantor, any of the Dealers or the Trustee.

Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer, the Guarantor, the Arranger, any of the Dealers or the Trustee that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and/or the Guarantor. Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer, the Guarantor, any of the Dealers or the Trustee to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer and/or the Guarantor is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers and the Trustee expressly do not undertake to review the financial condition or affairs of the Issuer or the Guarantor during the life of the Programme or to advise any investor in the Notes of any information coming to their attention. Investors should review, *inter alia*, the most recently published documents incorporated by reference into this Offering Circular when deciding whether or not to purchase any Notes.

The Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered directly or indirectly within the United States or its possessions or to U.S. persons, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended and the regulations promulgated thereunder.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer, the Guarantor, the Arranger, the Dealers and the Trustee do not represent that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Guarantor, the Arranger, the Dealers or the Trustee which would permit a public offering of any Notes or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the United Kingdom, Japan, the European Economic Area, the Hong Kong Special Administrative Region (“Hong Kong”), Singapore and the British Virgin Islands (see “*Subscription and Sale and Transfer and Selling Restrictions*”).

In making an investment decision, investors must rely on their own examination of the Issuer and the Guarantor and the terms of the Notes being offered, including the merits and risks involved. The Notes and the Guarantee have not been approved or disapproved by the United States Securities and Exchange Commission or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities approved this Offering Circular or confirmed the accuracy or determined the adequacy of the information contained in this Offering Circular. Any representation to the contrary is unlawful.

None of the Issuer, the Guarantor, the Arranger, the Dealers and the Trustee makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

The Offering Circular is an advertisement and is not a prospectus of EU Directive 2003/71/EC.

U.S. INFORMATION

This Offering Circular may be submitted on a confidential basis in the United States to a limited number of QIBs or Institutional Accredited Investors (each as defined under “*Form of the Notes*”) for informational use solely in connection with the consideration of the purchase of the Notes being offered hereby. Its use for any other purpose in the United States is not authorized. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

The Notes are being offered and sold outside the United States to non-U.S. persons pursuant to Regulation S under the Securities Act (“Regulation S”). Registered Notes may be offered or sold within the United States only to QIBs or to Institutional Accredited Investors, in either case in transactions exempt from registration under the Securities Act. Each U.S. purchaser of Registered Notes is hereby notified that the offer and sale of any Registered Notes to it may be being made in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A under the Securities Act (“Rule 144A”).

The Notes and the Guarantee have not been approved or disapproved by the United States Securities and Exchange Commission, any state securities commission in the United States or any other United States regulatory authority, nor has any of the foregoing authorities passed upon or endorsed the merits of the Offering of the Notes or the accuracy or the adequacy of this Offering Circular. Any representation to the contrary is a criminal offence in the United States.

Purchasers of Definitive IAI Registered Notes will be required to execute and deliver an IAI Investment Letter (as defined under “*Terms and Conditions of the Notes*”). Each purchaser or holder of Definitive IAI Registered Notes, Notes represented by a Rule 144A Global Note or any Registered Notes in exchange or substitution therefor (together “Legended Notes”) will be deemed, by its acceptance or purchase of any such Legended Notes, to have made certain representations and agreements intended to restrict the resale or other transfer of such Notes as set out in “*Subscription and Sale and Transfer and Selling Restrictions*”. Unless otherwise stated, terms used in this paragraph have the meanings given to them in “*Form of the Notes*”.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER CHAPTER 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

AVAILABLE INFORMATION

The Guarantor has agreed that, for so long as any of the Notes remains outstanding and are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, the Guarantor will, during any period in which the Guarantor is neither subject to Section 13 or 15(d) under the United States Securities Exchange Act of 1934 (the “Exchange Act”), nor exempt from reporting under the Exchange Act pursuant to Rule 12g3-2(b) thereunder, make available upon request to (i) any holder or beneficial owner of a Note, or (ii) any prospective purchaser of a Note or a beneficial interest therein who is a qualified institutional buyer within the meaning of Rule 144A designated by such holder or owner, the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the Securities Act.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Notes are governed by English law, and the Notes do not provide for the appointment by the Issuer or the Guarantor of an agent for service of process in the United States or for submission by the Issuer or the Guarantor to the jurisdiction of U.S. federal or state courts. As a result, investors may find it difficult in a lawsuit based on the civil liability provisions of the U.S. federal securities laws (i) to effect service within the United States, upon the Issuer, the Guarantor or their directors and executive officers located outside the United States, (ii) to enforce in U.S. courts or outside the U.S. judgments obtained against the Issuer, the Guarantor or such persons in U.S. courts, (iii) to enforce in U.S. courts judgments obtained against the Issuer, the Guarantor or such persons in courts in jurisdictions outside the United States, and (iv) to enforce against the Issuer, the Guarantor or such persons in the British Virgin Islands, England or Hong Kong, whether in original actions or in actions for the enforcement of judgments of U.S. courts, civil liabilities based solely upon the U.S. federal securities laws.

The Issuer is an exempted limited liability company organised under the laws of the British Virgin Islands. The majority of the officers and directors of the Issuer named herein reside outside the United States and all or a substantial portion of the assets of the Issuer and such officers and directors are located outside the United States. Unless the Issuer has appointed a process agent in the United States, it may not be possible for investors to effect service of process outside the British Virgin Islands upon the Issuer or such persons.

The Issuer has been advised by its British Virgin Islands legal advisers, Harney Westwood & Riegels LLP, that any final and conclusive monetary judgment for a definite sum obtained against the Issuer in the courts of the United States in respect of the Notes would be treated by the courts of the British Virgin Islands as a cause of action in itself so that no retrial of the issues would be necessary provided that:

- (i) the courts of the United States had jurisdiction in the matter and the Issuer either submitted to such jurisdiction or was resident or carrying on business within such jurisdiction and was duly served with process;
- (ii) the judgment given by the courts of the United States was not in respect of penalties, taxes, fines or similar fiscal or revenue obligations of the Issuer;
- (iii) in obtaining judgment there was no fraud on the part of the person in whose favour judgment was given or on the part of the courts of the United States;
- (iv) recognition or enforcement of the judgment in the British Virgin Islands would not be contrary to public policy; and
- (v) the proceedings pursuant to which judgment was obtained were not contrary to natural justice.

A British Virgin Islands court may stay proceedings if concurrent proceedings are being brought elsewhere.

The Guarantor is a corporation organised under the laws of Hong Kong. The majority of the officers and directors of the Guarantor named herein reside outside the United States and all or a substantial portion of the assets of the Guarantor and such officers and directors are or may be located outside the United States. As a result, it may not be possible for investors to effect service of process outside Hong Kong upon the Guarantor or such persons, or to enforce judgments against them obtained in courts outside Hong Kong predicated upon civil liabilities of the Guarantor or such directors and officers under laws other than Hong Kong law, including any judgment predicated upon U.S. federal securities laws. The Guarantor has been advised by its Hong Kong counsel, King & Wood Mallesons, that there is doubt as to whether the courts of Hong Kong would (i) enforce judgments of United States courts obtained against the Guarantor or such persons predicated solely upon civil liability provisions of the securities laws of the United States

or any state within the United States or (ii) entertain original actions brought in Hong Kong courts against the Guarantor or such persons predicated solely upon the securities laws, respectively, of the United States or any state within the United States.

PRESENTATION OF FINANCIAL INFORMATION

The Guarantor publishes its financial statements in Hong Kong dollars. Unless otherwise specified, where financial information in relation to the Guarantor has been translated into U.S. dollars, it has been so translated, for the convenience of the reader, at an exchange rate of HK\$7.80 = U.S.\$1.00. No representation is made that Hong Kong dollars have been, could have been, or could be, converted into U.S. dollars at the rate indicated or at any other rate.

CURRENCIES AND OTHER REFERENCES

All references in this document to “U.S. dollars” and “U.S.\$” refer to the currency of the United States of America, to “Hong Kong dollars” and “HK\$” refer to the currency of Hong Kong, to “Sterling” and “£” refer to the currency of the United Kingdom, to “euro” and “€” refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended from time to time and to “JPY” refer to the currency of Japan.

In this Offering Circular, unless otherwise specified or the context otherwise requires, references to “Mainland China” or “PRC” mean the People’s Republic of China, and for geographical references only excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan; and references to “Hong Kong” are to the Hong Kong Special Administrative Region of the PRC.

In this document, “GWh” is the abbreviation for Gigawatt hour, “KWh” is the abbreviation for kilowatt-hour and “MW” is the abbreviation for megawatt.

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IN CONNECTION WITH THE ISSUE OF ANY TRANCHE OF NOTES, THE DEALER OR DEALERS (IF ANY) NAMED AS THE STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN THE APPLICABLE PRICING SUPPLEMENT MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF A STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE RELEVANT TRANCHE OF NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILISING MANAGER(S) (OR PERSON(S) ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

DOCUMENTS INCORPORATED BY REFERENCE

All supplements or amendments to this Offering Circular circulated by the Issuer and the Guarantor from time to time shall be deemed to be incorporated in, and to form part of, this Offering Circular, save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular.

The Issuer and the Guarantor will provide, without charge, to each person to whom a copy of this Offering Circular has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to the Issuer or the Guarantor at their respective offices set out at the end of this Offering Circular. In addition, such documents will be available free of charge, if and for so long as any Notes are listed on the Hong Kong Stock Exchange and the Paying Agent is in Hong Kong, from that Paying Agent's principal office in Hong Kong.

If the terms of the Programme are modified or amended in a manner which would make this Offering Circular, as so modified or amended, inaccurate or misleading, a new offering circular will be prepared.

GENERAL DESCRIPTION OF THE PROGRAMME

Under the Programme, the Issuer may from time to time issue Notes denominated in any currency, subject as set out herein. A summary of the terms and conditions of the Programme and the Notes appears below. The applicable terms of any Notes will be agreed between the Issuer, the Guarantor and the relevant Dealer prior to the issue of the Notes and will be set out in the Terms and Conditions of the Notes endorsed on, attached to, or incorporated by reference into, the Notes, as modified and supplemented by the applicable Pricing Supplement attached to, or endorsed on, such Notes, as more fully described under “*Form of the Notes*”.

This Offering Circular and any supplement will only be valid for listing Notes issued under the Programme on the Hong Kong Stock Exchange during the period of 12 months from the date of this Offering Circular in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Notes previously or simultaneously issued under the Programme, does not exceed U.S.\$4,500,000,000 or its equivalent in other currencies. For the purpose of calculating the U.S. dollar equivalent of the aggregate nominal amount of Notes issued under the Programme from time to time:

- (a) the U.S. dollar equivalent of Notes denominated in another Specified Currency (as defined under “*Form of the Notes*”) shall be determined, at the discretion of the Issuer, either as of the date on which agreement is reached for the issue of Notes or on the preceding day on which commercial banks and foreign exchange markets are open for business in London, in each case on the basis of the spot rate for the sale of the U.S. dollar against the purchase of such Specified Currency in the London foreign exchange market quoted by any leading international bank selected by the Issuer on the relevant day of calculation;
- (b) the U.S. dollar equivalent of Dual Currency Notes, Index Linked Notes and Partly Paid Notes (each as defined under “*Form of the Notes*”) shall be calculated in the manner specified above by reference to the original nominal amount on issue of such Notes (in the case of Partly Paid Notes regardless of the subscription price paid); and
- (c) the U.S. dollar equivalent of Zero Coupon Notes (as defined under “*Form of the Notes*”) and other Notes issued at a discount or a premium shall be calculated in the manner specified above by reference to the net proceeds received by the Issuer for the relevant issue.

SUMMARY OF THE PROGRAMME

The following summary does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. Words and expressions defined in “Form of the Notes” and “Terms and Conditions of the Notes” shall have the same meanings in this summary.

Issuer:	CLP Power Hong Kong Financing Limited
Guarantor:	CLP Power Hong Kong Limited 中華電力有限公司
Description:	Medium Term Note Programme
Arranger:	The Hongkong and Shanghai Banking Corporation Limited
Dealers:	Australia and New Zealand Banking Group Limited Barclays Bank PLC BNP Paribas, Hong Kong Branch Citigroup Global Markets Limited Commonwealth Bank of Australia Crédit Agricole Corporate and Investment Bank Credit Suisse Securities (Europe) Limited Deutsche Bank AG, Singapore Branch Goldman Sachs (Asia) L.L.C. The Hongkong and Shanghai Banking Corporation Limited J.P. Morgan Securities plc Merrill Lynch International Mitsubishi UFJ Securities International plc Mizuho Securities Asia Limited Morgan Stanley & Co. International plc Oversea-Chinese Banking Corporation Limited Standard Chartered Bank (Hong Kong) Limited UBS AG, Hong Kong Branch

and any other Dealers appointed in accordance with the Programme Agreement (as defined under “*Subscription and Sale and Transfer and Selling Restrictions*”).

Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see “ <i>Subscription and Sale and Transfer and Selling Restrictions</i> ”) including the following restrictions applicable at the date of this Offering Circular.
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Notes with a maturity of less than one year

Notes having a maturity of less than one year, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 unless they are issued (a) to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent (see “*Subscription and Sale and Transfer and Selling Restrictions*”) or (b) in other circumstances which do not cause a contravention of such section 19.

Trustee:	DB Trustees (Hong Kong) Limited
Principal Paying Agent:	Deutsche Bank AG, London Branch or, if so specified in the applicable Pricing Supplement, Deutsche Bank AG, Hong Kong Branch
Paying and Transfer Agent:	Deutsche Bank Luxembourg S.A.
Registrar:	Deutsche Bank Trust Company Americas or, if so specified in the applicable Pricing Supplement, Deutsche Bank Luxembourg S.A.
CMU Lodging Agent:	Deutsche Bank AG, Hong Kong Branch
Programme Size:	Up to U.S.\$4,500,000,000 (or its equivalent in other currencies calculated as described under “ <i>General Description of the Programme</i> ”) in aggregate nominal amount of Notes outstanding at any time. The Issuer and the Guarantor may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Subject to applicable selling restrictions, the Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer, the Guarantor and the relevant Dealer.
Redenomination:	The applicable Pricing Supplement may provide that certain Notes may be redenominated in euro. The relevant provisions applicable to any such redenomination are contained in Condition 5.
Maturities:	Such maturities as may be agreed between the Issuer, the Guarantor and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer, the Guarantor or the relevant Specified Currency.
Issue Price:	Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes:	The Notes will be issued in bearer or registered form as described in “ <i>Form of the Notes</i> ”. Registered Notes will not be exchangeable for Bearer Notes and vice versa.
Fixed Rate Notes:	Fixed interest will be payable at such rate or rates in arrear and on such date or dates as may be agreed between the Issuer, the Guarantor and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer, the Guarantor and the relevant Dealer.

Floating Rate Notes: Floating Rate Notes will bear interest at a rate determined:

- (i) on the same basis as the Floating Rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or
- (ii) on the basis of a Reference Rate appearing on the agreed screen page of a commercial quotation service; or
- (iii) on such other basis as may be agreed between the Issuer, the Guarantor and the relevant Dealer.

The margin (if any) relating to such Floating Rate will be agreed between the Issuer, the Guarantor and the relevant Dealer for each Series of Floating Rate Notes.

Index Linked Notes: Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer, the Guarantor and the relevant Dealer may agree.

Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes: Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both.

Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the Issuer, the Guarantor and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer, the Guarantor and the relevant Dealer.

Dual Currency Notes: Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer, the Guarantor and the relevant Dealer may agree.

Zero Coupon Notes: Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.

Redemption: The applicable Pricing Supplement will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than (i) in specified instalments, if applicable, (ii) for taxation reasons or (iii) following an Event of Default (as defined in Condition 11)) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer, the Guarantor and the relevant Dealer.

The applicable Pricing Supplement may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Pricing Supplement.

Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution (see "*Certain Restrictions — Notes with a maturity of less than one year*" above).

Denomination of Notes: Notes will be issued in such denominations as may be agreed between the Issuer, the Guarantor and the relevant Dealer save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency (see "*Certain Restrictions — Notes with a maturity of less than one year*" above).

Unless otherwise stated in the applicable Pricing Supplement, the minimum denomination of each Definitive IAI Registered Note will be U.S.\$500,000 or its approximate equivalent in other Specified Currencies.

Taxation: All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction (as defined in Condition 9), subject as provided in Condition 9. In the event that any such deduction is made, the Issuer or, as the case may be, the Guarantor will, save in certain limited circumstances provided in Condition 9, be required to pay additional amounts to cover the amounts so deducted.

In making an investment decision, each prospective investor is strongly recommended to consult its own professional advisers in respect of the tax implications of holding the Notes (see "Taxation").

Negative Pledge: The terms of the Notes will contain a negative pledge provision as further described in Condition 4.

Cross Default: The terms of the Notes will contain a cross default provision as further described in Condition 11.

Status of the Notes: The Notes will constitute direct, unconditional, unsubordinated and, subject to the provisions of Condition 4, unsecured obligations of the Issuer and will rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

Guarantee:	The Notes will be unconditionally and irrevocably guaranteed by the Guarantor in the Trust Deed. The obligations of the Guarantor under its guarantee will be direct, unconditional, unsubordinated and, subject to the provisions of Condition 4, unsecured obligations of the Guarantor and will rank (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Guarantor from time to time outstanding.
Listing:	<p>Application has been made to list the Programme on the Hong Kong Stock Exchange. Notes issued under the Programme may also be listed on the Hong Kong Stock Exchange or such other or further stock exchange(s) as may be agreed between the Issuer, the Guarantor and the relevant Dealer in relation to each Series.</p> <p>Unlisted Notes may also be issued.</p> <p>The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and, if so, on which stock exchange(s).</p> <p>Notes listed on the Hong Kong Stock Exchange will be traded on the Hong Kong Stock Exchange in a board lot size of at least HK\$500,000 (or its equivalent in other currencies).</p>
Governing Law:	The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and construed in accordance with, English law.
Clearing System:	The CMU Service, Euroclear, Clearstream, Luxembourg, DTC (each as defined in Condition 1) and/or any other clearing system, as specified in the applicable Pricing Supplement (see “ <i>Form of the Notes</i> ”).
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Notes in the United States, the United Kingdom, Japan, the European Economic Area, Hong Kong, Singapore and the British Virgin Islands and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes (see “ <i>Subscription and Sale and Transfer and Selling Restrictions</i> ”).
United States Selling Restrictions:	Regulation S (Category 2). Rule 144A and Section 4(2), TEFRA C or D, as specified in the applicable Pricing Supplement.

RISK FACTORS

In addition to other information in this Offering Circular, investors should carefully consider the following risk factors, together with all other information contained in this Offering Circular, before deciding to invest in the Notes. The risks and uncertainties described below may not be the only ones that the Issuer or the Guarantor faces. Additional risks and uncertainties that the Issuer and the Guarantor are not aware of or that they currently believe are immaterial may also adversely affect the business, financial condition or results of operations of the Issuer or the Guarantor. If any of the possible events described below occurs, the Issuer's or the Guarantor's business, financial condition or results of operations could be materially and adversely affected. In such case, investors may lose all or part of their investment.

The Notes and the Guarantee are unsecured obligations.

As the Notes and the Guarantee are unsecured obligations, their repayment may be compromised if:

- the Issuer or the Guarantor enters into bankruptcy, liquidation, reorganisation or other winding-up proceedings;
- there is a default in payment under the Issuer's or the Guarantor's secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of the Issuer's or the Guarantor's indebtedness.

If any of these events were to occur, the Issuer's or, as the case may be, the Guarantor's assets and any amounts received from the sale of such assets may not be sufficient to pay amounts due on the Notes.

The Notes may not be a suitable investment for all investors.

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Offering Circular or any applicable supplement to the Offering Circular or any Pricing Supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes may be complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to the purchaser's overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio. Additionally, the investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities.

The Issuer is dependent on the business and financial condition of the Guarantor and its subsidiaries to make payments under the Notes.

The Issuer is a wholly owned subsidiary of the Guarantor formed for the primary purpose of acting as a financing subsidiary of the Guarantor and will on-lend the proceeds from the issue of the Notes to the Guarantor and its subsidiaries. The Issuer's ability to make payments under the Notes depends on timely payments under such on-lent loans and the availability of funds from the Guarantor and its subsidiaries.

Obligations of the Guarantor under the Guarantee are structurally subordinated to the liabilities and obligations of the Guarantor's subsidiaries.

In addition to operating itself, the Guarantor is also a holding company that operates through its subsidiaries. As a result, (i) the Guarantor's obligations under the Guarantee will be effectively subordinated to all existing and future obligations of its existing or future subsidiaries and (ii) all claims of creditors of the existing or future subsidiaries, including trade creditors, lenders and all other creditors, and rights of holders of preferred shares of such entities (if any) will have priority as to the assets of such entities over the Guarantor's claims and those of its creditors, including the holders of Notes.

The Trustee may request that Noteholders provide an indemnity to its satisfaction.

In certain circumstances (including, without limitation, as referred to in Conditions 11(a) and 11(b) of the terms and conditions), the Trustee may request the Noteholders to provide an indemnity to its satisfaction before it takes action on behalf of the Noteholders. The Trustee shall not be obliged to take any such action if not indemnified to its satisfaction. Negotiating and agreeing to any indemnity can be a lengthy process and may impact on when such action can be taken. The Trustee may not be able to take actions notwithstanding the provision of an indemnity to it, in breach of the terms of the Trust Deed or the Terms and Conditions.

The insolvency laws of the British Virgin Islands, Hong Kong and other local insolvency laws may differ from those of another jurisdiction with which the Noteholders are familiar.

As the Issuer is incorporated in the British Virgin Islands and the Guarantor is incorporated under the laws of Hong Kong, any insolvency proceeding relating the Issuer or the Guarantor would likely involve British Virgin Islands or Hong Kong insolvency laws, respectively, the procedural and substantive provisions of which may differ from comparable provisions of the local insolvency laws of jurisdictions with which the Noteholders are familiar.

Notes issued under the Programme may not have an active trading market and may trade at a discount to their initial offering price and/or with limited liquidity.

Notes issued under the Programme may not be widely distributed and there may be no active trading market (unless, in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of the Notes which is already issued). If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer or the Guarantor. If the Notes are trading at a discount, investors may not be able to receive a favourable price for their Notes, and in some circumstances investors may not be able to sell their Notes at all or at their fair market value. Although an application may be made for some Notes issued under the Programme to be listed on, and permitted to deal in, the Hong Kong Stock Exchange, there is no assurance that such application will be accepted, that any particular Tranche of the Notes will be so listed or that an active trading market will develop. In addition, the market for investment grade and crossover grade debt has been subject to disruptions that have caused volatility in prices of securities similar to the Notes issued under the Programme. Accordingly, there is no assurance as to the development or liquidity of any trading market, or that disruptions will not occur, for any particular Tranche of the Notes.

The liquidity and price of the Notes following the offering may be volatile.

The price and trading volume of the Notes may be highly volatile. Factors such as variations in the Issuer's and the Guarantor's revenues, earnings and cash flows and proposals of new investments, strategic alliances and/or acquisitions, interest rates and fluctuations in prices for comparable companies could cause the price of the Notes to change. Any such developments may result in large and sudden changes in the volume and price at which the Notes will trade. There is no assurance that these developments will not occur in the future.

The Guarantor's credit rating may decline.

There is a risk that the Guarantor's credit rating may change as a result of changes in its operating performance or capital structure, or for some other reason. No assurance can be given that a credit rating will remain for any given period of time or that a credit rating will not be lowered or withdrawn by the relevant rating agency if, in its judgement, circumstances in the future so warrant or if a different methodology is applied to derive such credit ratings. Any lowering or withdrawal of the Guarantor's credit rating could, notwithstanding that it is not a rating of the Notes, adversely impact the market price and the liquidity of the Notes.

The ratings of the Programme may be lowered or withdrawn.

The Programme is expected to be assigned a rating of (P)A1/(P)P-1 by Moody's and "A/A-1" by S&P. The ratings represent the opinions of the rating agencies and their assessment of the ability of the Issuer and the Guarantor's to perform their respective obligations under the Notes and the Guarantee and credit risks in determining the likelihood that payments will be made when due under the Notes. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. A reduction or withdrawal of the ratings may adversely affect the market price of the Notes and the Issuer's or the Guarantor's ability to access the debt capital markets.

The credit ratings assigned to the Notes may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to an issue of Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. There can be no assurance that the ratings assigned to any Notes will remain in effect for any given period of time or that the ratings will not be revised or withdrawn by the relevant rating agency in the future if in its judgment circumstances so warrant. Neither the Issuer nor the Guarantor has any obligation to inform Noteholders of any such revision or withdrawal. A suspension, downgrade or withdrawal of the ratings of any Notes at any time may adversely affect the market price of the Notes.

Changes in interest rates may have an adverse effect on the price of the Notes.

The Noteholders may suffer unforeseen losses due to fluctuations in interest rates. Generally, a rise in interest rates may cause a fall in the prices of the Notes, resulting in a capital loss for the Noteholders. However, the Noteholders may reinvest the interest payments at higher prevailing interest rates. Conversely, when interest rates fall, the prices of the Notes may rise. The Noteholders may enjoy a capital gain but interest payments received may be reinvested at lower prevailing interest rates.

Exchange rate risks and exchange controls may result in a Noteholder receiving less interest or principal than expected

The Issuer and the Guarantor will pay principal and interest on the Notes in the currency specified in the relevant Pricing Supplement (the "**Specified Currency**"). This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the

Inventor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

The Issuer and the Guarantor will follow the applicable corporate disclosure standards for debt securities listed on the Hong Kong Stock Exchange, which standards may be different from those applicable to companies in certain other countries.

The Issuer and the Guarantor will be subject to reporting obligations in respect of the Notes to be listed on the Hong Kong Stock Exchange. The disclosure and corporate governance standards imposed by the Hong Kong Stock Exchange may be different from those imposed by securities exchanges in other countries or regions such as the United States or the United Kingdom. As a result, the level of information that is available may not correspond to the level to which investors in the Notes are accustomed.

If the Issuer and the Guarantor are unable to comply with the restrictions and covenants in their respective debt agreements, there could be a default under the terms of these agreements, which could cause repayment of their respective debt to be accelerated.

If the Issuer and the Guarantor are unable to comply with their respective current or future debt obligations and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to the Issuer and the Guarantor, accelerate repayment of the debt and declare all outstanding amounts due and payable or terminate the agreements, as the case may be. Furthermore, some of the Issuer's or the Guarantor's debt agreements contain cross-acceleration or cross-default provisions. As a result, the Issuer's or the Guarantor's default under one debt agreement may cause the acceleration of repayment of not only such debt but also other debt, including the Notes, or result in a default under the Issuer's or the Guarantor's other debt agreements. If any of these events occur, the Issuer and the Guarantor cannot assure Noteholders that their respective assets and cash flows would be sufficient to repay in full all of their respective indebtedness, or that the Issuer and the Guarantor would be able to find alternative financing. Even if they could obtain alternative financing, they cannot assure holders that it would be on terms that are favourable or acceptable to them.

Notes subject to optional redemption by the Issuer may have a lower market value than Notes that cannot be redeemed.

Optional redemption features as contained in the terms and conditions are likely to limit the market value of Notes. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This may also be true prior to any redemption period. The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

FORM OF THE NOTES

The Notes of each Series will be in either bearer form, with or without interest coupons (“**Coupons**”) attached, or registered form, without Coupons attached. Bearer Notes will be issued outside the United States to non-U.S. persons in reliance on Regulation S and Registered Notes will be issued both outside the United States to non-U.S. persons in reliance on Regulation S and within the United States to “qualified institutional buyers” within the meaning of Rule 144A under the Securities Act (“**QIBs**”) or to institutional “accredited investors” within the meaning of Rule 501(a) (1), (2), (3) or (7) under the Securities Act (“**Institutional Accredited Investors**”) in reliance on an exemption from the registration requirements of the Securities Act.

Notes to be listed on the Hong Kong Stock Exchange will be accepted for clearance through Euroclear Bank S.A./N.V. (“**Euroclear**”) and Clearstream Banking, *société anonyme* (“**Clearstream, Luxembourg**”) and may also be accepted for clearance through the CMU Service or DTC (each as defined below).

Bearer Notes

Each Tranche of Bearer Notes will initially be represented by either a temporary bearer global note (a “**Temporary Bearer Global Note**”) or a permanent bearer global note (a “**Permanent Bearer Global Note**”) and, together with a Temporary Bearer Global Note, the “**Bearer Global Notes**”, and each a “**Bearer Global Note**”) as indicated in the applicable Pricing Supplement, which, in either case, will be delivered on or prior to the original issue date of the Tranche to either (i) a common depository (the “**Common Depository**”) for Euroclear and Clearstream, Luxembourg or (ii) a sub-custodian for the Central Moneymarkets Unit Service, operated by the Hong Kong Monetary Authority (the “**CMU Service**”). Whilst any Bearer Note is represented by a Temporary Bearer Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Bearer Global Note only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Bearer Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and/or Deutsche Bank AG, Hong Kong Branch, (the “**CMU Lodging Agent**”) and (in the case of a Temporary Bearer Global Note delivered to a Common Depository for Euroclear and Clearstream, Luxembourg) Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent.

On and after the date (the “**Exchange Date**”) which, for each Tranche in respect of which a Temporary Bearer Global Note is issued, is 40 days after the Temporary Bearer Global Note is issued, interests in such Temporary Bearer Global Note will be exchangeable (free of charge) upon a request as described therein either for (i) interests in a Permanent Bearer Global Note of the same Series or (ii) definitive Bearer Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Pricing Supplement and subject, in the case of definitive Bearer Notes, to such notice period as is specified in the applicable Pricing Supplement), in each case against certification of beneficial ownership as described above, unless such certification has already been given, provided that purchasers in the United States and certain U.S. persons will not be able to receive definitive Bearer Notes. The CMU Service may require that any such exchange for a Permanent Global Bearer Note is made in whole and not in part and, in such event, no such exchange will be effected until all relevant account holders (as set out in a CMU Instrument Position Report or any other relevant notification supplied to the CMU Lodging Agent by the CMU Service) have so certified.

The holder of a Temporary Bearer Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Bearer Global Note for an interest in a Permanent Bearer Global Note or for definitive Bearer Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Bearer Global Note will be made through Euroclear and/or Clearstream, Luxembourg against presentation or surrender (as the case may be) of the Permanent Bearer Global Note without any requirement for certification.

In respect of a Bearer Global Note held through the CMU Service, any payments of principal, interest (if any) or any other amounts shall be made to the person(s) for whose account(s) interests in the relevant Bearer Global Note are credited (as set out in a CMU Instrument Position Report or any other relevant notification supplied to the CMU Lodging Agent by the CMU Service) and, save in the case of final payment, no presentation of the relevant Bearer Global Note shall be required for such purpose.

The applicable Pricing Supplement will specify that a Permanent Bearer Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Bearer Notes with, where applicable, receipts, interest coupons and talons attached upon either (i) not less than 60 days' written notice (a), in the case of Notes held by a Common Depositary for Euroclear and/or Clearstream, Luxembourg, from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) to the Principal Paying Agent as described therein and/or (b), in the case of Notes held through the CMU Service, from the relevant account holders therein to the CMU Lodging Agent as described therein or (ii) only upon the occurrence of an Exchange Event.

For these purposes, “**Exchange Event**” means that (i) an Event of Default (as defined in Condition 11) has occurred and is continuing, (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg and, in the case of Notes cleared through the CMU Service, the CMU Service have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any case, no successor or alternative clearing system satisfactory to the Trustee is available or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Permanent Bearer Global Note in definitive form. The Issuer will promptly give notice to the Noteholders in accordance with Condition 15 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, (a) in the case of Notes held by a Common Depositary for Euroclear and/or Clearstream, Luxembourg, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) or (b) in the case of Notes held through the CMU Service, the relevant account holders therein or, in either case, the Trustee may give notice to the Principal Paying Agent or, as the case may be, the CMU Lodging Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Principal Paying Agent or, as the case may be, the CMU Lodging Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent or, as the case may be, the CMU Lodging Agent.

The following legend will appear on all Bearer Notes which have an original maturity of more than 365 days and on all receipts and interest coupons relating to such Notes:

“ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.”

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, receipts or interest coupons.

Notes which are represented by a Bearer Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg or the CMU Service, as the case may be.

Registered Notes

The Registered Notes of each Tranche offered and sold in reliance on Regulation S, which will be sold to non-U.S. persons outside the United States, will initially be represented by a global note in registered form, without receipts or coupons, (a “**Regulation S Global Note**”) which will be deposited with a custodian for, and registered in the name of a nominee of, The Depositary Trust Company (“**DTC**”) for the accounts of Euroclear and Clearstream, Luxembourg. Prior to expiry of the distribution compliance

period (as defined in Regulation S) (“**Distribution Compliance Period**”) applicable to each Tranche of Notes, beneficial interests in a Regulation S Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person save as otherwise provided in Condition 2 and may not be held otherwise than through Euroclear or Clearstream, Luxembourg and such Regulation S Global Note will bear a legend regarding such restrictions on transfer.

The Registered Notes of each Tranche may only be offered and sold in the United States or to U.S. persons in private transactions (i) to QIBs or (ii) to Institutional Accredited Investors who agree to purchase the Notes for their own account and not with a view to the distribution thereof. The Registered Notes of each Tranche sold to QIBs will be represented by a global note in registered form, without receipts or interest coupons, (a “**Rule 144A Global Note**” and, together with a Regulation S Global Note, the “**Registered Global Notes**”) which will be deposited with a custodian for, and registered in the name of a nominee of, DTC.

Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in registered form.

The Registered Notes of each Tranche sold to Institutional Accredited Investors will be in definitive form, registered in the name of the holder thereof (“**Definitive IAI Registered Notes**”). Unless otherwise set forth in the applicable Pricing Supplement, Definitive IAI Registered Notes will be issued only in minimum denominations of U.S.\$500,000 and integral multiples of U.S.\$1,000 in excess thereof (or the approximate equivalents in the applicable Specified Currency). Definitive IAI Registered Notes will be subject to the restrictions on transfer set forth therein and will bear the restrictive legend described under “*Subscription and Sale and Transfer and Selling Restrictions*”. Institutional Accredited Investors that hold Definitive IAI Registered Notes may elect to hold such Notes through DTC, but transferees acquiring the Notes in transactions exempt from Securities Act registration pursuant to Regulation S or Rule 144 under the Securities Act (if available) may do so upon satisfaction of the requirements applicable to such transfer as described under “*Subscription and Sale and Transfer and Selling Restrictions*”. The Rule 144A Global Note and the Definitive IAI Registered Notes will be subject to certain restrictions on transfer set forth therein and will bear a legend regarding such restrictions.

Payments of principal, interest and any other amount in respect of the Registered Global Notes will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 7(d)) as the registered holder of the Registered Global Notes. None of the Issuer, the Guarantor, the Trustee, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 7(d)) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, “**Exchange Event**” means that (i) an Event of Default has occurred and is continuing, (ii) DTC has notified the Issuer that it is unwilling or unable to continue to act as depository for the Notes and no successor or alternative clearing system satisfactory to the Trustee is available, (iii) DTC has ceased to constitute a clearing agency registered under the Exchange Act or the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system satisfactory to the Trustee is available or (iv) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Registered Global Note in definitive form. The Issuer will promptly give notice to Noteholders in accordance with Condition 15 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, DTC, Euroclear and/or Clearstream, Luxembourg (acting on the

instructions of any holder of an interest in such Registered Global Note) or the Trustee may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iv) above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

Transfer of Interests

Interests in a Registered Global Note may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Registered Global Note or in the form of a Definitive IAI Registered Note and Definitive IAI Registered Notes may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such Notes in the form of an interest in a Registered Global Note. No beneficial owner of an interest in a Registered Global Note will be able to transfer such interest, except in accordance with the applicable procedures of DTC, Euroclear and Clearstream, Luxembourg, in each case to the extent applicable. Registered Notes are also subject to the restrictions on transfer set forth therein and will bear a legend regarding such restrictions (see “*Subscription and Sale and Transfer and Selling Restrictions*”).

General

Pursuant to the Agency Agreement (as defined under “*Terms and Conditions of the Notes*”), the Principal Paying Agent or, as the case may be, the CMU Lodging Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a Common Code and ISIN and, where applicable, a CMU instrument number, a CUSIP and CINS number which are different from the Common Code, CMU instrument number, ISIN, CUSIP and CINS assigned to Notes of any other Tranche of the same Series until at least the expiry of the Distribution Compliance Period applicable to the Notes of such Tranche.

For so long as any of the Notes is represented by a Bearer Global Note held on behalf of Euroclear, Clearstream, Luxembourg or the CMU Service, each person (other than Euroclear, Clearstream, Luxembourg or the CMU Service) who is for the time being shown in the records of Euroclear, Clearstream, Luxembourg or the CMU Service as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear, Clearstream, Luxembourg or the CMU Service as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Trustee, the Issuer, the Guarantor and their agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note shall be treated by the Trustee, the Issuer, the Guarantor and their agents as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Bearer Global Note and the expressions “**Noteholder**” and “**holder of Notes**” and related expressions shall be construed accordingly.

So long as DTC or its nominee is the registered owner or holder of a Registered Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Registered Global Note for all purposes under the Agency Agreement and such Notes except to the extent that in accordance with DTC’s published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

Any reference herein to Euroclear and/or Clearstream, Luxembourg and/or the CMU Service and/ or DTC shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement or otherwise approved by the Issuer, the Guarantor, the Trustee, the Principal Paying Agent and the Registrar.

No Noteholder, Receiptholder or Couponholder (as defined below) shall be entitled to proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

FORM OF PRICING SUPPLEMENT

Set out below is the form of Pricing Supplement which will be completed for each Tranche of Notes issued under the Programme.

[Date]

CLP Power Hong Kong Financing Limited

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
Guaranteed by
CLP Power Hong Kong Limited
中華電力有限公司
under the U.S.\$4,500,000,000
Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the conditions set forth in the Offering Circular dated 2 April, 2015. This Pricing Supplement is supplemental to and must be read in conjunction with such Offering Circular.

[The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.]

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) set forth in the Offering Circular dated [original date]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated [current date], save in respect of the Conditions which are extracted from the Offering Circular dated [original date] and are attached hereto.]

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Pricing Supplement.]

[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.]

1. (i) Issuer: CLP Power Hong Kong Financing Limited
- (ii) Guarantor: CLP Power Hong Kong Limited
2. (i) Series Number: [●]
- (ii) Tranche Number: [●]
(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)
3. Specified Currency or Currencies: [●]
4. Aggregate Nominal Amount:
 - Series: [●]
 - Tranche: [●]
5. [(i)] Issue Price: [●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (in the case of fungible issues only, if applicable)]
- [(ii)] Net proceeds: [●] *(Required only for listed issues)*

6. (i) Specified Denominations: [●]
(in the case of Registered Notes, this means the minimum integral amount in which transfers can be made)
(N.B.: Where multiple denominations above [€100,000] or equivalent are being used with respect to Bearer Notes, the following sample wording should be followed: “[€100,000] and integral multiples of [€1,000] in excess thereof, up to and including [€199,000]. No definitive notes will be issued with a denomination above [€199,000].”)
- (N.B.: If an issue of Notes is (i) NOT admitted to trading on an European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive the €100,000 minimum denomination is not required.)*
- (ii) Calculation Amount: [●]
(N.B.: If there is only one Specified Denomination, insert the Specified Denomination. If there is more than one Specified Denomination, insert the highest common factor of those Specified Denominations. N.B.: There must be a common factor in the case of two or more Specified Denominations.)
7. [(i)] Issue Date [and Interest Commencement Date]: [●]
- [(ii)] Interest Commencement Date (if different from the Issue Date): [Specify/Not Applicable]
(N.B.: An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.)
8. Maturity Date: *[Fixed rate — specify date/Floating rate — Interest Payment Date falling in or nearest to [specify month and year]]⁽¹⁾*
9. Interest Basis: [[●] per cent. Fixed Rate]
[[LIBOR/EURIBOR/HIBOR] +/- [●] per cent. Floating Rate]
[Zero Coupon]
[Index Linked Interest]
[Dual Currency Interest]
[specify other]
(further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par]
[Index Linked Redemption]
[Dual Currency Redemption]
[Partly Paid]
[Instalment]
[specify other]
11. Change of Interest Basis or Redemption/Payment Basis: *[Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis.]*

(1) Note that for Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification it will be necessary to use the second option here.

12. Put/Call Options: [Investor Put]
[Issuer Call]
[(further particulars specified below)]
13. Listing: [Hong Kong/specify other/None]
(If listing in Hong Kong, specify expected listing date)
14. Method of distribution: [Syndicated/Non-syndicated]

Provisions Relating to Interest (If Any) Payable

15. Fixed Rate Note Provisions: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Rate(s) of Interest: [●] per cent. per annum payable [annually/semi-annually/quarterly/other (specify) in arrear] *(If payable other than annually, consider amending Condition 6)*
- (ii) Interest Payment Date(s): [[●] in each year up to and including the Maturity Date]/[specify other] ⁽²⁾
(N.B.: This will need to be amended in the case of long or short coupons.)
- (iii) Fixed Coupon Amount(s): [●] per Calculation Amount ⁽³⁾
(Applicable to Notes in definitive form)
- (iv) Broken Amount(s): [●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]
(Applicable to Notes in definitive form)
- (v) Day Count Fraction: [30/360 or Actual/Actual (ISDA) or [specify other]]
- (vi) Determination Date(s): [●] in each year
[Insert regular interest payment dates, ignoring issue date or maturity date in case of a long or short first or last coupon]
(N.B.: This will need to be amended in the case of regular interest payment dates which are not of equal duration.)
(N.B.: Only relevant where Day Count Fraction is Actual/Actual (ICMA).)
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [None/Give details]

(2) Note that for certain Hong Kong dollar denominated Fixed Rate Notes the Interest Payment Dates are subject to modification and the following words should be added: “provided that if any Interest Payment Date falls on a day which is not a Business Day, the Interest Payment Date will be the next succeeding Business Day unless it would thereby fall in the next calendar month in which event the Interest Payment Date shall be brought forward to the immediately preceding Business Day. For these purposes, “Business Day” means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and currency deposits) in Hong Kong and [●].”

(3) For Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification the following wording is appropriate: “Each Fixed Coupon Amount shall be calculated by applying the Rate of Interest to each Calculation Amount, multiplying such sum by the actual number of days in the Accrual Period (as defined in Condition 6(a) (i)) divided by 365 and rounding the resultant figure to the nearest HK\$0.01, HK\$0.005 being rounded upwards.”

16. Floating Rate Note Provisions: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Specified Period(s)/Specified Interest Payment Dates: [●]
- (ii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/*[specify other]*]
- (iii) Additional Business Centre(s): [●]
- (iv) Manner in which the Rates of Interest and Interest Amount are to be determined: [Screen Rate Determination/ISDA Determination/*specify other*]
- (v) Party responsible for calculating the Rate(s) of Interest and Interest Amount (if not the Principal Paying Agent): [●]
- (vi) Screen Rate Determination:
- Reference Rate: [●]
(Either LIBOR, EURIBOR, HIBOR or other, although additional information is required if other — including fallback provisions in the Agency Agreement.)
 - Interest Determination Date(s): [●]
(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR or Hong Kong dollar HIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR.)
 - Relevant Screen Page: [●]
(In the case of EURIBOR, if not Reuters Page EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately.)
- (vii) ISDA Determination:
- Floating Rate Option: [●]
 - Designated Maturity: [●]
 - Reset Date: [●]
- (viii) Margin(s): [+/-] [●] per cent. per annum
- (ix) Minimum Rate of Interest: [●] per cent. per annum
- (x) Maximum Rate of Interest: [●] per cent. per annum

- (xi) Day Count Fraction: [Actual/Actual (ISDA) or Actual/Actual Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360, 360/360 or Bond Basis 30E/360 or Eurobond Basis 30E/360 (ISDA) Other] *(See Condition 6 for alternatives)*
- (xii) Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: [●]
17. Zero Coupon Note Provisions: [Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Accrual Yield: [●] per cent. per annum
- (ii) Reference Price: [●]
- (iii) Any other formula/basis of determining amount payable: [●] *(Consider applicable day count fraction if euro denominated)*
- (iv) Day Count Fraction in relation to Early Redemption Amounts and late payment if Conditions 8(e) (iii) and (j) do not apply: [Conditions 8(e)(iii) and 8(j) apply/specify other]
18. Index Linked Interest Note Provisions: [Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Index/Formula: [Give or annex details]
- (ii) Calculation Agent: [Name and specified office, if not the Agent]
- (iii) Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Principal Paying Agent): [●]
- (iv) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: [Need to include a description of market disruption or settlement disruption events and adjustment provisions]
- (v) Specified Period(s)/Specified Interest Payment Dates: [●]
- (vi) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/specify other]

- (vii) Additional Business Centre(s): [●]
- (viii) Minimum Rate of Interest: [●] per cent. per annum
- (ix) Maximum Rate of Interest: [●] per cent. per annum
- (x) Day Count Fraction: [●]
19. Dual Currency Interest Note Provisions: [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Rate of Exchange/method of calculating Rate of Exchange: [Give or annex details]
- (ii) Party, if any, responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Principal Paying Agent): [●]
- (iii) Provisions applicable where calculation by reference to Rate of Exchange is impossible or impracticable: [Need to include a description of market disruption or settlement disruption events and adjustment provisions]
- (iv) Person at whose option Specified Currency(ies) is/are payable: [●]

Provisions Relating to Redemption

20. Issuer Call: [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Optional Redemption Date(s): [●]
- (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [[●] per Calculation Amount/specify other/see Appendix]
- (iii) If redeemable in part:
- (a) Minimum Redemption Amount: [●] per Calculation Amount
- (b) Maximum Redemption Amount: [●] per Calculation Amount
- (iv) Notice period (if other than as set out in the Conditions): [●]
(N.B.: If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Trustee.)

21. Investor Put: [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Optional Redemption Date(s): [●]
- (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [[●] per Calculation Amount/specify other/see Appendix]
- (iii) Notice period (if other than as set out in the Conditions): [●]
(N.B.: If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Trustee)
22. Final Redemption Amount(s) of each Note: [[●] per Calculation Amount/specify other/see Appendix]
23. Early Redemption Amount(s) payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 8(e)): [[●] per Calculation Amount/specify other/see Appendix]

General Provisions Applicable to the Notes

24. Form of Notes: [Bearer Notes:
- [Temporary Bearer Global Note exchangeable for a Permanent Bearer Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event^(*)]]
- [Temporary Bearer Global Note exchangeable for Definitive Notes on and after the Exchange Date]
- [Permanent Bearer Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event^(*)]]
- [Registered Notes:
- Regulation S Global Note (U.S.\$[●] nominal amount)/Rule 144A Global Note (U.S.\$[●] nominal amount)/Definitive IAI Registered Notes (specify nominal amounts)]

(*) Ensure that this is consistent with the language in the "Form of the Notes" section in the Offering Circular and the Notes themselves. The exchange upon notice option should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 6 includes language substantially to the following effect: "[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Notes in definitive form will be issued with a denomination above [€199,000]." Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes.

25. Additional Financial Centre(s) or other special provisions relating to Payment Dates: [Not Applicable/give details]
(Note that this paragraph relates to the place of payment, and not Interest Period end dates, to which sub-paragraphs 15(ii), 16(iii) and 18(vii) relate.)
26. Talons for future Coupons or Receipts to be attached to Definitive Bearer Notes (and dates on which such Talons mature): [Yes/No. *If yes, give details*]
27. Details relating to Partly Paid Notes (amount of each payment comprising Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment): [Not Applicable/give details]
(N.B.: New forms of Global Note may be required for Partly Paid issues.)
28. Details relating to Instalment Notes:
- (i) Instalment Amount(s): [Not Applicable/give details]
- (ii) Instalment Date(s): [Not Applicable/give details]
29. Redenomination applicable: Redenomination [not] applicable
[(If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates))]
30. Other terms or special conditions: [Not Applicable/give details]
- Distribution**
31. (i) If syndicated, names of Managers: [Not Applicable/give names]
- (ii) Stabilising Manager (if any): [Not Applicable/give name]
32. If non-syndicated, name of Dealer: [●]
33. Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable: [TEFRA D/TEFRA C/TEFRA not applicable]
34. Additional selling restrictions: [Not Applicable/give details]
35. Private Bank Rebate/Commission: [Applicable/give details]/Not Applicable]
- Operational Information**
36. Any clearing system(s) other than Euroclear, Clearstream, Luxembourg and DTC and the relevant identification number(s): [CMU Service /Not Applicable/give name(s) and number(s)]
37. Delivery: Delivery [against/free of] payment

38. In the case of Registered Notes, specify the location of the office of the Registrar if other than New York: [Not Applicable/specify other]
39. In the case of Bearer Notes, specify the location of the office of the Principal Paying Agent if other than London: [Not Applicable/Hong Kong]
40. Additional Paying Agent(s) (if any): [●]
41. [Use of proceeds: [●] (To be specified if different from the use of proceeds set out in this Offering Circular)]

ISIN: [●]
 Common Code: [●]

[Insert here any other relevant codes such as a CMU instrument number, CUSIP and CINS codes]

[Listing Application]

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the U.S.\$4,500,000,000 Medium Term Note Programme of CLP Power Hong Kong Financing Limited.]

Responsibility

The Issuer and the Guarantor accept responsibility for the information contained in this Pricing Supplement.

Signed on behalf of the Issuer:

Signed on behalf of the Guarantor:

By:
Duly authorised

By:
Duly authorised

If the applicable Pricing Supplement specifies any modification to the Terms and Conditions of the Notes as described herein, it is envisaged that, to the extent that such modification relates only to Conditions 1, 5, 6, 7, 8 (except Condition 8(b)), 12, 13, 14, 15 (insofar as such Notes are not listed or admitted to trading on any stock exchange) or 18, they will not necessitate the preparation of a supplement to this Offering Circular. If the Terms and Conditions of the Notes of any Series are to be modified in any other respect, a supplement to this Offering Circular will be prepared, if appropriate.

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the rules of the relevant stock exchange and agreed by the Issuer, the Guarantor and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Pricing Supplement in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Pricing Supplement (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to “Form of Pricing Supplement” for a description of the content of Pricing Supplements which will specify which of such terms are to apply in relation to the relevant Notes.

This Note is one of a Series (as defined below) of Notes issued by CLP Power Hong Kong Financing Limited (the “**Issuer**”) and constituted by a Trust Deed (such Trust Deed as modified and/or supplemented and/or restated from time to time, the “**Trust Deed**”) dated 3rd April, 2002 made between the Issuer, CLP Power Hong Kong Limited as guarantor (the “**Guarantor**”) and DB Trustees (Hong Kong) Limited (the “**Trustee**” which expression shall include any successor as Trustee).

References herein to the “**Notes**” shall be references to the Notes of this Series and shall mean:

- (i) in relation to any Notes represented by a global Note (a “**Global Note**”), units of the lowest Specified Denomination in the Specified Currency;
- (ii) any Global Note;
- (iii) any definitive Notes in bearer form (“**Bearer Notes**”) issued in exchange for a Global Note in bearer form; and
- (iv) definitive Notes in registered form (“**Registered Notes**”) (whether or not issued in exchange for a Global Note in registered form).

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the “**Agency Agreement**”) dated 3rd April, 2002 and made between the Issuer, the Guarantor, the Trustee, Deutsche Bank AG, London Branch (or, if so specified in the applicable Pricing Supplement, Deutsche Bank AG, Hong Kong Branch) as principal paying agent (the “**Principal Paying Agent**”, which expression shall include any successor principal paying agent), Deutsche Bank AG, Hong Kong Branch as CMU lodging agent (the “**CMU Lodging Agent**”, which expression shall include any successor CMU lodging agent) and the other paying agents named therein (together with the Principal Paying Agent and the CMU Lodging Agent, the “**Paying Agents**”, which expression shall include any additional or successor paying agents), Deutsche Bank Trust Company Americas as exchange agent (the “**Exchange Agent**”, which expression shall include any successor exchange agent) and Deutsche Bank Trust Company Americas (or, if so specified in the applicable Pricing Supplement, Deutsche Bank Luxembourg S.A.) as registrar (the “**Registrar**”, which expression shall include any successor registrar) and a transfer agent and the other transfer agents named therein (together with the Registrar, the “**Transfer Agents**”, which expression shall include any additional or successor transfer agents). For the purposes of these Terms and Conditions (the “**Conditions**”), all references (other than in relation to the determination of interest and other amounts payable in respect of the Notes) to the Principal Paying Agent shall, with respect to a Series of Notes to be held in the CMU Service (as defined below), be deemed to be a reference to the CMU Lodging Agent and all such references shall be construed accordingly.

Interest bearing definitive Bearer Notes have interest coupons (“**Coupons**”) and, if indicated in the applicable Pricing Supplement, talons for further Coupons (“**Talons**”) attached on issue. Any reference herein to Coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons. Definitive Bearer Notes repayable in instalments have receipts (“**Receipts**”) for the payment of the instalments of principal (other than the final instalment) attached on issue. Registered Notes and Global Notes do not have Receipts, Coupons or Talons attached on issue.

The Pricing Supplement for this Note (or the relevant provisions thereof) is attached to or endorsed on this Note and supplements these Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Conditions, replace or modify these Conditions for the purposes of this Note. References to the “**applicable Pricing Supplement**” are to the Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on this Note.

Any reference to “**Noteholders**” or “**holders**” in relation to any Notes shall mean (in the case of Bearer Notes) the holders of the Notes and (in the case of Registered Notes) the persons in whose name the Notes are registered and shall, in relation to any Notes represented by a Global Note, be construed as provided below. Any reference herein to “**Receiptholders**” shall mean the holders of the Receipts and any reference herein to “**Couponholders**” shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons. The Trustee acts for the benefit of the Noteholders, the Receiptholders and the Couponholders, in accordance with the provisions of the Trust Deed.

As used herein, “**Tranche**” means Notes which are identical in all respects (including as to listing) and “**Series**” means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the registered office for the time being of the Trustee (being, 52nd Floor, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong) and at the specified office of each of the Principal Paying Agent, the Registrar and the other Paying Agents and Transfer Agents (such Agents and the Registrar being together referred to as the “**Agents**”). Copies of the applicable Pricing Supplement are obtainable during normal business hours at the specified office of each of the Agents save that, if this Note is an unlisted Note of any Series, the applicable Pricing Supplement will only be obtainable by a Noteholder holding one or more unlisted Notes of that Series and such Noteholder must produce evidence satisfactory to the Issuer and the relevant Agent as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, and are bound by, all the provisions of the Trust Deed, the Agency Agreement and the applicable Pricing Supplement which are applicable to them. The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed and the Agency Agreement.

Words and expressions defined in the Trust Deed and the Agency Agreement or used in the applicable Pricing Supplement shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Trust Deed and the Agency Agreement, the Trust Deed will prevail and, in the event of inconsistency between the Trust Deed or the Agency Agreement and the applicable Pricing Supplement, the applicable Pricing Supplement will prevail.

1. FORM, DENOMINATION AND TITLE

The Notes are in bearer form or in registered form as specified in the applicable Pricing Supplement and, in the case of definitive Notes, serially numbered, in the Specified Currency and the Specified Denomination(s). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination and Bearer Notes may not be exchanged for Registered Notes and *vice versa*.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, a Dual Currency Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Pricing Supplement.

This Note may be an Index Linked Redemption Note, an Instalment Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Pricing Supplement.

Definitive Bearer Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in these Conditions are not applicable.

Subject as set out below, title to the Bearer Notes, Receipts and Coupons will pass by delivery and title to the Registered Notes will pass upon registration of transfers in the register which is kept by the Registrar in accordance with the provisions of the Agency Agreement. The Issuer, the Guarantor, the Trustee and any Agent will (except as otherwise ordered by a court of competent jurisdiction or required by law) deem and treat the bearer of any Bearer Note, Receipt or Coupon and the registered holder of any Registered Note as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Bearer Global Note held on behalf of Euroclear Bank S.A./N.V. (“**Euroclear**”) and/or Clearstream Banking, *société anonyme* (“**Clearstream, Luxembourg**”) and/or a sub-custodian for the Central Moneymarkets Unit Service operated by the Hong Kong Monetary Authority (the “**CMU Service**”), each person (other than Euroclear, Clearstream, Luxembourg or the CMU Service) who is for the time being shown in the records of Euroclear, Clearstream, Luxembourg or the CMU Service as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg or the CMU Service as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Guarantor, the Trustee and the Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note shall be treated by the Issuer, the Guarantor, the Trustee and any Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions “**Noteholder**” and “**holder of Notes**” and related expressions shall be construed accordingly. In determining whether a particular person is entitled to a particular nominal amount of Notes, as aforesaid, the Trustee may rely on such evidence and/or information and/or certification as it shall, in its absolute discretion, think fit and, if it does so rely, such evidence and/or information and/or certification shall, in the absence of manifest error, be conclusive and binding on all concerned.

For so long as any of the Notes is represented by a Regulation S Global Note, the registered holder of the relevant Regulation S Global Note shall be treated by the Issuer, the Guarantor, the Trustee and any Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note.

For so long as The Depository Trust Company (“**DTC**”) or its nominee is the registered owner or holder of a Rule 144A Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Rule 144A Global Note for all purposes except to the extent that in accordance with DTC’s published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of DTC, Euroclear, Clearstream, Luxembourg and the CMU Service, as the case may be. References to DTC, Euroclear, Clearstream, Luxembourg and/or the CMU Service shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement or as may otherwise be approved by the Issuer, the Trustee and the Principal Paying Agent.

2. TRANSFERS OF REGISTERED NOTES

(a) *Transfers of interests in Registered Global Notes*

Transfers of beneficial interests in Registered Global Notes will be effected by DTC, Euroclear, Clearstream, Luxembourg or the CMU Service, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Registered Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Registered Notes in definitive form or for a beneficial interest in another Registered Global Note only in the authorised denominations set out in the applicable Pricing Supplement as Specified Denominations and only in accordance with the rules and operating

procedures for the time being of DTC, Euroclear, Clearstream, Luxembourg or the CMU Service, as the case may be and in accordance with the terms and conditions specified in the Trust Deed and the Agency Agreement. Transfers of a Rule 144A Global Note shall be limited to transfers of such Rule 144A Global Note, in whole but not in part, to a nominee of DTC or to a successor of DTC or such successor's nominee.

(b) *Transfers of Registered Notes in definitive form*

Subject as provided in paragraphs (e), (f) and (g) below, upon the terms and subject to the conditions set forth in the Trust Deed and the Agency Agreement, a Registered Note in definitive form may be transferred in whole or in part (in the authorised denominations set out in the applicable Pricing Supplement as Specified Denominations). In order to effect any such transfer (i) the holder or holders must (a) surrender the Registered Note for registration of the transfer of the Registered Note (or the relevant part of the Registered Note) at the specified office of the Registrar or any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (b) complete and deposit such other certifications as may be required by the Registrar or, as the case may be, the relevant Transfer Agent and (ii) the Registrar or, as the case may be, the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer, the Trustee and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 10 to the Agency Agreement). Subject as provided above, the Registrar or, as the case may be, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar or, as the case may be, the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Registered Note in definitive form of a like aggregate nominal amount to the Registered Note (or the relevant part of the Registered Note) transferred. In the case of the transfer of part only of a Registered Note in definitive form, a new Registered Note in definitive form in respect of the balance of the Registered Note not transferred will be so authenticated and delivered or (at the risk of the transferor) sent by uninsured mail to the transferor.

(c) *Registration of transfer upon partial redemption*

In the event of a partial redemption of Notes under Condition 8, the Issuer shall not be required to register the transfer of any Registered Note, or part of a Registered Note, called for partial redemption.

(d) *Costs of registration*

Noteholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

(e) *Transfers of interests in Regulation S Global Notes*

Prior to the expiry of the applicable Distribution Compliance Period, transfers by the holder of, or of a beneficial interest in, a Regulation S Global Note to a transferee in the United States or who is a U.S. person will only be made:

- (i) upon receipt by the Registrar of a written certification substantially in the form set out in Schedule 3 to the Agency Agreement, amended as appropriate (a “**Transfer Certificate**”), copies of which are available from the specified office of the Registrar or

any Transfer Agent, from the transferor of the Note or beneficial interest therein to the effect that such transfer is being made:

(A) to a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A; or

(B) to a person who is an Institutional Accredited Investor,

together with, in the case of (B), a duly executed investment letter from the relevant transferee substantially in the form set out in Schedule 4 to the Agency Agreement (an “**IAI Investment Letter**”) and such other satisfactory evidence as the Issuer may reasonably require from the transferor, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States; or

(ii) otherwise pursuant to an effective registration statement under the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require from the transferor, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States,

and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction.

In the case of (A) above, such transferee may take delivery through a Legended Note in global or definitive form and, in the case of (B) above, such transferee may take delivery only through a Legended Note in definitive form. After expiry of the applicable Distribution Compliance Period (i) beneficial interests in Regulation S Global Notes may be held through DTC directly, by a participant in DTC, or indirectly through a participant in DTC and (ii) such certification requirements will no longer apply to such transfers.

(f) *Transfers of interests in Legended Notes*

Transfers of Legended Notes or beneficial interests therein may be made:

(i) to a transferee who takes delivery of such interest through a Regulation S Global Note, upon receipt by the Registrar of a duly completed Transfer Certificate from the transferor to the effect that such transfer is being made in accordance with Regulation S and that, if such transfer is being made prior to expiry of the applicable Distribution Compliance Period, the interests in the Notes being transferred will be held immediately thereafter through Euroclear and/or Clearstream, Luxembourg; or

(ii) to a transferee who takes delivery of such interest through a Legended Note:

(A) where the transferee is a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, without certification; or

(B) where the transferee is an Institutional Accredited Investor, subject to delivery to the Registrar of a Transfer Certificate from the transferor to the effect that such transfer is being made to an Institutional Accredited Investor, together with a duly executed IAI Investment Letter from the relevant transferee and such other satisfactory evidence as the Issuer may reasonably require from the transferor, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States, and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction;

(iii) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available); or

(iv) pursuant to an effective registration statement under the Securities Act,

and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction.

Notes transferred by Institutional Accredited Investors to QIBs pursuant to Rule 144A or outside the United States pursuant to Regulation S will be eligible to be held by such QIBs or non-U.S. investors through DTC, Euroclear or Clearstream, Luxembourg, as appropriate, and the Registrar will arrange for any Notes which are the subject of such a transfer to be represented by the appropriate Registered Global Note, where applicable.

Upon the transfer, exchange or replacement of Legended Notes, or upon specific request for removal of the legend (the “**Legend**”) applicable to Legended Notes, the Registrar shall deliver only Legended Notes or refuse to remove such Legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence as may reasonably be required by the Issuer, which may include an opinion of U.S. counsel, that neither the Legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

(g) Exchanges and transfers of Registered Notes generally

Holders of Registered Notes in definitive form, other than Institutional Accredited Investors, may exchange such Notes for interests in a Registered Global Note of the same type at any time.

(h) Closed Periods

No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on the due date for redemption of, or payment of any Instalment Amount in respect of, that Note, (ii) during the period of 15 days before any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 8(c), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date.

(i) Definitions

In this Condition, the following expressions shall have the following meanings:

“**Distribution Compliance Period**” means the period that ends 40 days after the completion of the distribution of each Tranche of Notes, as certified by the relevant Dealer (in the case of a non-syndicated issue) or the relevant Lead Manager (in the case of a syndicated issue);

“**Institutional Accredited Investor**” means institutional “**accredited investors**” (within the meaning of Rule 501(a) (1), (2), (3) or (7) under the Securities Act);

“**Legended Note**” means Registered Notes in definitive form that are issued to Institutional Accredited Investors and Registered Notes (whether in definitive form or represented by a Registered Global Note) sold in private transactions to QIBs in accordance with the requirements of Rule 144A;

“**QIB**” means a “**qualified institutional buyer**” within the meaning of Rule 144A;

“**Regulation S**” means Regulation S under the Securities Act;

“**Regulation S Global Note**” means a Registered Global Note representing Notes sold outside the United States in reliance on Regulation S;

“**Rule 144A**” means Rule 144A under the Securities Act;

“**Rule 144A Global Note**” means a Registered Global Note representing Notes sold in the United States to QIBs; and

“**Securities Act**” means the United States Securities Act of 1933, as amended.

3. STATUS OF THE NOTES AND THE GUARANTEE

(a) *Status of the Notes*

The Notes and any relative Receipts and Coupons are direct, unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

(b) *Status of the Guarantee*

The payment of principal and interest in respect of the Notes and all other amounts payable by the Issuer under or pursuant to the Trust Deed has been unconditionally and irrevocably guaranteed by the Guarantor in the Trust Deed (the “**Guarantee**”). The obligations of the Guarantor under the Guarantee are direct, unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligations of the Guarantor and (save for certain obligations required to be preferred by law) rank equally with all other unsecured obligations (other than subordinated obligations, if any) of the Guarantor, from time to time outstanding.

4. NEGATIVE PLEDGE

(a) *Negative Pledge*

So long as any of the Notes remains outstanding (as defined in the Trust Deed) the Issuer and the Guarantor will ensure that no Relevant Indebtedness (as defined below) and no guarantee or indemnity of any Relevant Indebtedness will be secured by any mortgage, charge, lien, pledge or other security interest (other than a lien arising by operation of law) (each a “**Security Interest**”) upon the whole or any part of the undertaking, revenues or assets, present or future, of the Issuer or, as the case may be, the Guarantor, unless the Issuer or, as the case may be, the Guarantor shall, in the case of the creation of a Security Interest, before or at the same time and, in any other case, promptly, take any and all action necessary to ensure that:

- (1) all amounts payable by it under the Notes, the Coupons, the Receipts and the Trust Deed are secured by the Security Interest equally and rateably with the Relevant Indebtedness or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be, in each case, to the satisfaction of the Trustee; or
- (2) such other Security Interest or other arrangement (whether or not it includes the giving of a Security Interest) is provided either (A) as the Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Noteholders or (B) as shall be approved by an Extraordinary Resolution (which is defined in the Trust Deed as a resolution duly passed by a majority of not less than three-fourths of the votes cast thereon) of the Noteholders,

provided that the Issuer or, as the case may be, the Guarantor may create, assume or have outstanding a Security Interest in respect of any Relevant Indebtedness and/or in respect of any guarantee or indemnity of any Relevant Indebtedness without the obligation to provide a Security Interest, guarantee, indemnity or other arrangement in respect of the Notes and the relative Receipts and Coupons as aforesaid where such Security Interest is issued or created for the purpose of financing or refinancing the purchase of any property or assets provided that (i) such property or assets are the sole subject of the Security Interest, (ii) in connection with any such financing or refinancing, neither the scope of the Security Interest nor the principal amount secured is increased, (iii) the principal amount of the Relevant Indebtedness secured by such Security Interest shall not exceed the purchase cost of such property or assets and (iv) any such Security Interest shall be created or assumed concurrently with or within one year following the purchase of such property or assets.

(b) Interpretation

For the purposes of these Conditions:

- (i) “**Indebtedness**” means any present or future indebtedness (including any liability under or in respect of any acceptance or acceptance credit but excluding, for the avoidance of doubt, bills of exchange drawn under or in respect of letters of credit or contracts for the provisions of goods or services for the purpose of effecting payment and not in connection with the raising of money); and
- (ii) “**Relevant Indebtedness**” means any Indebtedness in the form of or represented by any note, bond, debenture, debenture stock, loan stock or other similar security which (with the consent of the issuer of the Indebtedness) are for the time being, or are capable of being, quoted, listed or ordinarily dealt in on any stock exchange, over-the-counter or other securities market, having an original maturity of more than one year from its date of issue.

5. REDENOMINATION

(a) Redenomination

Where redenomination is specified in the applicable Pricing Supplement as being applicable, the Issuer may, without the consent of the Noteholders, the Receiptholders or the Couponholders, on giving 30 days’ prior notice to the Trustee, the Principal Paying Agent, Euroclear, Clearstream, Luxembourg and/or as applicable, the CMU Service and at least 30 days’ prior notice to the Noteholders in accordance with Condition 15, elect that, with effect from the Redenomination Date specified in the notice, the Notes shall be redenominated in euro.

The election will have effect as follows:

- (i) the Notes and the Receipts shall be deemed to be redenominated into euro in the denomination of 0.01 with a nominal amount in euro for each Note and Receipt equal to the nominal amount of that Note or Receipt in the Specified Currency, converted into euro at the Established Rate, provided that, if the Issuer determines, with the agreement of the Principal Paying Agent and with the prior written approval of the Trustee, that the then market practice in respect of the redenomination into euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders, the stock exchange (if any) on which the Notes are for the time being listed and the Agents of such deemed amendments;
- (ii) save to the extent that an Exchange Notice has been given in accordance with paragraph (iv) below, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate nominal amount of Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest 0.01;
- (iii) if definitive Notes are required to be issued after the Redenomination Date, they shall be issued at the expense of the Issuer in the denominations of 1,000, 10,000, 100,000 and (but only to the extent of any remaining amounts less than 1,000 or such smaller denominations as the Issuer in conjunction with the Principal Paying Agent may determine) 0.01 and such other denominations as the Issuer in conjunction with the Principal Paying Agent shall determine and notify to the Noteholders;
- (iv) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date on which the Issuer gives notice (the “**Exchange Notice**”) that replacement euro-denominated Notes, Receipts and Coupons are available for exchange (provided that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Notes and Receipts so issued will

also become void on that date although those Notes and Receipts will continue to constitute valid exchange obligations of the Issuer. New euro-denominated Notes, Receipts and Coupons will be issued in exchange for Notes, Receipts and Coupons denominated in the Specified Currency in such manner as the Principal Paying Agent may specify and as shall be notified to the Noteholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Notes;

- (v) after the Redenomination Date, all payments in respect of the Notes, the Receipts and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Notes to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque;
- (vi) if the Notes are Fixed Rate Notes and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention;
- (vii) if the Notes are Floating Rate Notes, the applicable Pricing Supplement will specify any relevant changes to the provisions relating to interest; and
- (viii) such other changes shall be made to these Conditions as the Issuer may decide, after consultation with the Trustee and the Principal Paying Agent, and as may be specified in the notice, to conform them to conventions then applicable to instruments denominated in euro.

(b) Definitions

In these Conditions, the following expressions have the following meanings:

“**Established Rate**” means the rate for the conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Community regulations) into euro established by the Council of the European Union pursuant to Article 123 of the Treaty;

“**euro**” and “**€**” means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty;

“**Redenomination Date**” means (in the case of interest bearing Notes) any date for payment of interest under the Notes or (in the case of Zero Coupon Notes) any date, in each case specified by the Issuer in the notice given to the Noteholders pursuant to paragraph (a) above and which falls on or after the date on which the country of the Specified Currency first participates in the third stage of European economic and monetary union; and

“**Treaty**” means the Treaty establishing the European Community, as amended by the Treaty on European Union, as amended from time to time.

6. INTEREST

(a) Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the nominal amount paid up) from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If the Notes are in definitive form, except as provided in the applicable Pricing Supplement, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Pricing Supplement, amount to the Broken Amount so specified.

As used in these Conditions, “**Fixed Interest Period**” means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

Except in the case of Notes in definitive form where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Pricing Supplement, interest shall be calculated in respect of any period by applying the Rate of Interest to:

- (A) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or
- (B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount,

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination without any further rounding.

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest in accordance with this Condition 6(a):

- (i) if “**Actual/Actual (ICMA)**” is specified in the applicable Pricing Supplement:
 - (a) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the “**Accrual Period**”) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; or
 - (b) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
 - (1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; and
 - (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; or

- (ii) if “**30/360**” is specified in the applicable Pricing Supplement, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360; or
- (iii) if “**Actual/365 (Fixed)**” is specified in the applicable Pricing Supplement, the actual number of days in the Accrual Period divided by 365.

In these Conditions:

“**Determination Period**” means the period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

“**sub-unit**” means with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, means one cent.

(b) Interest on Floating Rate Notes and Index Linked Interest Notes

(i) Interest Payment Dates

Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the nominal amount paid up) from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (A) the Specified Interest Payment Date(s) in each year specified in the applicable Pricing Supplement; or
- (B) if no express Specified Interest Payment Date(s) is/are specified in the applicable Pricing Supplement, each date (each such date, together with each Specified Interest Payment Date, an “**Interest Payment Date**”) which falls the number of months or other period specified as the Specified Period in the applicable Pricing Supplement after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in these Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

(ii) Rate of Interest

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable Pricing Supplement.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any). For the purposes of this subparagraph (A), “**ISDA Rate**” for an Interest Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent under an interest rate swap transaction if the Principal Paying Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA

Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the “**ISDA Definitions**”) and under which:

- (1) the Floating Rate Option is as specified in the applicable Pricing Supplement;
- (2) the Designated Maturity is a period specified in the applicable Pricing Supplement; and
- (3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate (“**LIBOR**”), on the Euro-zone inter-bank offered rate (“**EURIBOR**”) or on the Hong Kong inter-bank offered rate (“**HIBOR**”), the first day of that Interest Period or (ii) in any other case, as specified in the applicable Pricing Supplement.

For the purposes of this sub-paragraph (A), “**Floating Rate**”, “**Calculation Agent**”, “**Floating Rate Option**”, “**Designated Maturity**” and “**Reset Date**” have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR, or Hong Kong time, in the case of HIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any), all as determined by the Principal Paying Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (1) above, no such offered quotation appears or, in the case of (2) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Pricing Supplement as being other than LIBOR or EURIBOR or HIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Pricing Supplement.

(iii) *Minimum and/or maximum Rate of Interest*

If the applicable Pricing Supplement specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Pricing Supplement specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(iv) *Determination of Rate of Interest and calculation of Interest Amounts*

The Principal Paying Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Index Linked Interest Notes, the Calculation Agent will notify the Principal Paying Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same. If required to be calculated by it, the Principal Paying Agent or, as the case may be, the Calculation Agent shall cause the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Trustee, the Issuer, the Guarantor each of the Paying Agents, the Noteholders and, if the Notes are listed on a stock exchange and the rules of such stock exchange or other relevant authority so require, such stock exchange or other relevant authority as soon as practicable after calculating the same.

The Principal Paying Agent will calculate the amount of interest (the “**Interest Amount**”) payable on the Floating Rate Notes or Index Linked Interest Notes for the relevant Interest Period by applying the Rate of Interest to:

- (A) in the case of Floating Rate Notes or Index Linked Interest Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or
- (B) in the case of Floating Rate Notes or Index Linked Interest Notes in definitive form, the Calculation Amount,

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note or an Index Linked Interest Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination without any further rounding.

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest in accordance with this Condition 6(b):

- (i) if “**Actual/Actual (ISDA)**” or “**Actual/Actual**” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

- (ii) if “**Actual/365 (Fixed)**” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365;
- (iii) if “**Actual/365 (Sterling)**” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if “**Actual/360**” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 360;
- (v) if “**30/360**”, “**360/360**” or “**Bond Basis**” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

Y_1 is the year, expressed as a number, in which the first day of the Interest Period falls;

Y_2 is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

M_1 is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

M_2 is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

D_1 is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D_1 will be 30; and

D_2 is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

- (vi) if “**30E/360**” or “**Eurobond Basis**” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

Y_1 is the year, expressed as a number, in which the first day of the Interest Period falls;

Y_2 is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

M_1 is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

M_2 is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

D_1 is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D_1 will be 30; and

D_2 is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D_2 will be 30; and

(vii) if “**30E/360 (ISDA)**” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

Y_1 is the year, expressed as a number, in which the first day of the Interest Period falls;

Y_2 is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

M_1 is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

M_2 is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

D_1 is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

D_2 is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31 and D_2 will be 30.

(v) *Notification of Rate of Interest and Interest Amounts*

The Principal Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Trustee and any stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and notice thereof to be published in accordance with Condition 15 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and to the Noteholders in accordance with Condition 15. For the purposes of this paragraph, the expression “**London Business Day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in London.

(vi) *Determination or Calculation by Trustee*

If for any reason at any relevant time the Principal Paying Agent or, as the case may be, the Calculation Agent defaults in its obligation to determine the Rate of Interest or the Principal Paying Agent defaults in its obligation to calculate any Interest Amount in accordance with sub-paragraph (ii) (A) or (B) above or as otherwise specified in the applicable Pricing Supplement, as the case may be, and in each case in accordance with paragraph (iv) above,

the Trustee shall determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the applicable Pricing Supplement), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Principal Paying Agent or the Calculation Agent, as applicable.

(vii) *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 6, whether by the Principal Paying Agent or, if applicable, the Calculation Agent or the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Guarantor, the Trustee, the Principal Paying Agent, the Calculation Agent (if applicable), the other Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Guarantor, the Noteholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent or, if applicable, the Calculation Agent or the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) *Interest on Dual Currency Interest Notes*

The rate or amount of interest payable in respect of Dual Currency Interest Notes shall be determined in the manner specified in the applicable Pricing Supplement.

(d) *Interest on Partly Paid Notes*

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Pricing Supplement.

(e) *Accrual of interest*

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue as provided in the Trust Deed.

(f) *Definitions*

In these Conditions, if a Business Day Convention is specified in the applicable Pricing Supplement and (x) if there is no numerically corresponding day on the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (1) in any case where Specified Periods are specified in accordance with Condition 6(b) (i) (B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply mutatis mutandis or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or

- (3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Conditions:

“**Business Day**” means a day which is both:

- (A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London, Hong Kong and any Additional Business Centre specified in the applicable Pricing Supplement; and
- (B) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London, Hong Kong and any Additional Business Centre and which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Melbourne and Wellington, respectively), or (2) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System or any successor system (the “**TARGET2 System**”) is open.

7. PAYMENTS

(a) *Method of payment*

Subject as provided below:

- (i) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Melbourne and Wellington, respectively); and
- (ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 9.

(b) *Presentation of definitive Notes, Receipts and Coupons*

Payments of principal in respect of definitive Bearer Notes not held in CMU will (subject as provided below) be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Bearer Notes, and payments of interest in respect of definitive Bearer Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

Payments of Instalment Amounts (if any) in respect of definitive Bearer Notes not held through the CMU Service, other than the final instalment, will (subject as provided below) be made in the manner provided in paragraph (a) above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Bearer Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the definitive Bearer Note to which it appertains. Receipts presented without the definitive Bearer Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Bearer Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive bearer form not held through the CMU Service (other than Dual Currency Notes, Index Linked Notes or Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 9) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 10) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive bearer form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note, Index Linked Note or Long Maturity Note in definitive bearer form not held through the CMU Service becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A “**Long Maturity Note**” is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

In the case of definitive Bearer Notes held through the CMU Service, payment will be made to the person(s) for whose account(s) interests in the relevant definitive Bearer Note are credited as being held with CMU in accordance with the CMU Rules at the relevant time as notified to the CMU Lodging Agent by the CMU in a relevant CMU Instrument Position Report or any relevant notification by CMU, which notification shall be conclusive evidence of the records of CMU (save in the case of manifest error) and payment made in accordance thereof shall discharge the obligations of the Issuer or, as the case may be, the Guarantor in respect of that payment.

If the due date for redemption of any definitive Bearer Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Bearer Note.

(c) *Payments in respect of Bearer Global Notes*

Payments of principal and interest (if any) in respect of Notes represented by any Bearer Global Note will (subject as provided below) be made in the manner specified above in relation to definitive Bearer Notes and otherwise in the manner specified in the relevant Global Note (i) in the case of a Global Note lodged with CMU, to the person(s) for whose account(s) interests in the relevant Global Note are credited as being held through the CMU Service in accordance with the

CMU Rules, or (ii) in the case of a Global Note not lodged with CMU, against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of any Bearer Global Note, distinguishing between any payment of principal and any payment of interest, will be made (in the case of a Global Note not lodged with CMU) on such Global Note by the Paying Agent to which it was presented or (in the case of a Global Note lodged with CMU) on withdrawal of such Global Note by the CMU Lodging Agent, and in each such case such record shall be prima facie evidence that the payment in question has been made.

(d) *Payments in respect of Registered Notes*

Payments of principal (other than Instalment Amounts prior to the final instalment) in respect of each Registered Note (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Note at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Note appearing in the register of holders of the Registered Notes maintained by the Registrar (the “**Register**”) at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. Notwithstanding the previous sentence, if (i) a holder does not have a Designated Account or (ii) the principal amount of the Notes held by a holder is less than U.S.\$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, “**Designated Account**” means the account (which, in the case of a payment in Japanese Yen to a non-resident of Japan, shall be a non-resident account) maintained by a holder with a Designated Bank and identified as such in the Register and “**Designated Bank**” means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Melbourne and Wellington, respectively) and (in the case of a payment in euro) any bank which processes payments in euro.

Payments of interest and payments of Instalment Amounts (other than the final instalment) in respect of each Registered Note (whether or not in global form) will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Registered Note appearing in the Register at the close of business on the fifteenth day (whether or not such fifteenth day is a business day) before the relevant due date (the “**Record Date**”) at his address shown in the Register on the Record Date and at his risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Registered Note, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) and Instalment Amounts (other than the final instalment) in respect of the Registered Notes which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Note on redemption and the final instalment of principal will be made in the same manner as payment of the principal amount of such Registered Note.

Holders of Registered Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Note as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Notes.

All amounts payable to DTC or its nominee as registered holder of a Registered Global Note in respect of Notes denominated in a Specified Currency other than U.S. dollars shall be paid by transfer by the Registrar to an account in the relevant Specified Currency of the Exchange Agent on behalf of DTC or its nominee for payment in such Specified Currency for conversion into U.S. dollars in accordance with the provisions of the Agency Agreement.

None of the Issuer, the Guarantor, the Trustee or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

(e) *General provisions applicable to payments*

The holder of a Global Note (if the Global Note is not lodged with CMU) or (if the Global Note is lodged with CMU) the person(s) for whose account(s) interests in such Global Note are credited as being held through the CMU Service in accordance with the CMU Rules as notified to the CMU Lodging Agent by CMU in a relevant CMU Instrument Position Report or any other relevant notification by CMU (which notification, in either case, shall be conclusive evidence of the records of CMU save in the case of manifest error), shall be the only person(s) entitled to receive payments in respect of Notes represented by such Global Note and the Issuer or, as the case may be, the Guarantor will be discharged by payment to, or to the order of, the holder of such Global Note or such person(s) for whose account(s) interests in such Global Note are credited as being held through the CMU Service (as the case may be) in respect of each amount so paid. Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg, DTC or the CMU Service as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear, Clearstream, Luxembourg, DTC or the CMU Lodging Agent, as the case may be, for his share of each payment so made by the Issuer or, as the case may be, the Guarantor in respect of such Global Note.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/ or interest in respect of Bearer Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States only if:

- (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Bearer Notes in the manner provided above when due;
- (ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer and the Guarantor, adverse tax consequences to the Issuer or the Guarantor.

(f) *Payment Day*

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, “**Payment Day**” means any day which (subject to Condition 10) is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
 - (A) the relevant place of presentation;
 - (B) Hong Kong;
 - (C) London; and
 - (D) any Additional Financial Centre specified in the applicable Pricing Supplement;
- (ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation, London, Hong Kong and any Additional Financial Centre and which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Melbourne and Wellington, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open; and
- (iii) in the case of any payment in respect of a Registered Global Note denominated in a Specified Currency other than U.S. dollars and registered in the name of DTC or its nominee and in respect of which an accountholder of DTC (with an interest in such Registered Global Note) has elected to receive any part of such payment in U.S. dollars, a day other than a Saturday or Sunday or any other day on which commercial banks are not authorised or required by law or regulation to be closed in New York City.

(g) *Interpretation of principal and interest*

Any reference in these Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal under Condition 9 or under any undertaking or covenant given in addition thereto, or in substitution therefor, pursuant to the Trust Deed;
- (ii) the Final Redemption Amount of the Notes;
- (iii) the Early Redemption Amount of the Notes;
- (iv) the Optional Redemption Amount(s) (if any) of the Notes;
- (v) in relation to Notes redeemable in instalments, the Instalment Amounts;
- (vi) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 8(e)); and
- (vii) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in these Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 9 or under any undertaking or covenant given in addition thereto, or in substitution therefor, pursuant to the Trust Deed.

8. REDEMPTION AND PURCHASE

(a) *Redemption at maturity*

Unless previously redeemed or purchased and cancelled as specified below, each Note (including each Index Linked Redemption Note and Dual Currency Redemption Note) will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Pricing Supplement in the relevant Specified Currency on the Maturity Date.

(b) *Redemption for tax reasons*

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note nor an Index Linked Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Interest Note), on giving not less than 30 nor more than 60 days' notice to the Trustee and the Principal Paying Agent and, in accordance with Condition 15, the Noteholders (which notice shall be irrevocable), if the Issuer satisfies the Trustee immediately before the giving of such notice that:

- (i) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 9 or the Guarantor would be unable for reasons outside its control to procure payment by the Issuer and in making payment itself would be required to pay such additional amounts, in each case as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 9) or any political subdivision of, or any authority in, or of, a Tax Jurisdiction having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and
- (ii) such obligation cannot be avoided by the Issuer or, as the case may be, the Guarantor taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or, as the case may be, the Guarantor would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Trustee (1) a certificate signed by two Directors of the Issuer or, as the case may be, two Directors of the Guarantor stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and (2) an opinion of independent legal advisers of recognised standing to the effect that the Issuer or, as the case may be, the Guarantor has or will become obliged to pay such additional amounts as a result of such change or amendment and the Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders, the Receiptholders and the Couponholders.

Notes redeemed pursuant to this Condition 8(b) will be redeemed at their Early Redemption Amount referred to in paragraph (e) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

(c) Redemption at the option of the Issuer (Issuer Call)

If Issuer Call is specified in the applicable Pricing Supplement, the Issuer may, having given:

- (i) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 15; and
- (ii) not less than 15 days before the giving of the notice referred to in (i), notice to:
 - (a) the Trustee and the Principal Paying Agent; and
 - (b) in the case of a redemption of Registered Notes, the Registrar,

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date(s) and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and/or not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Pricing Supplement. In the case of a partial redemption of Notes, the Notes to be redeemed ("**Redeemed Notes**") will be selected in such place as the Trustee may approve and in such manner as it deems fit, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg and/or DTC and/or the CMU Service, (as appropriate) in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the "**Selection Date**"). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 15 not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Notes represented by definitive Notes or represented by a Global Note shall in each case bear the same proportion to the aggregate nominal amount of all Redeemed Notes as the aggregate nominal amount of definitive Notes outstanding and Notes outstanding represented by such Global Note, respectively, bears to the aggregate nominal amount of the Notes outstanding, in each case on the Selection Date, provided that, if necessary, appropriate adjustments shall be made to such nominal amounts to ensure that each represents an integral multiple of the Specified Denomination. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this paragraph (c) and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 15 at least five days prior to the Selection Date.

(d) Redemption at the option of the Noteholders (Investor Put)

(A) If Investor Put is specified in the applicable Pricing Supplement

If Investor Put is specified in the applicable Pricing Supplement, upon the holder of any Note giving to the Issuer in accordance with Condition 15 not less than 15 nor more than 30 days' notice (which notice shall be irrevocable) the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Pricing Supplement, such Note on the Optional Redemption Date(s) and at the Optional Redemption Amount(s) together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date.

(B) Put Option Exercise Procedures

If this Note is in definitive form, to exercise the right to require redemption of this Note the holder of this Note on any Business Day (as defined in Condition 6) falling within the notice period must deliver such Note at the specified office of any Paying Agent (together with all unmatured Receipts and Coupons and unexchanged Talons in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) at any time during normal business hours of such Paying Agent or, as the case may be, the Registrar falling within the notice period,

accompanied by a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent or, as the case may be, the Registrar (a “**Put Notice**”) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition accompanied by, if this Note is in definitive form, this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control and, in the case of Registered Notes, the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Registered Notes so surrendered is to be redeemed, an address to which a new Registered Note in respect of the balance of such Registered Notes is to be sent subject to and in accordance with the provisions of Condition 2(b). Registered Notes may be redeemed under this Condition 8(d) in any multiple of their lowest Specified Denomination.

(e) Early Redemption Amounts

For the purpose of paragraph (b) above and Condition 11, each Note will be redeemed at its Early Redemption Amount calculated as follows:

- (i) in the case of a Note (other than a Zero Coupon Note, an Instalment Note and a Partly Paid Note) with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (ii) in the case of a Note (other than a Zero Coupon Note but including an Instalment Note and Partly Paid Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Note is denominated, at the amount specified in, or determined in the manner specified in, the applicable Pricing Supplement or, if no such amount or manner is so specified in the applicable Pricing Supplement, at its nominal amount; or
- (iii) in the case of a Zero Coupon Note, at an amount (the “**Amortised Face Amount**”) calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

where:

“**RP**” means the Reference Price; and

“**AY**” means the Accrual Yield; and

“**y**” is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator of which is 360,

or on such other calculation basis as may be specified in the applicable Pricing Supplement.

(f) Instalments

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to paragraph (e) above.

(g) *Partly Paid Notes*

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Pricing Supplement.

(h) *Purchases*

The Issuer, the Guarantor or any Subsidiary (as defined in the Trust Deed) of the Issuer or the Guarantor may at any time purchase Notes (provided that, in the case of definitive Bearer Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. If purchases are made by tender, tenders must be available to all Noteholders alike. Such Notes may be held, reissued, resold or, at the option of the Issuer or the Guarantor, surrendered to the Principal Paying Agent and/or the Registrar for cancellation.

(i) *Cancellation*

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes purchased and cancelled pursuant to paragraph (h) above (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent and may not be reissued or resold.

(j) *Late payment on Zero Coupon Notes*

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph (a), (b), (c) or (d) above or upon its becoming due and repayable as provided in Condition 11 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in paragraph (e) (iii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Note has been received by the Trustee, the Principal Paying Agent or the Registrar and notice to that effect has been given to the Noteholders in accordance with Condition 15.

9. TAXATION

All payments of principal and interest in respect of the Notes, Receipts and Coupons by the Issuer or the Guarantor will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer or, as the case may be, the Guarantor will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

- (a) presented for payment by or on behalf of a holder who is liable for such taxes or duties in respect of such Note, Receipt or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note, Receipt or Coupon; or
- (b) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to such additional amounts on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 7(f)); or

- (c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (d) presented for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union; or
- (e) presented for payment by or on behalf of a holder of such Note, Receipt or Coupon who, at the time of such presentation, is able to avoid such withholding or deduction by making a declaration of non-residence or other similar claim for exemption and does not make such declaration or claim.

As used herein:

- (i) “**Tax Jurisdiction**” means the British Virgin Islands or any political subdivision or any authority thereof or therein having power to tax (in the case of payments by the Issuer) or Hong Kong or any political subdivision or any authority thereof or therein having power to tax (in the case of payments by the Guarantor); and
- (ii) the “**Relevant Date**” means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Paying Agent or the Registrar, as the case may be, on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 15.

10. PRESCRIPTION

The Notes (whether in bearer or registered form), Receipts and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 9) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 7(b) or any Talon which would be void pursuant to Condition 7(b).

11. EVENTS OF DEFAULT AND ENFORCEMENT

(a) *Events of Default*

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall (subject in each case to being indemnified to its satisfaction), (but in the case of the happening of any of the events described in paragraphs (ii) and (iv) to (xi) inclusive, only if the Trustee shall have certified in writing to the Issuer and the Guarantor that such event is, in its opinion, materially prejudicial to the interests of the Noteholders), give notice in writing to the Issuer that each Note is, and each Note shall thereupon immediately become, due and repayable at its Early Redemption Amount together with accrued interest as provided in the Trust Deed if any of the following events (each an “**Event of Default**”) shall occur:

- (i) *Non-payment*: the Issuer fails to pay any amount of principal in respect of the Notes within seven days of the due date for payment thereof or fails to pay any amount of interest in respect of the Notes within fourteen days of the due date for payment thereof; or
- (ii) *Breach of other obligations*: the Issuer or the Guarantor defaults in the performance or observance of, or compliance with, any of its other obligations under the Conditions or the Trust Deed which default is incapable of remedy, or if in the opinion of the Trustee capable of remedy, such default remains unremedied in the opinion of the Trustee for

30 days (or such longer period as the Trustee may permit) next following service by the Trustee on the Issuer or, as the case may be, the Guarantor of notice requiring the same to be remedied; or

- (iii) *Cross default of Issuer or Guarantor*: (1) the Issuer or the Guarantor, as the case may be, shall default in the payment of any principal of or interest on any Indebtedness beyond any period of grace provided in respect thereof; or (2) the Issuer or the Guarantor, as the case may be, shall fail to honour when due and called upon any guarantee of any Indebtedness or (3) any Indebtedness of the Issuer or the Guarantor, as the case may be, shall become due and payable prior to its specified maturity by reason of any default or event of default (howsoever described), in each case in an aggregate principal amount of at least U.S.\$30,000,000 or such other amount as may be specified in the applicable Pricing Supplement or the equivalent thereof in another currency or currencies; or
- (iv) *Enforcement Proceedings*: a distress, attachment, execution or other legal process is levied, enforced or sued out on or against the whole or a substantial part of the property, assets or revenues of the Issuer or the Guarantor and is not discharged or stayed within 60 days; or
- (v) *Security enforced*: a secured party takes possession, or a receiver, manager or other similar officer is appointed or initiates any legal proceedings to enforce any mortgage, charge, pledge, lien or other encumbrance over the whole or a substantial part of the undertaking, assets and revenues of the Issuer or the Guarantor and is not discharged or stayed within 60 days; or
- (vi) *Insolvency etc*: (1) the Issuer or the Guarantor becomes insolvent or is unable to pay its debts as they fall due, (2) an administrator or liquidator of the Issuer or the Guarantor is appointed with respect to the whole or a substantial part of the undertaking, assets and revenues of the Issuer or the Guarantor, (3) the Issuer or the Guarantor makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of its Indebtedness (or any guarantees of any Indebtedness given by it) generally or (4) the Issuer or the Guarantor ceases or threatens to cease to carry on all or a substantial part of its business; or
- (vii) *Winding up etc*: (i) an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer or the Guarantor (otherwise than for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent on terms previously approved in writing by the Trustee or by an Extraordinary Resolution of the Noteholders) and (ii) in any case is not discharged, stayed or the subject of bona fide proceedings within 28 days; or
- (viii) *Illegality*: if, in the opinion of the Trustee, it is or will become unlawful for the Issuer or the Guarantor to perform or comply with any one or more of its obligations under any of the Notes or the Trust Deed and such illegality is incapable of remedy, or if in the opinion of the Trustee capable of remedy, such illegality remains unremedied in the opinion of the Trustee for 30 days (or such longer period as the Trustee may permit) next following service in writing by the Trustee on the Issuer, or as the case may be, the Guarantor of notice requiring the same to be remedied; or
- (ix) *Ownership*: the Issuer ceases to be wholly-owned and controlled by the Guarantor; or
- (x) *Analogous event*: any event occurs which under the laws of the British Virgin Islands or Hong Kong has an analogous effect to any of the events referred to in paragraphs (iv) to (viii) above; or
- (xi) *Guarantee not in force*: the Guarantee is not (or is claimed by the Guarantor not to be) in full force and effect.

(b) Enforcement

The Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer and/or the Guarantor as it may think fit to enforce the provisions of the Trust Deed, the Notes, the Receipts and the Coupons, but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed, the Notes, the Receipts or the Coupons unless (i) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least one-quarter in nominal amount of the Notes then outstanding and (ii) it shall have been indemnified to its satisfaction.

No Noteholder, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

12. REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced subject to applicable laws, regulations and relevant stock exchange regulations at the specified office of the Principal Paying Agent or the Paying Agent (in the case of Bearer Notes, Receipts or Coupons) or the Registrar or the Transfer Agent (in the case of Registered Notes) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer, the Principal Paying Agent and the Registrar (as the case may be) may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

13. AGENTS

The names of the initial Agents and their initial specified offices are set out below.

The Issuer and the Guarantor are entitled, after consultation with the Trustee, to vary or terminate the appointment of any Agent and/or appoint additional or other Agents and/or approve any change in the specified office through which any Agent acts, provided that:

- (a) there will at all times be a Principal Paying Agent and a Registrar;
- (b) so long as the Notes are listed on any stock exchange, there will at all times be a Paying Agent (in the case of Bearer Notes) and a Transfer Agent (in the case of Registered Notes) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange (or any other relevant authority);
- (c) there will at all times be a Paying Agent in an EU Member State that will not be obliged to withhold or deduct tax pursuant to any law implementing the European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; and
- (d) so long as any of the Registered Global Notes denominated in a Specified Currency other than U.S. dollars are held through DTC or its nominee, there will at all times be an Exchange Agent with a specified office in New York City.

In addition, the Issuer and the Guarantor shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 7(e). Any variation, termination, appointment or change referred to in the preceding paragraph and/or any appointment referred to in this paragraph shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 15.

In acting under the Agency Agreement, the Agents act solely as agents of the Issuer and the Guarantor and, in certain circumstances set out therein, of the Trustee and do not assume any obligation to, or relationship of agency or trust with, any Noteholders, Receiptholders or Couponholders. The Agency

Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

14. EXCHANGE OF TALONS

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 10.

15. NOTICES

All notices regarding the Bearer Notes will be deemed to be validly given if published in a leading daily newspaper of general circulation in Hong Kong. It is expected that such publication will be made in the South China Morning Post in Hong Kong. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange (or any other relevant authority) on which the Bearer Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If, in the opinion of the Trustee, publication as provided above is not practicable, a notice will be given in such other manner, and will be deemed to have been given on such date, as the Trustee shall approve.

All notices regarding the Registered Notes will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing and, in addition, for so long as any Registered Notes are listed on a stock exchange and the rules of that stock exchange so require, such notice will be published in a daily newspaper of general circulation in the place or places required by the rules of that stock exchange.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of (i) Euroclear and/or Clearstream, Luxembourg and/or DTC, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or DTC for communication by them to the holders of the Notes or (ii) the CMU Service, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to the persons shown in a CMU Instrument Position Report issued by the CMU Service on the second business day preceding the date of despatch of such notice as holding interests in the relevant Global Note. Any such notice shall be deemed to have been given to the holders of the Notes on the first day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg and/or DTC and/or the persons shown in the relevant CMU Instrument Position Report.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Principal Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes). Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Principal Paying Agent or the Registrar through Euroclear and/or Clearstream, Luxembourg and/or DTC and/or, in the case of Notes lodged with the CMU Service, by delivery by such holder of such notice to the CMU Lodging Agent in Hong Kong, as the case may be, in such manner as the Principal Paying Agent, the Registrar, the CMU Lodging Agent and Euroclear and/or Clearstream, Luxembourg and/or DTC and/or the CMU Service, as the case may be, may approve for this purpose.

Receiptholders and Couponholders will be deemed for all purposes to have notice of the contents of any notice given to Noteholders in accordance with this Condition 15.

16. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Trust Deed. Such a meeting may be convened by the Issuer, the Guarantor or the Trustee and shall be convened by the Issuer if required in writing by Noteholders holding not less than ten per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, the Receipts, the Coupons or the Trust Deed (including, inter alia, modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes, the Receipts or the Coupons), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

The Trustee may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or the Trust Deed, or determine, without any such consent as aforesaid, that any Event of Default or potential Event of Default shall not be treated as such, where, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders so to do or may agree, without any such consent as aforesaid, to any modification which is of a formal, minor or technical nature or to correct a manifest or proven error. Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 15 as soon as practicable thereafter.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders, Receiptholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders, Receiptholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder, Receiptholder or Couponholder be entitled to claim, from the Issuer, the Guarantor, the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders, Receiptholders or Couponholders except to the extent already provided for in Condition 9 and/or any undertaking or covenant given in addition to, or in substitution for, Condition 9 pursuant to the Trust Deed.

The Trustee may, without the consent of the Noteholders, agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Notes, the Receipts, the Coupons and the Trust Deed of a subsidiary of the Guarantor, subject to (a) the Notes being unconditionally and irrevocably guaranteed by the Guarantor, (b) the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced by the substitution and (c) certain other conditions set out in the Trust Deed being complied with.

Any such modification, waiver, authorisation, determination or substitution shall be binding on the Noteholders, the Receiptholders and the Couponholders and, unless the Trustee otherwise agrees, any such modification or substitution shall be promptly notified to Noteholders by the Issuer in accordance with Condition 15.

17. INDEMNIFICATION OF THE TRUSTEE AND TRUSTEE CONTRACTING WITH THE ISSUER AND/OR THE GUARANTOR

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified to its satisfaction.

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, inter alia, (i) to enter into business transactions with the Issuer and/or the Guarantor and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or the Guarantor, (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders, Receiptholders or Couponholders and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

18. FURTHER ISSUES

The Issuer shall be at liberty from time to time without the consent of the Noteholders, the Receiptholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes.

19. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

20. GOVERNING LAW AND SUBMISSION TO JURISDICTION

(a) *Governing law*

The Trust Deed, the Agency Agreement, the Notes, the Receipts and the Coupons and any non-contractual obligations arising out of or in connection with the Trust Deed, the Agency Agreement, the Notes, the Receipts and the Coupons are governed by, and shall be construed in accordance with, English law.

(b) *Submission to jurisdiction*

Each of the Issuer and the Guarantor has in the Trust Deed agreed, for the exclusive benefit of the Trustee, the Noteholders, the Receiptholders and the Couponholders, that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed, the Notes, the Receipts and/or the Coupons (including a dispute relating to any non-contractual obligations arising out of or in connection with the Trust Deed, the Notes, the Receipts and/or the Coupons) and that accordingly any suit, action or proceedings (together referred to as "**Proceedings**") arising out of or in connection with the Trust Deed, the Notes, the Receipts and the Coupons may be brought in such courts.

Each of the Issuer and the Guarantor has in the Trust Deed irrevocably waived any objection which it may have now or hereafter to the laying of the venue of any such Proceedings in any such court and any claim that any such Proceedings have been brought in an inconvenient forum and has further irrevocably agreed in the Trust Deed that a judgment in any such Proceedings brought in the English courts shall be conclusive and binding upon it and may be enforced in the courts of any other jurisdiction.

Nothing contained in this Condition shall limit any right to take Proceedings against the Issuer or the Guarantor in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.

(c) *Appointment of Process Agent*

Each of the Issuer and the Guarantor has in the Trust Deed appointed Law Debenture Corporate Services Limited at its registered office at Fifth Floor, 100 Wood Street, London EC2V 7EX, England as its agent for service of process, and has undertaken that, in the event of Law Debenture Corporate Services Limited ceasing so to act or ceasing to be registered in England, it will appoint another person as its agent for service of process in England in respect of any Proceedings. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be on-lent by the Issuer to the Guarantor to be used for general corporate purposes.

DESCRIPTION OF THE ISSUER

The Issuer, incorporated in the British Virgin Islands on 25th January, 2002, is a wholly-owned subsidiary of the Guarantor. The Issuer was established to raise financing for the Guarantor.

As at the date of this Offering Circular, the Issuer had outstanding Notes issued under the Programme as follows:

<u>Principal amount of debt securities</u>	<u>Coupon</u>	<u>Maturity Year</u>
US\$1,400,000,000 Notes (in aggregate)	2.875 per cent. to 4.75 per cent. per annum	2020 to 2027
HK\$9,995,000,000 Notes (in aggregate)	2.00 per cent. to 4.75 per cent. per annum	2015 to 2041
HK\$300,000,000 Notes	3-month HIBOR plus 100 basis points	2017
JPY34,000,000,000 Notes (in aggregate)	0.823 per cent. to 3.28 per cent. per annum	2021 to 2027
A\$30,000,000 Notes	3-month BBSW plus 202 basis points	2021
A\$80,000,000 Notes (in aggregate) . .	5.00 per cent. to 6.3675 per cent. per annum	2021 to 2023

As at the date hereof the Issuer has no subsidiaries.

The directors of the Issuer as at the date of this Offering Circular are:

<u>Name</u>	<u>Position</u>	<u>Year Appointed</u>
Poon Wai Yin Paul	Director	2013
Geert Herman August Peeters	Director	2014

Poon Wai Yin Paul

Director, BSc(Eng.), FIET, FIMechE, FHKIE, FIEAust, FHKEng, CEng, CPEng

Mr. Poon is the Managing Director of CLP Power and holds overall responsibility for the operations of the Hong Kong business, which includes a vertically integrated electricity utility serving over 5.9 million people in Kowloon, the New Territories and Lantau of Hong Kong. Mr. Poon has over 37 years' experience in the power industry. He joined CLP Power in 1981. Since then, he had held various management positions in Transmission Projects, Technical Services, Change Management, CLP International, Regional Operations, Asset Management and Power Systems. He was the Chief Operating Officer – CLP Power before assuming his current position in September 2013. Mr. Poon is also the Chairman of CLP Engineering Limited and CLP Energy Infrastructure Limited, a Director of Castle Peak Power Company Limited, Hong Kong Pumped Storage Development Company, Limited, CLP Power HK Finance Ltd., 深港天然气管道有限公司 (ShenGang Natural Gas Pipeline Company Limited), 广东核电合营有限公司 (Guangdong Nuclear Power Joint Venture Company, Limited), CLP Properties Limited and a number of other companies of the CLP Group.

Geert Herman August Peeters

Director, MSc(Eng.), CEng(Belgium)

Mr. Peeters is the Group Director & Chief Financial Officer of CLP Holdings Limited, responsible for Group financial control & reporting, Group treasury, Group tax, Group corporate finance, risk management and investor relations of CLP Holdings Limited. He is also a Director of CLP Power, CLP Power HK Finance Ltd. and a number of other subsidiary companies of the CLP Group. Mr. Peeters has over 25 years of experience in the energy industry. Prior to joining CLP, he was the Deputy Chief Financial Officer of GDF SUEZ Group based in Paris. Mr. Peeters has been with GDF SUEZ since 1997, gaining extensive experience in senior financial and operational roles in Europe, Latin America, the Middle East and North America. He has also served as the Chief Financial Officer of International Power plc, a GDF SUEZ subsidiary listed on the London Stock Exchange and part of the FTSE 100 index until July 2012. Before joining GDF SUEZ, Mr. Peeters worked for KBC Bank in Brussels and

New York and for Tractebel Energy Engineering at the Doel Nuclear Power Plant in Antwerp (Belgium). Mr. Peeters has served on the board of several energy companies amongst which, GDF Suez Trading SA and GDF Suez Exploration and Production SA (France) and the listed companies International Power plc. (UK), E-CL (Chile) and Glow Energy (Thailand). Mr. Peeters, a Knight in the Order of Leopold, has a Master of Science degree in Electro Mechanical Engineering (Gent, Belgium) and postgraduate master's degrees in Business and IT Administration.

The registered office of the Issuer is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands. The correspondence address of each of the Directors of the Issuer for the purposes of his directorship in the Issuer is 8 Laguna Verde Avenue, Hung Hom, Kowloon, Hong Kong.

The Issuer has no employees.

CAPITALISATION AND INDEBTEDNESS OF THE ISSUER

The following table sets out the capitalisation and indebtedness of the Issuer as at 31st December, 2014, extracted from the audited financial statements of the Issuer as at 31st December, 2014:

	As at 31st December, 2014 <hr/> Actual (HK\$ million)
Short-term debt (including current portion of long-term debt) ⁽¹⁾	1,340
Long-term debt (net of current portion) ⁽¹⁾	22,608
Shareholders' funds	
Share capital	—
Reserves	<hr/> —
Total shareholders' funds	<hr/> —
Total capitalisation ⁽²⁾	22,608
Total short-term debt and capitalisation	23,948

As at 31st December, 2014, the Issuer had an authorised ordinary share capital of U.S.\$50,000, divided into 50,000 ordinary shares of U.S.\$1.00 par value each, of which 1 ordinary share had been issued and fully paid.

For the period from 1st January, 2015 to 2nd April, 2015, Japanese Yen notes of JPY3 billion due 2027 with a coupon rate of 0.823 per cent. per annum and Hong Kong dollar notes of HK\$300 million due 2030 with a coupon rate of 3.22 per cent. were issued, and Hong Kong dollar notes of HK\$500 million with a coupon rate of 4.35 per cent. per annum became due and were repaid. Save as disclosed herein, there has been no other material change in the capitalisation and indebtedness of the Issuer since 31st December, 2014.

Notes:

- (1) Represents the outstanding amount of notes issued under the Programme for the period from 3rd April, 2002 up to 31st December, 2014, which comprises (i) various tranches of U.S. dollar notes totalling U.S.\$1,400 million with coupon rates ranging from 2.875 per cent. to 4.75 per cent. per annum due between 2020 to 2027; (ii) various tranches of Hong Kong dollar notes totalling HK\$10,195 million with coupon rates ranging from 2.00 per cent. to 4.75 per cent. per annum and due between 2015 to 2041; (iii) one tranche of HK\$300 million Hong Kong dollar notes with coupon rates of 3-month HIBOR plus 100 basis points and due in 2017; (iv) various tranches of JPY notes totalling JPY31 billion with coupon rates ranging from 1.203 per cent. to 3.28 per cent. per annum and due between 2021 to 2026; (v) A\$30 million notes with a coupon rate of 3-month BBSW plus 202 basis points due 2021; and (vi) various tranches of Australian dollar notes totalling A\$80 million with coupon rates of 5.00 per cent. to 6.3675 per cent. per annum and due between 2021 and 2023.
- (2) Capitalisation represents the sum of long-term debt and shareholders' funds.

CAPITALISATION AND INDEBTEDNESS OF THE GUARANTOR

The following table sets out the consolidated capitalisation and indebtedness of the Guarantor as at 31st December, 2014, extracted from the audited consolidated financial statements of the Guarantor as at 31st December, 2014:

	As at 31st December, 2014
	Actual (HK\$ million)
Short-term debt (including current portion of long-term debt)	7,498
Long-term debt (net of current portion)	33,340
Shareholders' funds	
Share capital ⁽¹⁾	20,400
Reserves ⁽¹⁾	14,961
	35,361
Perpetual capital securities ⁽²⁾	5,791
Non-controlling interests ⁽³⁾	2,036
Equity	43,188
Total capitalisation ⁽⁴⁾	76,528
Total short-term debt and capitalisation	84,026

As at 31st December, 2014, the Guarantor had issued 2,488.32 million ordinary shares which are fully paid.

Save as disclosed herein, there has been no material change in the consolidated capitalisation and indebtedness of the Guarantor since 31st December, 2014.

Notes:

- (1) In accordance with the transitional provisions set out in section 37 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622) which came into force on 3rd March, 2014, the share premium of HK\$7,958 million which was previously grouped under reserves has become part of the Guarantor's share capital.
- (2) During the year ended 31st December, 2014, a wholly-owned subsidiary of the Guarantor, CLP Power HK Finance Ltd., issued a total of US\$750 million perpetual capital securities. The securities are perpetual, non-callable in the first 5.5 years and entitle holders to receive distributions at a distribution rate of 4.25 per cent. per annum in the first 5.5 years and floating distributions thereafter with fixed step up margins at year 10.5 and at year 25.5 respectively, payable semi-annually in arrear. The distributions may be deferred at the discretion of the issuer, CLP Power HK Finance Ltd., if the issuer and the Guarantor (also as guarantor of the securities) do not (a) declare or pay dividends or distributions to their shareholders or (b) cancel or reduce their share capital within each distribution payment period. The perpetual securities are classified as equity in accordance with Hong Kong Accounting Standard 3.2 "Financial Instruments Presentation".
- (3) Non-controlling interests represents China Southern Power Grid International (HK) Co., Limited's 30 per cent equity interest in the Guarantor's subsidiary, Castle Peak Power Company Limited.
- (4) Capitalisation represents the sum of long-term debt and equity.

DESCRIPTION OF THE GUARANTOR

Introduction

CLP Power Hong Kong Limited (the “**Company**”) was established in 1901 in Hong Kong as China Light & Power Company, Limited. The Company changed its name to CLP Power Hong Kong Limited on 5th March, 1999. The Company’s website address is www.clpgroup.com.

The Company is engaged in the electricity generation, transmission and distribution business in Hong Kong. It is one of the only two electricity providers in Hong Kong. Apart from the standalone renewable system on Town Island, the Company does not generate the electricity it sells, but pursuant to several contracts described below in “— *Power Purchase from CAPCO*” and “— *Non-CAPCO Power Purchases/Storage Facilities*”, the Company purchases electricity from Castle Peak Power Company Limited (“**CAPCO**”), and from Guangdong Daya Bay Nuclear Power Station, located in Guangdong Province of Mainland China. The Company supplies electricity to Kowloon, the New Territories and a number of outlying islands, including Lantau Island and Cheung Chau. Its supply area extends to approximately 1,000 square kilometres and covers a population of more than 5.9 million people, which translates into approximately 2.5 million customers. The Company supplies approximately 75 per cent. of the electricity consumed in Hong Kong.

In 1964, the Company entered into a joint venture arrangement with ExxonMobil International Holdings Inc. (formerly known as Esso Standard Eastern Inc.), a wholly-owned subsidiary of Exxon Mobil Corporation (formerly known as Exxon Corporation), for the generation of electricity to meet Hong Kong’s burgeoning demands. The generating company, CAPCO, was formed under this joint venture arrangement, and was jointly owned by the Company (40 per cent.) and ExxonMobil Energy Limited (“**ExxonMobil**”) (an indirect subsidiary of ExxonMobil International Holdings Inc., and was formerly known as Exxon Energy Limited) (60 per cent.). Concurrently with the establishment of the joint venture arrangement in 1964, the Company and ExxonMobil International Holdings Inc. negotiated a regulatory framework with the Government of Hong Kong (the “**Government**”) known as the “Scheme of Control” (“**SoC**”).

The SoC regulates the Company’s and CAPCO’s financial affairs for electricity related operations. The SoC provides that the Company is obliged to meet electricity demand at the lowest reasonable cost. In return, the Government recognises that the Company and CAPCO are entitled to receive a reasonable return on their investments. The current SoC, which came into effect on 1st October, 2008, has a term of 10 years, with the Government having the right to extend for a further five years on the same terms up to 30th September, 2023. See “— *Scheme of Control*”.

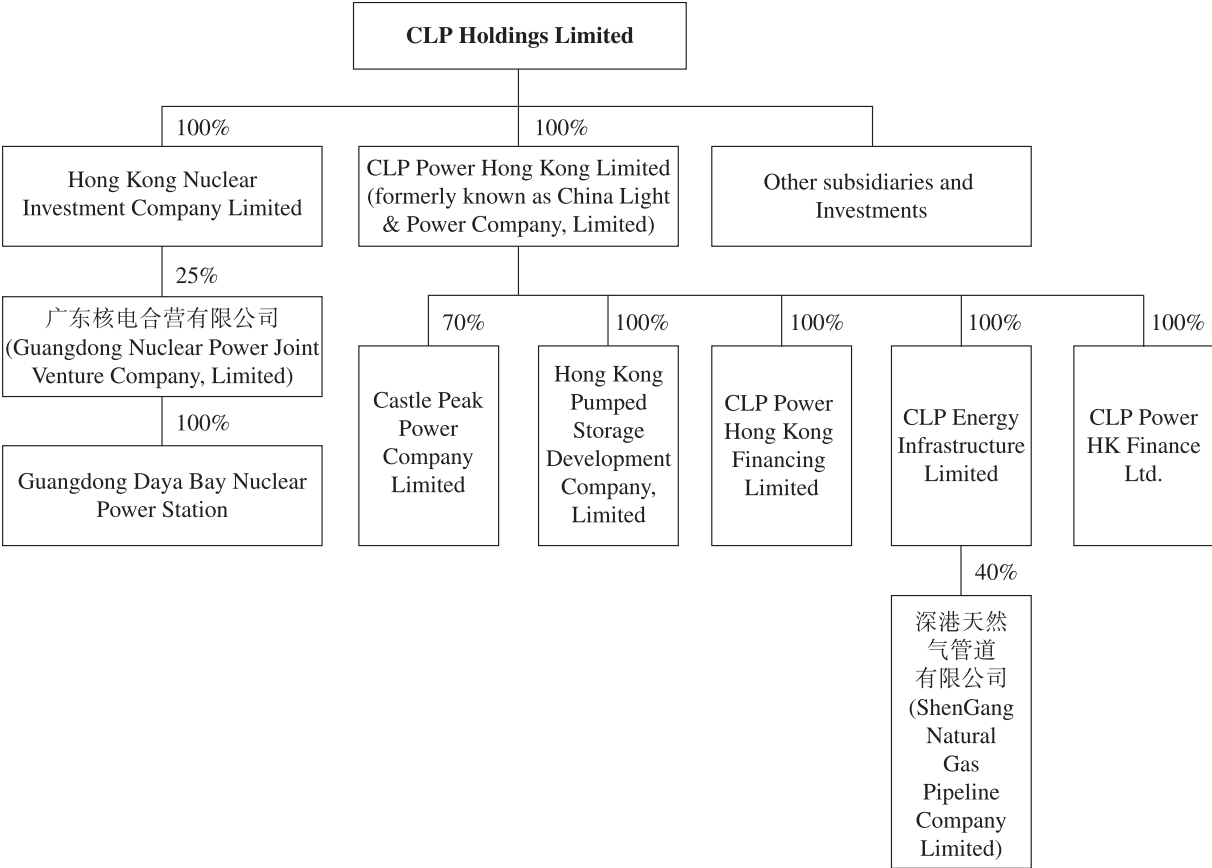
On 12th May, 2014, the Company completed, in collaboration with China Southern Power Grid International (HK) Co., Limited (“**CSG HK**”), a wholly-owned subsidiary of 中国南方电网有限责任公司 (China Southern Power Grid Co., Limited) (“**CSG**”), the acquisition of the 60 per cent. interest in CAPCO held by ExxonMobil. After the acquisition, the Company now holds a 70 per cent. interest in CAPCO and CSG HK holds the remaining 30 per cent. interest. The increase in interest in CAPCO enables the Company to exercise a greater degree of control over CAPCO’s generation activities.

Hong Kong Pumped Storage Development Company, Limited (“**PSDC**”) is now a wholly-owned subsidiary of the Company after the acquisition of the remaining 51 per cent. interest previously held by ExxonMobil. The principal activity of PSDC is to provide pumped storage services to the Company in Guangdong Province of Mainland China. See “— *Non-CAPCO Power Purchases/Storage Facilities*”.

In addition, the Company indirectly holds a 40 per cent. equity interest in 深港天然气管道有限公司 (ShenGang Natural Gas Pipeline Company Limited) (“**SNGPL**”) through its wholly-owned subsidiary, CLP Energy Infrastructure Limited. SNGPL is incorporated in Mainland China. It owns and operates the Second West-East Natural Gas Pipeline (“**WEPII**”) Hong Kong Branch Line which transports natural gas from Shenzhen to Hong Kong.

Relationship with CLP Holdings Limited

The Company carried out a corporate reorganisation in 1998 to delineate the Company’s regulated electricity generation, transmission and distribution business from the non-regulated businesses. A new company, CLP Holdings Limited (“**CLP Holdings**”), was established as the top-tier holding company by way of a Scheme of Arrangement effective on 6th January, 1998 and listed on the Stock Exchange of Hong Kong in place of the Company. The Company was then converted into a private company and became a wholly-owned subsidiary of CLP Holdings and transferred to CLP Holdings the shares of its subsidiary companies undertaking non-regulated businesses. The diagram below sets forth the Company’s parent entity and its principal operating subsidiaries and affiliates as at the date of this Offering Circular:



Business Strategy

The Company aims to improve its excellence in supply reliability, tariff levels, customer service and environmental performance while continuing to provide a reasonable return to its shareholders in accordance with the SoC. The current SoC Agreement will continue until at least 2018. The Government is expected to commence its study on the post-2018 regulatory regime in the first half of 2015 in the form of a public consultation. The Company will continue to actively and constructively engage with the Government and other key stakeholders in that discussion process, aiming to find solutions for Hong Kong’s energy policy that achieve the right balance covering safety, reliability, cost and environmental performance. During 2015, the Company’s priorities will include:

- mitigating the potential significant fuel cost increase as a result of tightened environmental requirements by maximising the use of cheaper gas from Yacheng gas field, procuring and using more low emission coal, temporarily importing additional nuclear energy from Daya Bay, enhancing the operational performance of generation plants and emission reduction equipment and exploring other long-term gas supply options;
- managing operating costs to minimise the impact of tariff increase on customers;

- managing and delivering the 2014–2018 Development Plan;
- engaging actively and constructively with the Government, key stakeholders and the community on the Government’s public consultation on the future development of Hong Kong’s electricity market and the regulatory structure, which is expected to be launched in the first half of 2015;
- contributing to the Government’s and the public’s understanding on the future regulatory regime;
- strengthening assistance to the needy, the underprivileged and the elderly;
- continue implementing the new Energy Efficiency Fund to subsidise non-commercial building owners to enhance building energy efficiency; and
- continuing prudent financial management in all aspects of the Company’s business.

Over the longer term, the Company’s priorities would include:

- strengthening infrastructure integration with Guangdong, through gas pipelines and potential arrangements to enable the import of additional nuclear power;
- finalising a cleaner fuel mix, which may involve using more gas, carefully considering the potential import of more nuclear energy and other clean energy, reducing the reliance on coal, as well as promoting the use of local renewable energy sources to the extent practicable in Hong Kong;
- continuing the implementation of the Memorandum of Understanding between the Government and the PRC government on energy cooperation signed in 2008 (“MOU”) so that new long-term gas supplies are brought to Hong Kong in a timely fashion;
- introducing more energy efficiency services and tools to help customers save energy and reduce their electricity expenditure;
- exploring further cooperation opportunities with CSG;
- engaging with the Government, key stakeholders and the community on the post-2018 regulatory regime; and
- maintaining excellence in operations at all times, including supply reliability and environmental and safety performance.

Relationship with CAPCO

General

The Company purchases a significant part of its electricity demand from CAPCO. While the Company holds a 70 per cent. equity interest in CAPCO, the affairs of CAPCO are managed by a six-member board of directors, of which four representatives are nominated by the Company and two representatives are nominated by CSG HK.

The Company also acts as the operator of CAPCO and is responsible for the efficient operation and maintenance of CAPCO’s facilities.

Electricity Purchases

Under a power purchase agreement with CAPCO, the Company is obliged to purchase the total electricity output of CAPCO at a price sufficient to cover all of CAPCO’s operating expenses under the SoC, including fuel costs, depreciation, interest and taxes, as well as CAPCO’s share of the return permitted under the SoC.

Supply to Mainland China

The SoC contemplates a special arrangement to cover the Company's purchase of electricity from CAPCO for supply to Mainland China. Only spare generating capacity not used to serve customers in Hong Kong may be used for sales to Mainland China. Pursuant to a separate agreement between the Company, CAPCO and the Government, 80 per cent. of the profit from the Company's sales to Mainland China is credited to a SoC Tariff Stabilisation Fund ("TSF"). The remaining 20 per cent. of the profit from such sales is shared between the Company and CAPCO for the account of their respective shareholders. See "*— Sales to Mainland China*".

CAPCO Financing

The Company and CSG HK have provided most of their funding to CAPCO in the form of interest-free shareholders' advances. As at 31st December, 2014, the Company's 70 per cent. share of CAPCO's paid-in capital is HK\$35.0 million, and the Company's advances to CAPCO, which constituted 70 per cent. of CAPCO's shareholders' advances, amounted to HK\$15,639.5 million. Pursuant to the terms of a bank covenant of CAPCO, shareholders' advances to CAPCO will not be repaid without prior approval of certain lenders if CAPCO's ratio of borrowed moneys to shareholders' funds (representing the sum of the issued share capital, deferred taxation, retained profit, proposed dividend, shareholders' advances (excluding unrealised foreign exchange differences)) exceeds 1.5:1 after repayment of the advances. Borrowed moneys means moneys lent to CAPCO excluding fuel stock loans, obligations arising from swaps and currency exchange transactions, and unrealised foreign exchange differences. As at 31st December, 2014, the borrowed moneys of CAPCO amounted to approximately HK\$4.3 billion, while shareholders' funds totalled approximately HK\$26.8 billion, giving a ratio of 0.16:1, which is slightly higher than the ratio of 0.15:1 as at 31st December, 2013.

If CAPCO requires additional financing, the Company and CSG HK may, each in its own discretion, provide such financing in proportion to their respective participation and, if either declines, the other has the right, but not the obligation, to provide all or any part of the required financing. CAPCO also has the ability to raise funds through borrowings to finance its activities.

Scheme of Control

Overview

The electricity-related operations and financial affairs of the Company and CAPCO have been governed since 1st October, 1963 by a series of SoC Agreements entered into with the Government. The current SoC, which came into effect on 1st October, 2008, has a term of ten years until 30th September, 2018, with the Government having the right to extend for a further five years on the same terms up to 30th September, 2023, by giving notice before 1st January, 2016. The Government has the right to introduce market changes after 2018, taking into account factors such as supply reliability and environmental standards. In the event that the five year extension option is not exercised by the Government, the Company and CAPCO will continue to earn the permitted return until 30th September, 2023 on all approved investments.

The SoC contains provisions covering the obligations of the parties to the SoC, the tariff setting mechanism, calculation of the permitted and net return of the Company and CAPCO and the procedures for Government monitoring. The Company's sales of electricity to Mainland China are governed by a separate contract, the terms of which do not form part of the SoC. See "*— Sales to Mainland China*".

In accordance with the SoC, the Company is obliged to contribute to the development of Hong Kong by providing sufficient facilities to meet the demand for electricity in an environmentally responsible way and at the lowest reasonable cost. In return, the Company, CAPCO and any future companies formed by the Company, alone or together with others (the "**SoC Companies**") are entitled to receive tariff revenue sufficient for a reasonable return on their investments. Costs are forecasted by means of a development plan review process described below and the net tariff is determined by means of a formula established by the SoC. See "*— Tariffs*".

The SoC provides for Government monitoring of the SoC Companies' financial affairs and operating performance through development plan reviews and auditing reviews as described below.

The Government reviews the SoC Companies' major capital additions and tariff rates. A development plan review is conducted whenever a major system expansion is proposed, the period of the existing review is about to expire, or when adjustments in excess of an agreed percentage of the previously approved tariff rates for that particular year are proposed.

Under the SoC, the development plan, which includes the projected basic tariff rates for a period of at least five years taking into account the SoC Companies' investment plans, will be brought to the Executive Council of Hong Kong (the "**Executive Council**") for approval. If a development plan is not approved prior to the expiry of the previous approved development plan, the Company and CAPCO may, after consultation with the Government, increase the basic tariff rates by up to 5 per cent. above the level approved for the last year of the previous approved development plan.

Subsequent to the approval of a development plan under the SoC, the Company and CAPCO may increase the basic tariff rates by up to 5 per cent. above the level approved in the development plan for a particular year. A further increase of 5 per cent. is permitted with the approval of the Executive Council without a further development plan review. If the Company and CAPCO have requested an increase in basic tariff rates requiring governmental approval or if the Company and CAPCO have requested revisions to the current development plan and an agreement has not yet been reached with the Government concerning such increase or revisions, the Company and CAPCO still have the right to increase the basic tariff rates up to 5 per cent. above the level approved in the development plan for that year on an interim basis. A tariff review is conducted in October of each year to agree on the implementation of tariff adjustments for the next year.

An auditing review is also submitted each year by the SoC Companies for review by the Government. The auditing review provides information to the Government in connection with its monitoring of the SoC Companies' activities under the SoC. The auditing review contains an analysis of the prior-year actual results and current-year projections of sales, capital expenditures, operating expenditures and other financial and operating data.

The SoC caters for an interim review ("**Interim Review**") which was conducted in 2013 under which changes to the SoC can be made by mutual agreement between the SoC Companies and the Government. Similar to the previous Interim Reviews, changes were made to keep up with the needs and expectations of the community. These changes include new initiatives on energy efficiency and conservation, greater information transparency for customers, and higher performance standards introduced to further reinforce the Company's ongoing efforts in improving operations and services levels and bringing economic benefits to customers. An Energy Efficiency Fund was set up in 2014 to subsidise the carrying out of improvement works to enhance the energy efficiency performance of non-commercial buildings, with priority given to single residential blocks. Contributions to the Energy Efficiency Fund will be made from relevant energy efficiency financial incentives earned by the SoC Companies from 2014 to 2017.

Tariffs

The Company designs the net tariff it charges to cover its and other SoC Companies' operating costs and permitted return. See "*— Basic Tariff Rate*". The total tariff consists of two components: (i) the basic tariff rate; and (ii) a fuel clause recovery rebate or charge ("**Fuel Cost Adjustment**");

(i) *Basic Tariff Rate*

The Company calculates its annual projected basic tariff rates by taking into account the SoC Companies' permitted return and the annual forecasts of (a), (b), (c) and (d) under the context of the current SoC below, using the formula " $(a+b-c) / d$ ":

- (a) operating costs, which include, among other things, the standard cost of fuel; generation, transmission, distribution and administration expenses; depreciation; interest expenses; and taxes;
- (b) allowed net return ("**net return**"), which is derived by subtracting from or adjusting the SoC permitted return ("**permitted return**"): (i) interest up to a maximum of 8 per cent. per annum on borrowed capital arranged for financing fixed assets; (ii) a charge of

the average one-month Hong Kong interbank offered rate on the average balance of the TSF; (iii) an excess capacity adjustment of 9.99 per cent. on the average excess capacity expenditure less an allowed interest charge of up to 8 per cent. per annum on the average excess capacity expenditure; (iv) interest up to 8 per cent. per annum on the increase in average balance of the customers' deposits in excess of the balance as at 30th September, 1998; and (v) performance related adjustments in the range of -0.03 per cent. to +0.1 per cent. on the average net fixed assets of the SoC Companies with respect to customer performance, energy efficiency and renewables performance applicable to each full calendar year under the SoC. The permitted return is the sum of 9.99 per cent. of the SoC Companies' average net fixed assets (other than renewable energy investments) and 11 per cent. of the SoC Companies' average renewable net fixed asset.

- (c) revenue from sales to Mainland China less 20 per cent. of the incremental profit before tax (the 20 per cent. of incremental profit from the sales to Mainland China is shared between the Company (40 per cent.) and CAPCO (60 per cent.)); and
- (d) local unit sales in terms of kWh as determined by the load forecast.

Under the SoC, all of the Company's expenses relating to power purchases from Guangdong Daya Bay Nuclear Power Station and all payments to PSDC are included in the operating costs described in (a) above. See "*— Non-CAPCO Power Purchases/Storage Facilities — Guangdong Daya Bay Nuclear Power Station and Guangzhou Pumped Storage Power Station*".

(ii) *Fuel Clause Recovery Rebate or Charge (Fuel Cost Adjustment)*

The standard cost of fuel is recovered through the basic tariff rate as an operating cost. The Fuel Cost Adjustment represents the difference between the actual cost of fuel (including natural gas, coal and oil) and the standard cost recovered through the basic tariff rate. The difference is charged or credited to a fuel clause recovery account maintained in the Company's books. No approval from the Government is required to recover increases in the cost of fuel.

Net and Permitted Returns

The SoC allows the Company and CAPCO a permitted return and net return, as described above. The net return is divided between the Company and CAPCO in accordance with the provisions of the agreements between the Company and CAPCO. These provisions provide that the Company and CAPCO will receive that proportion of the net return represented by the net return that each company would receive if it were the only company under the SoC; and the net return is calculated solely on the basis of its own financial statements.

Rate-Making Procedures

The revenue requirements of the SoC Companies, which are theoretically equal to the cost of supply of electricity, are computed in a financial model based on load forecasts, projected operating expenses and allowed return under the SoC. The overall cost of electricity supply is allocated to each class of customer based on consumption profiles, which are determined by load research. The Company uses the cost of service to each class of customer to determine the revenue required and the unit rate. The Company then proposes basic tariff rates to the Government for approval in accordance with the provisions of the SoC.

Stranded Costs

The current SoC includes a provision to give the SoC Companies protection for stranded costs, which may arise as a result of future changes to the market structure which adversely impact on the SoC Companies' ability to recover and to earn returns on existing investments made in good faith in accordance with the SoC. These costs will include the cost of investments and fuel and power purchase agreements previously approved by the Government. If stranded costs arise after the SoC Companies have implemented mitigation measures reasonably required by the Government, the SoC Companies are entitled to recover such costs from the market, as is consistent with international practice. Three years before market changes are introduced, the SoC Companies and the Government will agree on the amount of stranded costs and the mechanism for their recovery by the SoC Companies.

Power Generation

As at 31st December, 2014, on top of the standalone renewable system on Town Island with generating capacity of 192kW, the Company's sources of power supply comprised: (i) CAPCO's power stations located at Castle Peak, Penny's Bay and Black Point with a total installed capacity of 6,908 MW; (ii) 70 per cent. (approximately 1,380 MW) of the output from the Guangdong Daya Bay Nuclear Power Station under a 40-year contract beginning in 1994 (which was originally a 20-year contract as extended for a further term of 20 years commencing from 2014) and (iii) the Company's right to use 50 per cent. (600 MW) of the capacity of Phase I of Guangzhou Pumped Storage Power Station for a period of 40 years commencing in 1994, providing it with a total installed capacity of 8,888 MW.

The Company met all demands for power during the year ended 31st December, 2014. The amount of electricity supplied to the system for the year ended 31st December, 2014 was 35,684 GWh, an increase of 2.4 per cent. over the year ended 31st December, 2013. In 2014, the Company's system and local reserve margins (the relationship between the total installed capacity available to serve Hong Kong customers and the highest demand for electricity from customers in the past 12 months) were approximately 18 per cent. and 26 per cent. respectively.

The table below sets forth for each of the two years ended 31st December, 2013 and 2014, the amount of electricity as generated by CAPCO and other generating facilities and the amount of power used or lost in connection with transmission and distribution:

	Year ended 31st December, 2013 (GWh)	Year ended 31st December, 2014 (GWh)
CAPCO facilities		
Castle Peak	21,119	22,028
Black Point	5,875	5,504
Gas Turbines	<u>—</u>	<u>1</u>
	26,994	27,533
Auxiliary use ⁽¹⁾	<u>(1,910)</u>	<u>(1,936)</u>
Net CAPCO production	25,084	25,597
Other power purchased		
Nuclear	9,969	10,148
Net transfer from		
Others ⁽²⁾	2	140
Landfill gas generation	<u>4</u>	<u>3</u>
Total other power purchase and transfer	9,975	10,291
Pumped Storage operation		
Energy generated	739	672
Energy consumed for pumping	<u>(953)</u>	<u>(876)</u>
Net loss in Pumped Storage operation	(214)	(204)
Total net generation	<u>34,845</u>	<u>35,684</u>
Transmission and distribution losses ⁽³⁾	<u>1,412</u>	<u>1,533</u>

Notes:

- (1) Auxiliary use represents electricity consumed by generating units in the course of generation.
- (2) Interconnection with Hongkong Electric and additional transfer from Guangdong Daya Bay Nuclear Power Station.
- (3) Losses include non-revenue items such as the Company's office use and staff electricity allowances.

Power Purchase from CAPCO

Under the power purchase agreement, the Company has agreed to purchase, and CAPCO has agreed to sell, the total power produced by CAPCO. For the year ended 31st December, 2014, the Company purchased approximately 72 per cent. of its power from CAPCO. CAPCO had three commissioned power stations with a combined installed capacity of 6,908 MW as at 31st December, 2014.

To ensure the reliability and security of its power supply, CAPCO's power generation system comprises a mix of different types of generation units, including gas-fired combined cycle units, coal-fired steam generators and gas turbines. The power stations at Black Point and Castle Peak provided almost all of CAPCO's electricity supply to the Company during the year ended 31st December, 2014.

CAPCO leases the properties on which all of its generating facilities are located from the Government. See “— *Property, Plant and Equipment*”. The Company is responsible for the overall management and control of construction at the sites and operation of all of CAPCO’s generating facilities.

Black Point Power Station

Black Point Power Station (“**BPPS**”) commenced commercial operation in 1996 (units 1 and 2) and is located at the western tip of the New Territories, approximately four kilometres north of the Castle Peak Power Station. With the commissioning of the last unit (unit 8) in 2006, it is one of the largest combined cycle power plants in the world with a total capacity of 2,500 MW.

BPPS is the first natural gas-fired plant in Hong Kong. The use of natural gas, a clean burning fuel which leaves no ash and emits negligible sulphur dioxide (“**SO₂**”), allows the power station to operate with lower environmental impact and higher thermal efficiency. The current supply of natural gas comes from the Yacheng 13-1 field and Yacheng 13-4 field in the South China Sea and WEPII gas from PetroChina.

Castle Peak Power Station

Castle Peak Power Station is one of the largest coal-fired power station complexes in the world. Its first phase commenced operations in 1982 and it now consists of eight coal-fired generating units with a total capacity of 4,108 MW. Castle Peak Power Station burns coal as its primary energy source, resulting in significantly lower electricity prices than burning oil. The design of the Castle Peak Power Station also enables it to burn oil as back-up fuel, should this be required. In 1996, two 677.5 MW units were modified to use natural gas as an additional energy source, making these two units unique with tri-fuel firing capacity.

The Emission Control (“**EC**”) Project at Castle Peak “**B**” Power Station is the largest single capital investment made in the Hong Kong electricity business. This HK\$9 billion project enables over 90 per cent. of SO₂ emissions and over 50 per cent. of nitrogen oxide (“**NO_x**”) emissions from Castle Peak “**B**” Power Station to be removed and further reduces emissions of respirable suspended particulates (“**RSP**”) from their existing low levels. The project, which involved the installation of flue gas desulphurisation (“**FGD**”) equipment, nitrogen oxide reduction plant and other facilities on all four units at the station, was completed in December 2010.

Penny’s Bay Gas Turbine Power Station

The three 100 MW gas turbines at Penny’s Bay Gas Turbine Power Station are utilised for peak lopping and emergency generation purposes. Total output by such units during the year ended 31st December, 2014 was minimal.

Fuel

For the majority of the 1980’s, coal was the Company’s primary energy source. After the commissioning of the natural gas-fired generating units at BPPS and the purchases from Guangdong Daya Bay Nuclear Power Station, the Company now operates with a diversified fuel mix of gas, coal and nuclear. Oil has been phased out as a fuel for base and intermediate power generation and is now used only for peak lopping and standby generation. A diversification of energy sources will provide greater long-term security for customers and is beneficial to Hong Kong’s environment. For the year ended 31st December, 2014, the fuel mix consisted of the following: natural gas (15 per cent.), coal (56 per cent.), nuclear (28 per cent.) and others (1 per cent.). The Company’s fuel costs are recovered through the basic tariff rates and the Fuel Cost Adjustment. See “— *Scheme of Control — Tariffs*”.

(i) Natural Gas

CAPCO purchases gas for the BPPS on a take-or-pay basis by three contracts, one of which is a 20-year contract with BP China Exploration and Production Company (“**BP China**”) (formerly known as Arco China Inc.), 中国海洋石油总公司 (China National Offshore Oil Corporation) (which transferred its interest to 中海石油(中国)有限公司 (CNOOC China Limited) (“**CNOOC China**”) (formerly known as Offshore Oil Limited) in 1999) and KUFPEC (China) Inc. which commenced supply in January 1996. Subsequently, BP China sold all its interest to the other two partners in December 2013. The base price under the contract was established when the contract was signed in December 1992 and was subsequently amended in January 2009 and September 2011. Changes in the contract price are determined annually by reference to certain market and economic indices.

Another contract was signed with CNOOC China for supply of natural gas for a 5-year plateau supply period commencing on 30th July, 2012. The contract price is also determined annually by reference to certain market indices.

The gas from the above two CNOOC China contracts comes from the depleting Yacheng gas field. With the implementation of the MOU to bring new supplies of natural gas to Hong Kong from Mainland China, a third take-or-pay contract is signed with 中国石油国际事业有限公司 (PetroChina International Company Limited) to import gas from WEPII commencing from March 2013. The WEPII transports gas from Central Asia (Turkmenistan) to different parts of Mainland China and to Hong Kong. The supply contract expires at the end of 2032. New facilities in Shenzhen and at BPPS have been built to receive this new gas via a 20-kilometre subsea pipeline connecting the two locations.

(ii) Coal

For the year ended 31st December, 2014, total coal consumption for the eight generating units of Castle Peak Power Station was approximately 9.8 million tonnes. Approximately 93 per cent. of CAPCO’s coal requirements are imported under term and spot contracts from Indonesia. Prices are generally negotiated in line with international market levels.

(iii) Nuclear

See “— *Non-CAPCO Power Purchases/Storage Facilities — Guangdong Daya Bay Nuclear Power Station*”.

Non-CAPCO Power Purchases/Storage Facilities

Guangdong Daya Bay Nuclear Power Station

In addition to purchasing power from CAPCO, for the year ended 31st December, 2014, the Company purchased approximately 10,288 GWh of power from the Guangdong Daya Bay Nuclear Power Station located in Guangdong Province of Mainland China. The Company’s affiliate, Hong Kong Nuclear Investment Company Limited (“**HKNIC**”), owns a 25 per cent. equity interest in 广东核电合营有限公司 (Guangdong Nuclear Power Joint Venture Company, Limited) (“**GNPJVC**”) which owns Guangdong Daya Bay Nuclear Power Station. The other 75 per cent. equity interest is owned by 广东核电投资有限公司 (Guangdong Nuclear Investment Company, Limited) (“**GNIC**”), a an enterprise in Mainland China. Guangdong Daya Bay Nuclear Power Station is one of the largest joint venture power projects in the Mainland China. The power purchase agreements covering 70 per cent. of the output of Guangdong Daya Bay Nuclear Power Station and joint venture agreements, originally expiring in 2014, were extended for 20 years to 2034 following approvals from Mainland China authorities and the Government.

The Company is obliged to purchase 70 per cent. of the output of Guangdong Daya Bay Nuclear Power Station from HKNIC. An agreement has been reached to increase the proportion of supply to Hong Kong to slightly above 70 per cent. in late 2014 and to about 80 per cent. from 2015 to 2018. The price paid by the Company for electricity generated by Guangdong Daya Bay Nuclear Power Station is determined by a formula based on Guangdong Daya Bay Nuclear Power Station’s operating costs and a

profit calculated with reference to shareholders' funds and the capacity factor for the year during the first phase of the joint venture period until 6th May, 2014. During the second phase of the joint venture from 7th May, 2014 until 6th May, 2034, the basic model is the same but the profit is calculated with reference to the capacity factor. The Company is allowed to treat the payments for 70 per cent. of nuclear electricity generated by Guangdong Daya Bay Nuclear Power Station as part of its operating expenses permitted under the SoC with the additional portion as part of fuel. See "*— Scheme of Control*".

The design, construction, operation and maintenance of nuclear power stations involve significant safety measures because of the hazardous nature of radioactive materials. The use and disposal of nuclear fuels have the potential to create substantial risks of liability arising from exposure to or release of radioactive materials. The Company believes that Guangdong Daya Bay Nuclear Power Station complies in all material respects with national and international safety standards. The Company also considers that HKNIC's minority ownership interest and minor participation in Guangdong Daya Bay Nuclear Power Station limits its exposure to nuclear-related liabilities to the amount of its initial U.S.\$100 million investment and its share of undistributed retained profits in GNPJVC.

GNIC together with its parent company, also own Ling Ao Nuclear Power Station with phase I commissioned in 2002 and 2003 and phase II commissioned in 2011. Neither the Company nor CLP Holdings has any direct or indirect interest in Ling Ao Nuclear Power Station. The Ling Ao Nuclear Power Station is similar in design and situated very close to the Guangdong Daya Bay Nuclear Power Station. GNPJVC and 岭澳核电有限公司 (Ling Ao Nuclear Power Company, Limited) ("**LANPC**"), as the direct owners of the Guangdong Daya Bay Nuclear Power Station and phase I of the Ling Ao Nuclear Power Station respectively, established a management company, Daya Bay Nuclear Power Operations & Management Company, Limited ("**DNMC**") in 2004. DNMC was owned on a 50/50 basis (effective equity shareholding by HKNIC was 12.5 per cent.) and was responsible for the operation and maintenance of the two nuclear power stations. The benefits of establishing DNMC include pooling of resources, sharing of expertise and economies of scale. In September 2009, CLP Nuclear Power Operation & Management (China) Limited, a wholly owned subsidiary of CLP Holdings, and GNIC respectively acquired 12.5 per cent. and 87.5 per cent. shareholdings of DNMC from GNPJVC and LANPC. DNMC's role and responsibility remain unchanged after the transfer of the shareholdings.

Guangzhou Pumped Storage Power Station

Guangzhou Pumped Storage Power Station has a total capacity of 2,400MW and was developed in two stages. PSDC has contractual rights to use the equivalent of half of the first stage of this project (a capacity of 600MW) for 40 years from 1994.

A pumped storage plant uses hydro technology to store energy generated by other power stations. Storage is achieved by pumping water from a lower to an upper reservoir. The stored energy can then be recovered by running the hydro units in reverse as generators, with their output available to the grid system at times of peak demand or as backup if other units shut down unexpectedly. The pumped storage function also enables nuclear plant to remain at full base load operation despite fluctuations in system demand from day to night. Energy generated at the Guangdong Daya Bay Nuclear Power Station can, for example, be used to pump water to the upper reservoir overnight when system demand is low.

The Company uses PSDC's contracted pumped storage capacity to support the operation and security of the Hong Kong electricity supply system, and is allowed to treat all payments to PSDC for the pumped storage services provided as part of its operating expenses under the SoC. See "*— Scheme of Control*".

Interconnection with Hongkong Electric and Guangdong Grid

The interconnection of the Company's system with those of Hongkong Electric (the only other electricity supplier in Hong Kong) to the south and Guangdong Province to the north allows the Company to access other generating capacities to further enhance the reliability of its own supply system. See "*— Power Systems — Security and Reliability*". The interconnection with Guangdong Province also allows the Company to sell its excess capacity to customers in the Mainland China. See "*— Sales to the Mainland China*". The Company has an interconnection agreement with Hongkong Electric under which

the two companies transfer electricity between each other to meet marginal demand when doing so is more economical than utilising other sources. For the year ended 31st December, 2014, there were no sales or purchases of electricity to or from Hongkong Electric.

Power Systems

The Network

The Company transmits electricity to load centres through an advanced transmission network owned and operated by it. As at 31st December, 2014, its transmission and distribution network comprised 14,700 km of high voltage circuits, 224 primary substations and 13,845 secondary substations. The Company's system is interconnected with the transmission system of Hongkong Electric and the power system of neighbouring Guangdong Province of the Mainland China.

Electricity generated from the steam turbine units at Castle Peak Power Station, the combined cycle units at BPPS, the nuclear units at Guangdong Daya Bay Nuclear Power Station and the pumped storage units at Guangzhou Pumped Storage Power Station is transmitted to the load centres via the Company's 400kV transmission network. The 400kV overhead line network uses a double-circuit ring configuration encircling the New Territories together with cross-connection. There is also a ring network with seven 400kV underground cable circuits reaching into the densely populated Kowloon Peninsula. Continuity of supply is safeguarded even if one double-circuit power line is lost.

The Company continues to expand its distribution network to supply new customers, the number of whom increased by 31,760 during the year ended 31st December, 2014, and to reinforce and upgrade supply to its 2.46 million existing customers. The Company is making additional investments to expand and reinforce its transmission network in order to maintain its high reliability standards as well as to accommodate the increasing demand for electricity created by infrastructure development projects. The development plan covering the period from January 2014 to September 2018 was approved by the Government in December 2013. The Company expects to invest about HK\$23 billion in its transmission and distribution network during this development plan period.

Security and Reliability

Despite the passage of Typhoon Kalmaegi in September 2014 which caused some outages to its overhead network, the Company continued to operate one of the world's most reliable electricity supply systems. Between 2012 and 2014, a typical customer experienced an average of 2.3 minutes of unplanned power interruptions per year, as compared to 16–30 minutes in New York, Sydney and London (between 2011 and 2013). This demonstrates the Company's continual efforts in improving the resilience of its power supply system through network reinforcement, asset refurbishment, preventive maintenance and emergency preparedness.

To mitigate the risks arising from the effects of super typhoons such as flooding, the Company developed a flood calculator to predict flooding risks in substations, conducted improvements to flood-prone substations, and continued to strengthen its transmission infrastructure including towers and foundations.

Customers and Sales

As at 31st December, 2014, the Company was supplying electricity to 2,460,388 customers, an increase of 1.3 per cent. from 31st December, 2013. For the year ended 31st December, 2014, total sales increased by 2.1 per cent. to 34,151 GWh, which comprised 32,925 GWh sold to Hong Kong customers and 1,226 GWh sold to customers in Mainland China. Sales to local customers in 2014 increased from 2013 by 3.6 per cent. Sales to Mainland China, which consist of sales to 广东电网有限责任公司 (Guangdong Power Grid Co., Ltd.) (“GPG”) and the Shekou Industrial Zone, decreased by 25.7 per cent. from 2013 due to lower committed sales to GPG.

The table below sets forth the Company's sales categorised by end-user sector:

<u>End-user</u>	<u>Number of Customers as at 31st December, 2014</u> (thousands)	<u>Year ended 31st December, 2013</u> (GWh)	<u>Year ended 31st December, 2014</u> (GWh)	<u>Percentage of total electricity sales for 2014</u> (%)	<u>Average Annual Sales Change over 2010-2014</u> (%)
Residential	2,142	8,658	9,450	27.7	2.6
Commercial	199	12,935	13,099	38.4	1.0
Infrastructure and Public Services	98	8,358	8,585	25.1	1.9
Manufacturing.	<u>21</u>	<u>1,832</u>	<u>1,791</u>	<u>5.2</u>	<u>(1.6)</u>
Total local sales	2,460	31,783	32,925	96.4	1.5
Export sales	<u>—</u>	<u>1,650</u>	<u>1,226</u>	<u>3.6</u>	<u>(20.0)</u>
Total Sales	<u>2,460</u>	<u>33,433</u>	<u>34,151</u>	<u>100.0</u>	<u>(0.1)</u>

Hong Kong Customer Base

Electricity demand varies from time to time for a variety of reasons. As a result of extensive use of air conditioners, electricity demand is higher during the summer than other seasons. Variations in weather conditions may also cause significant variations in electricity demand.

Residential

As at 31st December, 2014, the Company serviced approximately 2.14 million residential customers in its supply area. For 2014, residential customers accounted for approximately 28 per cent. of the Company's total sales. The Government has forecasted that the population of the Hong Kong Special Administrative Region will grow to 7.8 million by 2023 and adopted a total housing supply target of 480,000 units for the next decade. The majority of those new flats are expected to be built in the Company's supply area resulting in an increase in the demand for electricity in this customer sector.

Commercial

Commercial customers accounted for approximately 38 per cent. of the Company's total sales in 2014. The Company anticipates that growth in sales in this sector will continue in the medium-term, supported by the continued economic growth of Hong Kong, data centre development and Kowloon East Core Business District development.

Infrastructure and Public Services

This category of Hong Kong customers include government accounts and utilities, such as the Hong Kong Housing Authority, the Water Supplies Department, the MTR Corporation, and Hong Kong's telecommunications companies and container terminals. Customers in this sector accounted for approximately 25 per cent. of the Company's total sales in 2014.

Manufacturing

Sales to the manufacturing sector represented approximately 5 per cent. of the Company's total sales in 2014.

Sales to Mainland China

In addition to sales to customers in Hong Kong, the Company sold approximately 4 per cent. of its electricity in 2014 to customers in Guangdong Province of Mainland China. The Company sells electricity to Mainland China through two sales agreements. An exclusive agreement with 招商局轮船股份有限公司 (China Merchants Steam Navigation Company Ltd.) covering the Shekou Industrial Zone was renewed in 1996 for a term of 20 years and the other short-term agreement was made with GPG.

The Company and CAPCO have entered into an agreement to govern the supply of electricity by CAPCO to the Company for sale to Mainland China. Such sales are made to utilise CAPCO's spare generating capacity. Pursuant to the SoC and another agreement between the Company, CAPCO and the Government, 20 per cent. of the profit derived from the Company's sales to Mainland China is credited to the profit of CAPCO and the Company in the ratio of 60 per cent. and 40 per cent., respectively. See "*— Relationship with CAPCO — Supply to Mainland China*".

Customer Service

The 12 performance pledges of the Company express its commitment to excellence in customer service. These set out its targeted performance in areas that are of particular importance to the customers, such as reliable electricity supply and prompt response to the emergency service hotline. These pledges, and the results, are set out in the Company's website at www.clponline.com.hk. In 2014, the Company once again met all of its service pledges.

Like the other aspects of the Company's business, customer service requires continuous review and improvement. In 2014, the Company launched a series of new customer service initiatives and a "Customer Services Improvement Plan" with 53 initiatives. The objective of these initiatives and the improvement plan is to increase customer satisfaction for all classes of customers. Some examples of the initiatives are as follows:

- A new electricity bill was launched in October 2014 which incorporated customer feedback on the previous bill.
- In November 2014, the Company extended the Home Energy Report pilot scheme through an online platform to all of the 2.1 million residential customers. The individually tailored web-based report assists customers in analysing their electricity usage compared to other similar households and provides useful energy saving tips. This was the first time a utility company in Asia has made such reports available to customers.
- Following the launch of its new GREEN^{PLUS} Experience Centre in Sham Shui Po in May 2014 to assist small businesses in different industries to save energy and costs, the company held its GREEN^{PLUS} Recognition Award 2014 on 4 September 2014 to recognise the 63 businesses and organisations with the most outstanding energy saving performances during the year.

The drive for improved customer service is supported by an ongoing dialogue and exchange of information, experience and ideas with customers. The Company's Customer Consultative Group and 14 Local Customer Advisory Committees are a valuable network through which the Company is able to solicit advice, opinions and feedback from community leaders and customer representatives. In 2014, advice and suggestions received from the above committees and group were adopted and implemented in the business process. Through this well-structured communication process, benefits on enhancing customer service standards and caring for the community have been achieved.

Tariff Rates

The Company normally implements changes to its basic tariff rate and the fuel cost adjustment on 1st January of each year. The table below sets out the Company's average total tariffs:

<u>Local sales, HK¢ per kWh average</u>	<u>Year ended 31st December, 2013</u>	<u>Year ended 31st December, 2014</u>	<u>Effective 1st January, 2015</u>
Basic Tariff	84.2	88.4	87.2
Fuel Cost Adjustment	22.4	22.4	27.0
Total Tariff	106.6	110.8	114.2

The Company faces rising fuel costs. With effect from 1st January, 2015, the Company's average total tariff was raised to HK¢114.2 per unit with the basic tariff being reduced and the Fuel Cost Adjustment adjusted upward. The increase in fuel cost adjustment is due to a significant increase in fuel costs in 2015. In support of Government's environmental policy, from January 2015, the annual emission caps for CAPCO's power plants will be reduced by a range of 35 per cent. to 65 per cent.. To meet the new stringent emission requirements, the volume of CAPCO's gas consumption in 2015 will need to be almost double that of 2014. This will lead to an approximate 50 per cent. increase in fuel costs in 2015. The Company has taken a range of measures to mitigate the impact of increasing fuel costs, including deferring the use of more costly natural gas, using more low emission coal, enhancing the operational performance of generation facilities and importing a small quantity of additional power from Guangdong Daya Bay Nuclear Power Station from late 2014.

The Company continues to provide the Energy Saving Rebate Scheme, which was introduced in 2013, to assist low consumption customers and encourage energy conservation. The new package is expected to result in 36 per cent. of residential customers and 44 per cent. of small business customers having no tariff increase (or potentially a slight decrease) for the three consecutive years up to 2015.

Even with the tariff adjustments in 2015, the Company's tariff is still highly competitive when compared with other major metropolitan cities. This is particularly striking since many of these cities do not benefit from the same level of supply reliability, power quality and customer service provided by the Company.

Competition

The Company and Hongkong Electric are currently Hong Kong's only suppliers of electricity. The supply areas of the Company and Hongkong Electric do not overlap; the Company supplies Kowloon, the New Territories, Lantau Island, Cheung Chau and some outlying islands, and Hongkong Electric supplies Hong Kong Island, Lamma Island and Ap Lei Chau Island. The number of customers for each of the Company and Hongkong Electric is approximately 2.5 million and 0.6 million respectively as at 31st December, 2014. The Company and Hongkong Electric both sell electricity to the MTR Corporation which operates in both companies' supply areas. Hongkong Electric's electricity-related operations are governed by a scheme of control similar to that by which the Company is governed. The two schemes of control are similar and neither the Company nor Hongkong Electric has the exclusive right to supply electricity in its respective supply areas.

Although the current SoC took effect on 1st October, 2008, the development of the local electricity market remains uncertain after the end of its initial 10-year term. Under the SoC, the Government has the right to introduce market changes after 2018, taking into account factors such as supply reliability and environmental standards. Such regulatory changes may pose a long-term risk to the Company, as the Government may consider adopting alternative regulatory structures for the power industry in Hong Kong in the longer term. As stipulated under the SoC, the Government will discuss with the two power companies the future electricity supply regulatory framework before 2016. In March 2014, the Government launched a public consultation on Hong Kong's future fuel mix for electricity generation. The outcome of the consultation on future fuel mix would set the scene for the review of the post-2018 regulatory framework for the electricity market.

The introduction of competition in wholesale and retail power markets has been a main policy direction in a number of countries. However, these models are being re-evaluated, especially in light of concerns about the ability of market forces to support policy objectives on matters such as environmental performance and timely investment in electricity infrastructure. On the other hand, the SoC has been serving Hong Kong well for 50 years and has ensured the delivery of a highly reliable and environmentally friendly electricity supply at reasonable cost for Hong Kong. Since the electricity industry is capital intensive, involving advanced technologies and very long lead times, it is crucial that a clear, fair and stable regulatory environment is provided to ensure that the significant capital investments can be delivered and a fair return is provided in order for a commercial company to continue its investment to ensure a sustainable electricity industry. The Company intends to step up the public engagement with its customers and stakeholders so that they may gain a better understanding of the complex issues underlying these decisions. At the same time, the Company will engage with the Government and its advisors on shaping Hong Kong's future electricity market.

At present, the Company faces competition from other fuels, such as town gas, liquefied petroleum gas and diesel which can be used in end-use applications in homes, businesses and other facilities.

In promoting the market share of electricity amongst all end-use energy consumption in Hong Kong, the Company has been able to help many of its customers better meet their needs with new applications, saving them money and giving them a better environmental performance.

Environmental Matters

The operations of the Company and CAPCO are subject to a number of laws and regulations relating to environmental protection and safety. For 2014, the Company and CAPCO maintained full compliance with environmental licence requirements in all material aspects.

Over the last two decades, CLP Power and CAPCO have concentrated their efforts on reducing emissions and, despite an approximate 80 per cent. increase in electricity demand, the Company and CAPCO have managed to reduce emissions of sulphur dioxide ("SO₂"), nitrogen oxides ("NO_x") and respirable suspended particulates ("RSP") by about 80 per cent.

Emissions levels from power stations are dependent mainly on fuel quality, emissions control technology, and how much electricity is generated. In 2014, the Company continued to optimise its diversified fuel mix strategy, increase the use of more low emissions coal, enhance the effectiveness of the emissions control facilities and make the best use of natural gas. As natural gas supplies from Yacheng gas field continues to shrink, and the new gas available through the WEPII is much more costly, the Company will continue to adjust its fuel mix to strike a balance between cost and emissions requirements. The Company's air emissions performance in 2014 remained steady within the range of typical operational fluctuations and complied with all regulatory requirements.

The Company is set to meet the caps for 2015, which require the Company to reduce its SO₂ emissions by more than 60 per cent., and NO_x and RSP emissions by more than 30 per cent. respectively from 2010's levels, while maintaining a reliable electricity supply and a reasonable tariff level.

Capital Investment Programme

The Development Plan covering the period from January 2014 to September 2018 was approved by the Government in December 2013. The plan projects a capital expenditure of HK\$34.1 billion to support Hong Kong's major infrastructure development, newly developed and redevelopment areas and to address the new demand for electricity; maintain the Company's safe and reliable supply through refurbishment work for existing generation and network facilities; and enhance environmental performance through the efficiency and emission performance of generation facilities as well as implementing demand side measures. Approximately one-third of the expenditure is related to electricity generation and two-thirds to the transmission and distribution of electricity to homes and businesses.

For the year ended 31st December, 2014, the Company invested HK\$5,614 million in its owned fixed assets and leasehold land, compared with HK\$5,679 million invested for the year ended 31st December, 2013. Capital expenditure by the Company's subsidiaries incorporated in Hong Kong, principally

CAPCO, was HK\$2,207 million for the year ended 31st December, 2014, compared with HK\$1,836 million for the year ended 31st December, 2013. A total of HK\$7,821 million capital expenditure was made by the Company and its subsidiaries in 2014.

Insurance

The Company maintains property and casualty insurance against risks of its business to the extent it considers appropriate. The Company's Insurance and Claims Department, which arranges insurance for its business in Hong Kong, assesses prudent levels of risk retention in consultation with professional external insurance consultants. Appropriate insurance coverage for risk above the Company's retention level is obtained from the market.

Property, Plant and Equipment

The Company's owned property consists mainly of power transmission and distribution equipment and facilities in Hong Kong. As at 31st December, 2014, the net book value of its owned property was HK\$70,413 million, of which HK\$58,580 million represented plant, machinery and equipment and HK\$11,833 million represented leasehold land and buildings. The generating plant facilities in Hong Kong are owned by the Company's subsidiary, CAPCO.

At 31st December, 2014, the net book value of property, plant and equipment of the Company and subsidiaries, principally comprising the Company's and CAPCO's assets, amounted to HK\$102,516 million, of which HK\$81,451 million was plant, machinery and equipment and HK\$15,175 million was buildings. Most of the Company's and CAPCO's land leases are medium to long-term. As at 31st December, 2014, the aggregate net book value of the Company and CAPCO's leased land held in Hong Kong was HK\$5,890 million, of which HK\$117 million represented land with a remaining lease period of over 50 years, HK\$5,768 million with a remaining lease period between 10 to 50 years and HK\$5 million with remaining lease periods of less than 10 years.

Employees

As at 31st December, 2014, the Company had a total workforce of 3,807 as compared with 3,819 as at 31st December, 2013. Of the total number of employees as at 31st December, 2014, 32 per cent. were professionals and administrative personnel, 36 per cent. were engineers and technical personnel and 32 per cent. were industrial workers. The Company maintains satisfactory employee relations through regular communication with employees at all levels.

Share Ownership

The Company is wholly-owned by CLP Holdings Limited, a company incorporated in Hong Kong with limited liability and listed on the Hong Kong Stock Exchange. As at 31st December, 2014, there were no options outstanding to purchase shares from the Company.

Information on legal or arbitration proceedings

The Company is not aware of any of the Company, its directors, any member of the Company's senior management or any of its affiliates being a party to any current or pending legal or arbitration proceedings the outcome of which is expected to have a material adverse effect on the Company.

Recent Developments and Prospects

Acquisition of CAPCO and PSDC

The Company and CSG HK entered into an agreement with ExxonMobil in November 2013 to each acquire half of ExxonMobil's 60 per cent. interest in CAPCO. Separately, the Company also purchased ExxonMobil's 51 per cent. stake in PSDC. The acquisitions were completed on 12th May, 2014. Following the completion of the transactions, the Company holds 70 per cent. of CAPCO, while CSG HK holds the remaining 30 per cent interest. PSDC is now 100 per cent. owned by the Company.

As a majority shareholder of CAPCO, the Company is now able to implement more operational and strategic initiatives that are aligned with the long-term interest of Hong Kong. The cooperation with CSG in the transaction has also fostered a strategic relationship that may bring new business opportunities over time.

Air Quality Improvement and the Public Consultation on Fuel Mix and Electricity Sector

As part of the measures intended to improve local air quality in Hong Kong, the Government has been steadily tightening the levels of emissions allowed from power stations in Hong Kong. With the enforcement of the Second, the Third and the Fourth Technical Memorandum for Allocation of Emission Allowances under the Air Pollution Control Ordinance (Cap. 311) of Hong Kong, permitted emissions allowances for power stations for 2015, 2017 and 2019 require emissions to be reduced by up to 68 per cent. from the permitted level in 2010. The Government is now reviewing the emission caps requirements for 2020 with a conclusion expected by late this year.

The Government's new Air Quality Objectives ("AQOs") took effect in January 2014. One of the air quality improvement measures is to increase the ratio of natural gas in local electricity generation, which will be enforced under the Second Technical Memorandum. According to "A Clean Air Plan for Hong Kong" announced by the Government in March 2013, the roadmap for improving the air quality in Hong Kong will include a host of green initiatives with priorities set for reducing roadside air pollution and reducing marine emissions.

In addition to these specific emissions reduction requirements, the Government has conducted two climate change/fuel mix consultations since 2010. In the public consultation on Hong Kong's Climate Change Strategy and Action Agenda launched in September 2010, the consultation document dealt with a wide range of climate change proposals and mitigation measures, in an effort to reduce Hong Kong's carbon intensity (i.e. the amount of greenhouse gas or carbon emissions per unit of GDP) by 50–60 per cent. from the 2005 level by 2020. For the power sector, it proposed a fuel mix targeted at 50 per cent. nuclear, 40 per cent. gas, 3 to 4 per cent. renewable energy and not more than 10 per cent. coal by 2020.

Following consideration of the lessons from the Fukushima nuclear accident, the Government conducted another public consultation in March, 2014, setting out two fuel mix options towards 2023. Option 1 stipulated a fuel mix of 50 per cent. power imports, including 20 per cent. nuclear power imports as currently taken from Daya Bay and 30 per cent. additional power imports from the China Southern Grid, complemented by 40 per cent. gas and 10 per cent. coal and local renewable energy generation, whereas Option 2 called for 20 per cent. nuclear power imports with the balance comprising of local power generation — 60 per cent. gas and 20 per cent. coal and renewable energy. Both options would be able to deliver on the proposed carbon intensity reduction targets, but require different infrastructure investments.

The Company submitted its response to the Government in May 2014, expressing that both options have opportunities and challenges and that the community does not have to make a definitive choice between the options now, nor does the Company believe both should be implemented at once. As such, the Company believes a phased and flexible approach in a long-term plan that seeks to maximise the advantages of each proposal, with minimum cost to customers, would be preferable. This would allow Hong Kong more time and options to gauge what is the best way forward whilst maintaining the reliability and security of electricity supply. In the response, the Company also called for work to begin on planning for a small number of additional gas units in Hong Kong and a detailed study on how the Mainland China could provide highly reliable supplies of low carbon energy at a reasonable cost.

According to the Government, the conclusion of the 2014 fuel mix consultation will be released at the time of the coming public consultation on the future development of the electricity market in the first half of 2015.

Whilst the Company is awaiting the publication of the results of the fuel mix consultation and the way forward suggested by the Government, in order to meet the electricity needs in 2020, the Company has commenced an initial feasibility study of the development and construction of new gas-fired generation facilities at the existing power station sites.

Supply of Gas

The Company continues to prepare for all feasible options to enable it to source new gas supplies once Hong Kong's future fuel mix is determined. Having access to liquefied natural gas (LNG) import infrastructure will be vital for the Company in obtaining competitively-priced gas. One option is a LNG Terminal in Shenzhen which is one of the three new gas sources stipulated by the MOU on energy cooperation signed between the Government and the PRC government in 2008. A variation of this option is a floating LNG storage regasification unit in Hong Kong, a feasibility study of which is currently underway. Apart from these, the Company is exploring alternative offshore gas supplies from the South China Sea, which is also one of the future new gas sources under the MOU.

Offshore Wind Farm Project

The Company is continuing to carefully study the technical and financial feasibility of a proposed offshore wind farm project off Sai Kung near the Ninepin Islands in Hong Kong. The offshore meteorological mast (met mast) installed by the Company continues to take measurements of site environmental data. The Company conducts studies with the measured data to further optimise the design and cost of such a project. The success of a possible offshore wind farm will depend on the outcome of the fuel mix consultation and the overall support for renewable energy in Hong Kong.

DIRECTORS AND SENIOR MANAGEMENT

The following table shows information regarding all of the Directors and executive officers of the Guarantor as at the date of this Offering Circular.

<u>Name</u>	<u>Position</u>	<u>Year Appointed to Current Title</u>	<u>Year Appointed to Director</u>
<i>Directors</i>			
William Elkin Mocatta	Chairman	1999	1993
Yuen So Siu Mai Betty	Vice Chairman	2010	1998
Poon Wai Yin Paul	Managing Director	2013	2002
Richard Kendall Lancaster	Director	2005	2005
Tong Chi Leung David	Director	2004	2004
Chow Tang Fai	Director	2005	2005
James Richarde Truscott	Director	2011	2011
Chan Siu Hung	Director	2012	2012
Chong Wai Yan Quince	Director	2012	2012
Geert Herman August Peeters	Director	2014	2014
<i>Alternate Directors</i>			
James Lindsay Lewis, Alternate to Tong Chi Leung David	Alternate Director	2007	2007
Poon Wai Yin Paul, Alternate to Richard Kendall Lancaster and Yuen So Siu Mai Betty	Alternate Director	2013	2002
<i>Executive Officers</i>			
Yuen So Siu Mai Betty	Vice Chairman	2010	1998
Poon Wai Yin Paul	Managing Director	2013	2002
Chow Tang Fai	Chief Operating Officer	2013	2005
Chong Wai Yan Quince	Chief Corporate Development Officer	2012	2012
James Richarde Truscott	Director — Power Systems	2014	2011
Yip Kam Keung	Director — Financial Control (Hong Kong)	2009	–
Chow Lap Man	Director — Marketing and Customer Services	2010	–
Chiang Tung Keung	Director — Generation	2014	–

Note: Mr. David William Moore, Ms. Luk Siu-Kuen Rebecca and Mr. David Ho resigned as Directors and Alternate Directors of the Company with effect from 12th May, 2014.

All the Directors (including the Chairman) are subject to retirement by rotation. At the Annual General Meeting each year, two Directors for the time being (who have been longest in office since their last election or appointment) shall retire and are eligible for re-election in accordance with the Company's Articles of Association.

In accordance with Article 104 of the Company's Articles of Association, Mr. William Elkin Mocatta and Mr. James Richard Truscott retired by rotation and were re-elected Directors of the Company by way of written resolutions of members in lieu of the Annual General Meeting dated 9th March, 2015.

In accordance with Article 110 of the Company's Articles of Association, Mr. Geert Herman August Peeters retired and was elected Director of the Company by way of written resolutions of members in lieu of the Annual General Meeting dated 9th March, 2015.

Biographical Details of Directors, Alternate Directors and Executive Officers

Directors

William Elkin Mocatta, FCA

Mr. Mocatta is a Fellow of The Institute of Chartered Accountants in England and Wales. He became an Executive Director of Sir Elly Kadoorie & Sons Limited in 1982. He is the Vice Chairman of CLP Holdings Limited. He is also the Chairman of Castle Peak Power Company Limited, Hong Kong Pumped Storage Development Company, Limited, CLP Properties Limited and CLP Property Investment Limited, an Alternate Director of Hutchison Whampoa Ltd. as well as a Director of The Hongkong and Shanghai Hotels, Ltd. and other companies in Hong Kong.

Yuen So Siu Mai Betty, B. Comm., CPA, CA (Canada)

Mrs. Yuen was appointed as the Vice Chairman of CLP Power in 2010, with a primary focus on the strategic direction of the CLP Group's Hong Kong electricity business, supporting the relationships with senior government officials and key business partners on the Mainland. She is also responsible for the CLP Group's investments in Guangdong Daya Bay Nuclear Power Station as well as further development of the CLP Group's nuclear business on the Mainland. A qualified accountant by training, Mrs. Yuen began her career in public accounting in Canada and worked for an international oil company for 13 years before joining CLP in 1999. She was the Managing Director of CLP Power between 2002 and 2009, with overall responsibility for the operations of the Hong Kong business. Mrs. Yuen is also the Chairman of CLP Nuclear Investment Company Limited and Hong Kong Nuclear Investment Company Limited, the First Deputy Chairman of 广东核电合营有限公司 (Guangdong Nuclear Power Joint Venture Company, Limited), the Vice Chairman of Castle Peak Power Company Limited and a Director of a number of other companies of the CLP Group, including CLP Energy Infrastructure Limited, CLP Nuclear Power Company Limited, CLP Nuclear Power Operations & Management (China) Limited and CLP Nuclear Power Operations & Management Limited.

Poon Wai Yin Paul, BSc(Eng.), FIET, FIMechE, FHKIE, FIEAust, FHKEng, CEng, CPEng

Mr. Poon is the Managing Director of CLP Power and holds overall responsibility for the operations of the Hong Kong business, which includes a vertically integrated electricity utility serving over 5.9 million people in Kowloon, the New Territories and Lantau of Hong Kong. Mr. Poon has over 37 years' experience in the power industry. He joined CLP Power in 1981. Since then, he had held various management positions in Transmission Projects, Technical Services, Change Management, CLP International, Regional Operations, Asset Management and Power Systems. He was the Chief Operating Officer — CLP Power before assuming his current position in September 2013. Mr. Poon is also the Chairman of CLP Engineering Limited and CLP Energy Infrastructure Limited, a Director of Castle Peak Power Company Limited, Hong Kong Pumped Storage Development Company, Limited, CLP Power Hong Kong Financing Limited, CLP Power HK Finance Ltd., 深港天然气管道有限公司 (ShenGang Natural Gas Pipeline Company Limited), 广东核电合营有限公司 (Guangdong Nuclear Power Joint Venture Company, Limited), CLP Properties Limited and a number of other companies of the CLP Group.

Richard Kendall Lancaster, BE

Mr. Lancaster holds a bachelor degree in electrical engineering from the University of New South Wales. He is the Executive Director and the Chief Executive Officer ("CEO") of CLP Holdings Limited, responsible for the overall group performance of CLP. Before assuming his role as CEO on 30th September, 2013, Mr. Lancaster was the Managing Director of CLP Power since 2010, and as such,

he held overall responsibility for the operations of the Hong Kong business. Mr. Lancaster began his career with the Electricity Commission of New South Wales in Australia and has 31 years of experience in the power industry and in other industrial operations in Australia, the U.K. and Hong Kong. He joined CLP in 1992 and has wide management experience in the operational, project, commercial, and financial areas. Mr. Lancaster is the Chairman of CLP India Private Limited and CLP Power Asia Limited, Deputy Chairman of CLP Properties Limited, CLP Property Investment Limited and EnergyAustralia Holdings Limited, a Director of Castle Peak Power Company Limited, Hong Kong Pumped Storage Development Company, Limited, CLP Nuclear Investment Company Limited, CLP Energy Infrastructure Limited as well as a number of other subsidiary companies of the CLP Group. He is also a Director of Business Environment Council Limited.

Tong Chi Leung David, BEng, ACGI, CEng, MIMechE, FHKIE

Mr. Tong holds a BEng degree from Imperial College, University of London, and is a Chartered Engineer with working and management experience in Hong Kong, Scotland and Texas. He is a Director of Sir Elly Kadoorie & Sons Limited and Hong Kong Nuclear Investment Company Limited, an Alternate Director of Castle Peak Power Company Limited and Hong Kong Pumped Storage Development Company, Limited. Mr. Tong also serves on several other corporate boards in Hong Kong.

Chow Tang Fai, BSc, MBA, FHKIE

Mr. Chow is the Chief Operating Officer of CLP Power and manages the generation, transmission, distribution and information technology businesses. He first joined CLP Power in 1980. After working in the State Electricity Commission of Victoria in Australia in the late 80's and early 90's, he rejoined CLP Power in 1992. Since then, he had held various management positions in both the Power Systems and Marketing & Customer Services Business Groups. Mr. Chow was the Director — Power Systems of CLP Power until he was appointed to his present position in October 2013. He is also a Director of CLP Engineering Limited and CLP中电企业管理(北京)有限公司 (CLP Business Management (Beijing) Company Limited).

James Richarde Truscott, BSc, MBA, Mag

Mr. Truscott is the Director — Power Systems for CLP Power and manages the transmission and distribution systems serving Hong Kong. He is also a Director of CLP Engineering Limited. He has worked in a variety of roles covering development, operations, financing, maintenance and construction in the power sector over the last 26 years. He assumed his current position in May 2014 after serving as Director — Generation Hong Kong from 2011. Previously, he was Senior Vice President for CLP Southeast Asia in the Business Development team resident in Bangkok, Thailand. From 2001 until 2009, Mr. Truscott served in a variety of roles associated with the BLCP Power project in Thailand primarily as Managing Director. He joined the CLP Group in 1999 as Business Development Manager for Southeast Asia in Bangkok, Thailand. Mr. Truscott led development, acquisition and financing efforts for various power projects in Southeast Asia between 1995 and 1999, prior to joining the CLP Group. Mr. Truscott is qualified as an engineer for a nuclear-powered submarine achieved during his service on board the USS Whale (SSN 638). His educational background includes a Bachelors of Science in Mechanical Engineering and a Masters of Business Administration from Texas A&M University as well as a graduate degree in International Business from Johannes Kepler University in Linz, Austria.

Chan Siu Hung, JP, BSc(Eng.), MSc, CEng, MIET, MHKIE

Mr. Chan is the Managing Director — China of CLP Holdings Limited and is responsible for CLP's China business with projects encompassing a wide range of technologies from nuclear, coal, hydro to renewables. Mr. Chan is the Deputy Chairman of Hong Kong Nuclear Investment Company Limited and 大亚湾核电运营管理有限责任公司 (Daya Bay Nuclear Power Operations & Management Company, Ltd.), a Director of CLP Nuclear Investment Company Limited, 广东核电合营有限公司 (Guangdong Nuclear Power Joint Venture Company, Limited), CLP Nuclear Power Operations & Management (China) Limited, CLP Nuclear Power Operations & Management Limited, CLP Nuclear Power Company Limited, CLP Energy Infrastructure Limited and a number of other companies of the CLP Group. Mr. Chan holds an MSc degree in Electricity Industry Management and Technology from the University of Strathclyde, and a BSc degree in electrical engineering from the University of Hong Kong. He joined CLP Power in 1981. Since then he had held various management positions in different functional areas

in electricity supply industry's design, operations, maintenance, construction, commissioning, asset management, corporate strategy and planning and corporate development. Mr. Chan is appointed as the Justice of the Peace by the HKSAR Government. He is currently a member of the Construction Industry Council and is serving as the Convener of the Risk Communication Advisory Group of the Centre for Health Protection under the Government's Department of Health. He served as a member of the Council for Sustainable Development between 2009 and 2015, a member of the Expert Advisory Panel on the Review of Daya Bay Contingency Plan between 2011 and 2012, a member of the Pan-Pearl River Delta Panel of the Central Policy Unit ("CPU") between 2008 and 2010, a member of the Advisory Panel on the Review of Hong Kong's Air Quality Objectives between 2007 and 2009, a member of Commission on Strategic Development between 2005 and 2007, and a part-time member of the CPU between 2002 and 2004. Mr. Chan is currently the Chairman of the Advisory Committee of the Mechanical and Automation Engineering of the Chinese University of Hong Kong, a member of the Advisory Committee on Civil and Environmental Engineering of the Hong Kong Polytechnic University and a member of the Advisory Committee of the Electrical & Electronic Engineering of the University of Hong Kong. He is also a member of the Court of the City University of Hong Kong, and is an Adjunct Professor of its Department of Mechanical and Biomedical Engineering. In the Mainland, Mr. Chan is appointed as a member of the 11th Guangdong Provincial Committee of the Chinese People's Political Consultative Conference.

Chong Wai Yan Quince, BSSc

Ms. Chong joined CLP Power in September 2012 as Chief Corporate Development Officer. At CLP Power, she leads the functions of marketing and customer service, public affairs and community relations to help drive customer service excellence and strengthen ties with customers and the community as a whole. She is also responsible for all public affairs and sustainability development matters of the CLP Group. Before joining CLP, Ms. Chong was Director Corporate Affairs of Cathay Pacific Airways. She has over 25 years of experience in corporate communications and customer services after having held various senior management positions in the tourism, hotel and aviation industries, including the Hong Kong Tourism Board (formerly the Hong Kong Tourist Association). Ms. Chong is currently a Board member of the Hospital Authority Hong Kong, the Chairman of the Hospital Governing Committee of Kwai Chung Hospital & Princess Margaret Hospital and a founding member of the Consultative Committee of the Nethersole School of Nursing of the Chinese University of Hong Kong.

Geert Herman August Peeters, MSc(Eng.), CEng(Belgium)

Mr. Peeters is the Group Director & Chief Financial Officer of CLP Holdings Limited, responsible for Group financial control & reporting, Group treasury, Group tax, Group corporate finance, risk management and investor relations of CLP Holdings Limited. He is also a Director of CLP Power Hong Kong Financing Limited, CLP Power HK Finance Ltd. and a number of other subsidiary companies of the CLP Group. Mr. Peeters has over 25 years of experience in the energy industry. Prior to joining CLP, he was the Deputy Chief Financial Officer of GDF SUEZ Group based in Paris. Mr. Peeters has been with GDF SUEZ since 1997, gaining extensive experience in senior financial and operational roles in Europe, Latin America, the Middle East and North America. He has also served as the Chief Financial Officer of International Power plc, a GDF SUEZ subsidiary listed on the London Stock Exchange and part of the FTSE 100 index until July 2012. Before joining GDF SUEZ, Mr. Peeters worked for KBC Bank in Brussels and New York and for Tractebel Energy Engineering at the Doel Nuclear Power Plant in Antwerp (Belgium). Mr. Peeters has served on the board of several energy companies amongst which, GDF Suez Trading SA and GDF Suez Exploration and Production SA (France) and the listed companies International Power plc. (UK), E-CL (Chile) and Glow Energy (Thailand). Mr. Peeters, a Knight in the Order of Leopold, has a Master of Science degree in Electro Mechanical Engineering (Gent, Belgium) and postgraduate master's degrees in Business and IT Administration.

Alternate Director

James Lindsay Lewis

Educated in Hong Kong and Australia, Mr. Lewis holds a Master of Aviation Management and a Master of Business Administration. He joined Sir Elly Kadoorie & Sons Limited in 2001 and has working experience in their investment, hotel, and aviation operations. Mr. Lewis currently serves on the board of several companies located in the United Kingdom, China, Hong Kong, Philippines and India.

Executive Officers

Yip Kam Keung, B.Com., M.Fin., CPA, FCCA

Mr. Yip is the Director — Financial Control (Hong Kong) of CLP Power. He is also a Director of CLP Engineering Limited, Hong Kong Nuclear Investment Company Limited, CLP Nuclear Business Liaison Limited and a number of other subsidiary companies of the CLP Group. He is a member of the Hong Kong Institute of Certified Public Accountants and a Fellow of the Association of Chartered Certified Accountants. Mr. Yip is responsible for the financial control within the Scheme of Control business. He had held various financial management positions in the Generation Business Group, Power Systems Business Group and Corporate Finance of CLP Power before he was appointed to his present position in December 2009.

Chow Lap Man, MBA, CEng, MIET, MHKIE, MCIBSE

Mr. Chow is the Director — Marketing and Customer Services of CLP Power. He manages the marketing and customer services functions. He is also a Director of CLP Engineering Limited and a number of other subsidiary companies of the CLP Group. He joined CLP Power in 1977 as a trainee. Since then, he has held various management positions in Asset Management, Procurement, Change Management, Generation Maintenance and Regional Operations. He assumed his current position in February 2010.

Chiang Tung Keung, BSc(Eng.), MSc, MBA, MHKIE, CEng, MIET

Mr. Chiang is the Director — Generation of CLP Power. He is also a Director of Hong Kong Pumped Storage Development Company, Limited and 深港天然气管道有限公司 (ShenGang Natural Gas Pipeline Company Limited) as well as an alternate director of Castle Peak Power Company Limited. Mr. Chiang holds a Bachelor of Science in Electrical & Electronic Engineering from the University of Hong Kong, a Master of Science in Electrical Engineering from the Hong Kong Polytechnic and a Master of Business Administration from the Chinese University of Hong Kong. He joined CLP Power as a Graduate Trainee in 1988. He has extensive experience in transmission and distribution systems as well as regulatory strategy. He had held various posts in different functional areas ranging from power system asset management, planning, design, operation and maintenance, power quality, and corporate and regulatory strategy. Mr. Chiang was the Planning & Development Director for CLP Power before taking up his current role in May 2014.

BOOK-ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear, Clearstream, Luxembourg or the CMU Service (together, the “Clearing Systems”) currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer and the Guarantor believe to be reliable, but none of the Issuer, the Guarantor, the Trustee nor any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. Neither the Issuer, the Guarantor, the Trustee nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to, or payments made on account of, such beneficial ownership interests.

Book-entry Systems

DTC

DTC has advised the Issuer that it is a limited purpose trust company organised under the New York Banking Law, a “banking organisation” within the meaning of the New York Banking Law, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its participants (“**Participants**”) deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerised book-entry changes in Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants, as the term is used herein, includes securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“**Indirect Participants**”).

Under the rules, regulations and procedures creating and affecting DTC and its operations (the “**Rules**”), DTC makes book-entry transfers of Registered Notes among Direct Participants on whose behalf it acts with respect to Notes accepted into DTC’s book-entry settlement system (“**DTC Notes**”) as described below and receives and transmits distributions of principal and interest on DTC Notes. The Rules are on file with the Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Notes (“**Owners**”) have accounts with respect to the DTC Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Notes through Direct Participants or Indirect Participants will not possess Registered Notes, the Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest(s) in respect of the DTC Notes.

Purchases of DTC Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Notes on DTC’s records. The ownership interest of each actual purchaser of each DTC Note (“**Beneficial Owner**”) is in turn to be recorded on the Direct and Indirect Participant’s records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Notes, except in the event that use of the book-entry system for the DTC Notes is discontinued.

To facilitate subsequent transfers, all DTC Notes deposited by Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. The deposit of DTC Notes with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no

knowledge of the actual Beneficial Owners of the DTC Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the DTC Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to DTC Notes. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Notes will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the due date for payment in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the due date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

Under certain circumstances, including if there is an Event of Default under the Notes, DTC will exchange the DTC Notes for definitive Registered Notes, which it will distribute to its Participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Note, will be legended as set forth under "*Subscription and Sale and Transfer and Selling Restrictions*".

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Owner desiring to pledge DTC Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Notes, will be required to withdraw its Registered Notes from DTC as described below.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

All payments in respect of Registered Global Notes held with Euroclear and Clearstream, Luxembourg will be made to, or to the order of, the person whose name is entered in the Register at the close of business on the Clearing System Business Day immediately prior to the date of payment, where “**Clearing System Business Day**” means Monday to Friday inclusive except 25th December and 1st January.

CMU Service

The CMU Service is a central depository service provided by the Central Moneymarkets Unit of the Hong Kong Monetary Authority (the “**HKMA**”) for the safe custody and electronic trading between the members of this service (“**CMU Members**”) of capital markets instruments (“**CMU Instruments**”) which are specified in the CMU Reference Manual as capable of being held within the CMU Service.

The CMU Service is only available to CMU Instruments issued by a CMU Member or by a person for whom a CMU Member acts as agent for the purposes of lodging instruments issued by such persons. Membership of the services is open to all members of the Hong Kong Capital Markets Association, “authorised institutions” under the Banking Ordinance (Cap. 155) of Hong Kong and other financial institutions subject to the discretion of the HKMA.

Compared to clearing services provided by Euroclear and Clearstream, Luxembourg, the standard custody and clearing service provided by the CMU Service is limited. In particular (and unlike the European clearing systems), the HKMA does not as part of this service provide any facilities for the dissemination to the relevant CMU Members of payments (of interest or principal) under, or notices pursuant to the notice provisions of, the CMU Instruments. Instead, the HKMA advises the lodging CMU Member (or a designated paying agent) of the identities of the CMU Members to whose accounts payments in respect of the relevant CMU Instruments are credited, whereupon the lodging CMU Member (or the designated paying agent) will make the necessary payments of interest or principal or send notices directly to the relevant CMU Members. Similarly, the HKMA will not obtain certificates of non-U.S. beneficial ownership from CMU Members or provide any such certificates on behalf of CMU Members. The CMU Lodging Agent will collect such certificates from the relevant CMU Members identified from an instrument position report obtained by request from the HKMA for this purpose.

An investor holding an interest in the Notes through an account with either Euroclear or Clearstream, Luxembourg will hold that interest through the respective accounts which Euroclear and Clearstream, Luxembourg each have with the CMU Service.

Book-entry Ownership of and Payments in respect of DTC Notes

The Issuer will apply to DTC in order to have each Tranche of Notes represented by Registered Global Notes accepted in its book-entry settlement system. Upon the issue of any Registered Global Notes, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Registered Global Notes to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in a Registered Global Note will be limited to Direct Participants or Indirect Participants, including the respective depositories of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in a Registered Global Note will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of principal and interest in respect of a Registered Global Note registered in the name of DTC’s nominee will be made to the order of such nominee as the registered holder of such Note. In the case of any payment in a currency other than U.S. dollars, payment will be made to the Exchange Agent on behalf of DTC’s nominee and the Exchange Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Registered Global Notes in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable Participants’ account.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Participants to beneficial owners of Notes will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the Trustee, the Principal Paying Agent, the Registrar or the Issuer. Payment of principal, premium, if any, and interest, if any, on Notes to DTC is the responsibility of the Issuer.

Transfers of Notes Represented by Registered Global Notes

Transfers of any interests in Notes represented by a Registered Global Note within DTC, Euroclear and Clearstream, Luxembourg and/or the CMU Service will be effected in accordance with the customary rules and operating procedures of the relevant Clearing System. The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Notes represented by a Registered Global Note to such persons may depend upon the ability to exchange such Notes for Notes in definitive form. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Notes represented by a Registered Global Note to pledge such Notes to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Notes may depend upon the ability to exchange such Notes for Notes in definitive form. The ability of any holder of Notes represented by a Registered Global Note to resell, pledge or otherwise transfer such Notes may be impaired if the proposed transferee of such Notes is not eligible to hold such Notes through a direct or indirect participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described under “*Subscription and Sale and Transfer and Selling Restrictions*”, cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders, on the other, will be effected by the relevant Clearing System in accordance with its rules and through action taken by the Registrar, the Principal Paying Agent and any custodian (“**Custodian**”) with whom the relevant Registered Global Notes have been deposited.

On or after the Issue Date for any Series, transfers of Notes of such Series between accountholders in Clearstream, Luxembourg and Euroclear and transfers of Notes of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream, Luxembourg or Euroclear and DTC Participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant Registered Global Notes will be effected through the Registrar, the Principal Paying Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC Participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream, Luxembourg, Euroclear and the CMU Service have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among Participants of DTC, the accountholders of Clearstream, Luxembourg and Euroclear and the CMU Accountholders. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Guarantor, the Trustee, the Agents and the Dealers will be responsible for any performance by DTC, Clearstream, Luxembourg, Euroclear or the CMU Service or their respective Direct or Indirect Participants or accountholders (as appropriate) of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

TAXATION

The following is a general description of certain tax considerations relating to the Notes and is based on law and relevant interpretations thereof in effect as at the date of this Offering Circular, all of which are subject to change, and does not constitute legal or taxation advice. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective Noteholders who are in any doubt as to their tax position or who may be subject to tax in any jurisdiction are advised to consult their own professional advisers.

Hong Kong

Withholding Tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the Notes or in respect of any capital gains arising from the sale of the Notes.

Profits Tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

- (i) interest on the Notes is derived from Hong Kong and is received by or accrues to a company carrying on a trade, profession or business in Hong Kong;
- (ii) interest on the Notes is derived from Hong Kong and is received by or accrues to a person, other than a company, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business; or
- (iii) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Cap. 112) of Hong Kong) and arises through or from the carrying on by the financial institution of its business in Hong Kong.

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal or redemption of Bearer Notes will be subject to profits tax.

Sums derived from the sale, disposal or redemption of Bearer Notes will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source. Similarly, such sums in respect of Registered Notes received by or accrued to either the aforementioned person and/or a financial institution will be subject to Hong Kong profits tax if such sums have a Hong Kong source. The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired and disposed.

Stamp Duty

Stamp duty will not be payable on the issue of Bearer Notes provided either:

- (i) such Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or
- (ii) such Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap. 117) of Hong Kong).

If stamp duty is payable it is payable by the Issuer on issue of Bearer Notes at a rate of 3 per cent. of the market value of the Notes at the time of issue.

No stamp duty will be payable on any subsequent transfer of Bearer Notes.

No stamp duty is payable on the issue of Registered Notes. Stamp duty may be payable on any transfer of Registered Notes if the relevant transfer is required to be registered in Hong Kong. Stamp duty will, however, not be payable on any transfers of Registered Notes provided that either:

- (i) the Registered Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or
- (ii) the Registered Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap. 117) of Hong Kong).

If stamp duty is payable in respect of the transfer of Registered Notes it will be payable at the rate of 0.2 per cent. (of which 0.1 per cent. is payable by the seller and 0.1 per cent. is payable by the purchaser) normally by reference to the value of the consideration. If, in the case of either the sale or purchase of such Registered Notes, stamp duty is not paid, both the seller and the purchaser may be liable jointly and severally to pay any unpaid stamp duty and also any penalties for late payment. If stamp duty is not paid on or before the due date (two days after the sale or purchase if effected in Hong Kong or 30 days if effected elsewhere) a penalty of up to 10 times the duty payable may be imposed. In addition, stamp duty is payable at the fixed rate of HK\$5 on each instrument of transfer executed in relation to any transfer of the Registered Notes if the relevant transfer is required to be registered in Hong Kong.

British Virgin Islands

As the Issuer is registered under the BVI Business Companies Act, 2004 of the British Virgin Islands, payment of principal and interest in respect of the Notes are not subject to taxation in the British Virgin Islands and no withholding tax is required to be deducted by the Issuer on such payments made to any Noteholder. Pursuant to the requirements of the Savings Directive, as detailed below, in the event that the Issuer makes interest payments to EU resident individuals who are the ultimate beneficial owners of the Notes, the Issuer will be required to report certain information to British Virgin Islands Inland Revenue on an annual basis who would then report this information onwards to the relevant tax authorities in the EU.

Under the current British Virgin Islands taxation regime, there is no income tax, corporate or personal, in the British Virgin Islands. In addition, there is no withholding tax, capital gains tax, capital transfer tax, estate duty, inheritance tax or succession tax in the British Virgin Islands. Gains derived from the sale or exchange of the Notes will therefore not be subject to British Virgin Islands tax. The Notes further are not liable to any stamp duty in the British Virgin Islands.

EU directive on the taxation of savings income

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria may instead apply a withholding system in relation to such payments, deducting tax at a rate of 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. Luxembourg has announced that it will no longer apply the withholding tax system as from 1st January, 2015 and will provide details of payments of interest (or similar income) as from this date.

A number of non-EU countries and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those

dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The Council of the European Union formally adopted a Council Directive amending the Directive on 24th March, 2014 (the “**Amending Directive**”). The Amending Directive broadens the scope of the requirements described above. Member States have until 1st January, 2016 to adopt the national legislation necessary to comply with the Amending Directive. The changes made under the Amending Directive include extending the scope of the Directive to payments made to, or collected for, certain other entities and legal arrangements. They also broaden the definition of “**interest payment**” to cover income that is equivalent to interest.

Investors who are in any doubt as to their position should consult their professional advisers.

The proposed financial transactions tax

On 14th February, 2013, the European Commission published a proposal (the “**Commission’s Proposal**”) for a Directive for a common financial transactions tax (“**FTT**”) in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “**participating Member States**”).

The Commission’s Proposal has a very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

Under the Commission’s Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, “established” in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

A joint statement issued in May 2014 by ten of the eleven participating Member States indicated an intention to implement the FTT progressively, such that it would initially apply to shares and certain derivatives, with this initial implementation occurring by 1st January, 2016.

The FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation. Additional EU Member States may decide to participate. Prospective Noteholders are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

The Dealers have, in a programme agreement dated 3rd April, 2002 as amended and/or supplemented from time to time (the “**Programme Agreement**”), agreed with the Issuer and the Guarantor a basis upon which they or any of them may from time to time agree to purchase Notes or, in the case of Definitive IAI Registered Notes, procure purchasers of, Notes. Any such agreement will extend to those matters stated under “*Form of the Notes*” and “*Terms and Conditions of the Notes*”. In the Programme Agreement, the Issuer (failing which, the Guarantor) has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith. The Programme Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

In order to facilitate the offering of any Tranche of the Notes, a nominated Dealer participating in the offering of the Tranche may engage in transactions that stabilise, maintain or otherwise affect, which support the market price of the relevant Notes during and after the offering of the Tranche. Specifically such persons may over-allot or create a short position in the Notes for their own account by selling more Notes than have been sold to them by the Issuer. Such persons may also elect to cover any such short position by purchasing Notes in the open market. In addition, such persons may stabilise or maintain the price of the Notes by bidding for or purchasing Notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering of the Notes are reclaimed if Notes previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to stabilise or maintain the market price of the Notes at a level higher than that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Notes to the extent that it discourages resales thereof. No representation is made as to the magnitude or effect of any such stabilising or other transactions. Such transactions, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.

Transfer Restrictions

As a result of the following restrictions, purchasers of Notes in the United States are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Notes.

Each purchaser of Registered Notes (other than a person purchasing an interest in a Registered Global Note with a view to holding it in the form of an interest in the same Global Note) or person wishing to transfer an interest from one Registered Global Note to another or from global to definitive form or vice versa, will be required to acknowledge, represent and agree as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

- (i) that either:
 - (a) it is a QIB, purchasing (or holding) the Notes for its own account or for the account of one or more QIBs and it is aware that any sale to it is being made in reliance on Rule 144A;
 - (b) it is an Institutional Accredited Investor which has delivered an IAI Investment Letter;
or
 - (c) it is outside the United States and is not a U.S. person;
- (ii) that the Notes are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Notes and the Guarantee have not been and will not be registered under the Securities Act or any other applicable U.S. State securities laws and may not be offered, sold, pledged or otherwise transferred within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;

- (iii) that, unless it holds an interest in a Regulation S Global Note and is a person located outside the United States who is not a U.S. person, if in the future it decides to resell, pledge or otherwise transfer the Notes or any beneficial interests in the Notes, it will do so, prior to the date which is two years after the later of the last Issue Date for the Series and the last date on which the Issuer or an affiliate of the Issuer was the owner of such Notes, only (a) to the Issuer or any affiliate thereof, (b) inside the United States to a person whom the seller reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (c) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act, (d) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available), (e) to an institutional “accredited investor” within the meaning of sub-paragraph (a)(1), (2), (3) or (7) of Rule 501 under the Securities Act that is acquiring the Notes for its own account or for the account of such an institutional “accredited investor” for investment purposes and not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the Securities Act or (f) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. State securities laws. If any resale or other transfer of the Notes is proposed to be made pursuant to clause (e) above, the transferor shall deliver (i) an IAI Investment Letter to the Registrar, which shall provide, among other things, that the transferee is an institutional “accredited investor” within the meaning of sub-paragraph (a)(1), (2), (3) or (7) of Rule 501 under the Securities Act, that it is acquiring such Notes for investment purposes and not for distribution in violation of the Securities Act, and that it will acquire Notes having a minimum purchase price of at least U.S.\$500,000 (or the approximate equivalent in another specified currency (as defined in the Agency Agreement)); and (ii) such other satisfactory evidence as the Issuer may reasonably require from the transferor, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States, and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction;
- (iv) it will, and will require each subsequent Noteholder to, notify any purchaser of the Notes from it of the resale restrictions referred to in paragraph (iii) above, if then applicable;
- (v) that Notes initially offered in the United States to QIBs will be represented by one or more Rule 144A Global Notes, that Notes offered to Institutional Accredited Investors will be in the form of Definitive IAI Registered Notes and that Notes offered outside the United States in reliance on Regulation S will be represented by one or more Regulation S Global Notes;
- (vi) that the Notes, other than the Regulation S Global Notes, will bear a legend to the following effect unless otherwise agreed to by the Issuer:

“THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OR WITH ANY SECURITY REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT (1) IT IS A “QUALIFIED INSTITUTIONAL BUYER” (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) PURCHASING THE SECURITIES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS OR (2) IT IS AN INSTITUTIONAL “ACCREDITED INVESTOR” (WITHIN THE MEANING OF RULE 501(A)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT) (AN “**INSTITUTIONAL ACCREDITED INVESTOR**”); (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE SECURITIES EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND, PRIOR TO THE DATE WHICH IS ONE YEAR AFTER THE LATER OF THE LAST ISSUE DATE FOR THE SERIES AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH SECURITIES OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2)

INSIDE THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, UNDER THE SECURITIES ACT, (3) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), (5) TO AN INSTITUTIONAL “ACCREDITED INVESTOR” WITHIN THE MEANING OF SUB-PARAGRAPH (A)(1), (2), (3) OR (7) OF RULE 501 UNDER THE SECURITIES ACT THAT IS ACQUIRING THE NOTES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF SUCH AN INSTITUTIONAL “ACCREDITED INVESTOR” FOR INVESTMENT PURPOSES AND NOT WITH A VIEW TO, OR FOR OFFER OR SALE IN CONNECTION WITH, ANY DISTRIBUTION THEREOF IN VIOLATION OF THE SECURITIES ACT, OR (6) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; IF ANY RESALE OR OTHER TRANSFER OF THE NOTES IS PROPOSED TO BE MADE PURSUANT TO CLAUSE (5) ABOVE, THE TRANSFEROR SHALL DELIVER A LETTER SUBSTANTIALLY IN THE FORM SET OUT IN SCHEDULE 4 TO THE AGENCY AGREEMENT TO THE REGISTRAR, WHICH SHALL PROVIDE, AMONG OTHER THINGS, THAT THE TRANSFEREE IS AN INSTITUTIONAL “ACCREDITED INVESTOR” WITHIN THE MEANING OF SUB-PARAGRAPH (A)(1), (2), (3) OR (7) OF RULE 501 UNDER THE SECURITIES ACT, THAT IT IS ACQUIRING SUCH NOTES FOR INVESTMENT PURPOSES AND NOT FOR DISTRIBUTION IN VIOLATION OF THE SECURITIES ACT, AND THAT IT WILL ACQUIRE NOTES HAVING A MINIMUM PURCHASE PRICE OF AT LEAST U.S.\$500,000 (OR THE APPROXIMATE EQUIVALENT IN ANOTHER SPECIFIED CURRENCY (AS SPECIFIED IN THE APPLICABLE PRICING SUPPLEMENT)) AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144A FOR REALES OF THE SECURITY.

THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF SUCH SECURITIES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR REALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO REALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS SECURITY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).”;

- (vii) if it is outside the United States and is not a U.S. person, that if it should resell or otherwise transfer the Notes prior to the expiration of the Distribution Compliance Period (defined as 40 days after the later of the commencement of the offering and the closing date with respect to the original issuance of the Notes), it will do so only (i) in an offshore transaction in compliance with Rule 903 or 904 under the Securities Act; (ii) upon receipt by the Registrar of a written certification substantially in the form set out in Schedule 3 to the Agency Agreement, amended as appropriate (a “**Transfer Certificate**”), copies of which are available from the specified office of the Registrar or any Transfer Agent, from the transferor of the Note or beneficial interest therein to the effect that such transfer is being made: (a) to

a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A; or (b) to a person who is an Institutional Accredited Investor, together with, in the case of (b), a duly executed investment letter from the relevant transferee substantially in the form set out in Schedule 4 to the Agency Agreement and such other satisfactory evidence as the Issuer may reasonably require from the transferor, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States; (iii) to the Issuer or any affiliate thereof; or (if available) (iv) otherwise pursuant to an effective registration statement under the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States, and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction; and it acknowledges that the Regulation S Global Notes will bear a legend to the following effect unless otherwise agreed to by the Issuer:

“THIS SECURITY AND THE GUARANTEE IN RESPECT THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITY REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT EXCEPT IN ACCORDANCE WITH THE TRUST DEED AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. THIS LEGEND SHALL CEASE TO APPLY UPON THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE NOTES OF THE TRANCHE OF WHICH THIS NOTE FORMS PART.”; and

- (viii) that the Issuer, the Registrar, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Notes as a fiduciary or agent for one or more accounts it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Institutional Accredited Investors who purchase Registered Notes in definitive form offered and sold in the United States in reliance upon the exemption from registration provided by Regulation D of the Securities Act are required to execute and deliver to the Registrar an IAI Investment Letter. Upon execution and delivery of an IAI Investment Letter by an Institutional Accredited Investor, Notes will be issued in definitive registered form, see “*Form of the Notes*”.

The IAI Investment Letter will state, among other things, the following:

- (i) that the Institutional Accredited Investor has received a copy of the Offering Circular and such other information as it deems necessary in order to make its investment decision;
- (ii) that the Institutional Accredited Investor understands that any subsequent transfer of the Notes is subject to certain restrictions and conditions set forth in the Offering Circular and the Notes (including those set out above) and that it agrees to be bound by, and not to resell, pledge or otherwise transfer the Notes except in compliance with, such restrictions and conditions and the Securities Act;
- (iii) that, in the normal course of its business, the Institutional Accredited Investor invests in or purchases securities similar to the Notes;

- (iv) that the Institutional Accredited Investor is an Institutional Accredited Investor within the meaning of Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act and has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its investment in the Notes, and it and any accounts for which it is acting are each able to bear the economic risk of its or any such accounts' investment for an indefinite period of time;
- (v) that the Institutional Accredited Investor is acquiring the Notes purchased by it for its own account or for one or more accounts (each of which is an Institutional Accredited Investor) as to each of which it exercises sole investment discretion and not with a view to any distribution of the Notes, subject, nevertheless, to the understanding that the disposition of its property shall at all times be and remain within its control; and
- (vi) that, in the event that the Institutional Accredited Investor purchases Notes, it will acquire Notes having a minimum purchase price of at least U.S.\$500,000 (or the approximate equivalent in another Specified Currency).

No sale of Legended Notes in the United States to any one purchaser will be for less than U.S.\$100,000 (or its foreign currency equivalent) nominal amount or, in the case of sales to Institutional Accredited Investors, U.S.\$500,000 (or its foreign currency equivalent) nominal amount and no Legended Note will be issued in connection with such a sale in a smaller nominal amount. If the purchaser is a non-bank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least U.S.\$100,000 (or its foreign currency equivalent) or, in the case of sales to Institutional Accredited Investors, U.S.\$500,000 (or its foreign currency equivalent) nominal amount of Registered Notes.

Selling Restrictions

The Netherlands

The following selling restriction applies subsequent to the entry into force of the Dutch Financial Markets Amendment Act.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes will only be offered in The Netherlands to qualified investors as defined in the Prospectus Directive, unless such offer is made in accordance with the Financial Supervision Act (“**Wet op het financieel toezicht**”) and the decrees issued pursuant thereto.

United States

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that:

- (i) The Notes and the Guarantee have not been and will not be registered under the Securities Act and the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meaning given to them by Regulation S.
- (ii) The Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and regulations thereunder.
- (iii) In connection with any Notes which are offered or sold outside the United States in reliance on an exemption from the registration requirements of the Securities Act provided under Regulation S (“**Regulation S Notes**”), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or delivered and will not offer, sell or deliver such Regulation S Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion

of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Regulation S Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Regulation S Notes during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Regulation S Notes within the United States or to, or for the account or benefit of, U.S. persons.

- (iv) Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.
- (v) Notwithstanding anything above to the contrary, dealers may arrange for the resale of Notes to QIBs pursuant to Rule 144A and each such purchaser of Notes is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. The minimum aggregate nominal amount of Notes which may be purchased by a QIB pursuant to Rule 144A is U.S.\$100,000 (or the approximate equivalent thereof in any other currency). To the extent that the Guarantor is not subject to or does not comply with the reporting requirements of Section 13 or 15(d) of the Exchange Act or the information furnishing requirements of Rule 12g3-2(b) thereunder, the Guarantor has agreed to furnish to holders of Notes and to prospective purchasers designated by such holders, upon request, such information as may be required by Rule 144A(d)(4).
- (vi) Notwithstanding anything above to the contrary, it is understood that Registered Notes may be offered and sold pursuant to a private placement in the United States to Institutional Accredited Investors, and in connection therewith each Dealer represents and agrees that:
 - (a) offers, sales, resales and other transfers of Notes made in the United States made or approved by a Dealer (including offers, resales or other transfers made or approved by a Dealer in connection with secondary trading) shall be made with respect to Registered Notes only and shall be effected pursuant to an exemption from the registration requirements of the Securities Act;
 - (b) offers, sales, resales and other transfers of Notes made in the United States will be made only in private transactions to a limited number of Institutional Accredited Investors;
 - (c) the Notes will be offered in the United States only by approaching prospective purchasers on an individual basis. No general solicitation or general advertising within the meaning of Rule 502(c) under the Securities Act will be used in connection with the offering of the Notes in the United States; and
 - (d) no sale of Notes in the United States to any one Institutional Accredited Investor will be for less than U.S.\$500,000 principal amount and if such purchaser is a non-bank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least U.S.\$500,000 principal amount of the Notes.
- (vii) Each issuance of Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Pricing Supplement.

This Offering Circular has been prepared by the Issuer for use in connection with the offer and sale of the Notes outside the United States, the offer and sale of the Registered Notes in the United States as described in (vi) above, and for the resale of the Notes in the United States. The Issuer and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Offering Circular does not constitute an offer to any person in the United States or to any U.S. person,

other than (A) any accredited investor within the meaning of Rule 501(A)(1), (2), (3) or (7) under the Securities Act to whom an offer has been made as described in (vi) above or (B) any qualified institutional buyer within the meaning of Rule 144A to whom an offer has been made directly by one of the Dealers or its U.S. broker-dealer affiliate. Distribution of this Offering Circular by any non-U.S. person outside the United States or by any qualified institutional buyer or institutional accredited investor referred to in (vi) above in the United States to any U.S. person or to any other person within the United States, other than any qualified institutional buyer or institutional accredited investor referred to in (vi) above and those persons, if any, retained to advise such non-U.S. person or qualified institutional buyer or institutional accredited investor with respect thereto, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States, other than any qualified institutional buyer or institutional accredited investor referred to in (vi) above and those persons, if any, retained to advise such non-U.S. person or qualified institutional buyer or institutional accredited investor, is prohibited.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), each Dealer has represented and agreed, or will represent and agree, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “**Relevant Implementation Date**”) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State:

- (a) if the Pricing Supplement in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a “**Non-exempt Offer**”), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the Pricing Supplement contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or Pricing Supplement, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;
- (b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (c) at any time to fewer than 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or;
- (d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “**offer of Notes to the public**” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “**Prospectus Directive**” means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member States.

United Kingdom

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that:

- (i) in relation to any Notes having a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the “FSMA”) by the Issuer;
- (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and
- (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Law No. 25 of 1948, as amended, the “FIEA”). Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it has not offered or sold and will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Hong Kong

In relation to each Tranche of Notes issued by the Issuer, each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes (except for Notes which are a “structured product” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “SFO”)) other than (i) to “professional investors” as defined in the SFO and any rules made under that Ordinance; or (ii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under that Ordinance.

Singapore

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the “**Securities and Futures Act**”). Each Dealer has represented, warranted and agreed or will represent, warrant and agree that the Notes may not be offered or sold or made the subject of an invitation for subscription or purchase nor may this Offering Circular or any other document or material in connection with the offer or sale or invitation for subscription or purchase of any Notes be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor pursuant to Section 274 of the Securities and Futures Act, (b) to a relevant person pursuant to Section 275(1) of the Securities and Futures Act, or any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act or (c) otherwise than pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Where Notes are subscribed or purchased under Section 275 of the Securities and Futures Act by a relevant person who is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the Securities and Futures Act)) the sole business of which is to hold investments and the entire share capital or which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the Securities and Futures Act) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the Notes under Section 275 of the Securities and Futures Act except:

- (1) to an institutional investor or to a relevant person defined in section 275(2) of the Securities and Futures Act, or any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the Securities and Futures Act;
- (2) where no consideration is given for the transfer;
- (3) by operation of law; or
- (4) as specified in Section 276(7) of the Securities and Futures Act or Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations.

British Virgin Islands

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that with respect to offers and sales of any Notes, that it has not and will not make any invitation to the public in the British Virgin Islands to purchase the Notes and the Notes offered through this Offering Circular may not be offered or sold, directly or indirectly, in the British Virgin Islands or to any resident of the British Virgin Islands, except for (i) companies incorporated under the BVI Business Companies Act, 2004 and (ii) as otherwise permitted by British Virgin Islands law.

For Residents of the British Virgin Islands only

This Offering Circular is not an offer to the public in the British Virgin Islands. No action has been taken to permit an offer of the Notes in the British Virgin Islands and this Offering Circular is not a registered prospectus within the meaning of section 25 of the Securities and Investment Business Act, 2010 (“**SIBA**”).

Subscriptions for the securities contained in this Offering Circular will not be accepted from any person in the British Virgin Islands and no Notes will be issued to any person in the British Virgin Islands unless: (a) that person is a Qualified Investor as defined in Schedule 4 of SIBA and, to the extent that person is a professional investor for the purposes of Schedule 4 of SIBA, it declares that (i) its ordinary business involves, whether for its own account or the account of others, the acquisition or disposal of property of the same kind as the property constituting the Notes, or a substantial part of the property; or (ii) it has net worth in excess of U.S.\$1,000,000 or its equivalent in any other currency and that it consents to being treated as a professional investor within the meaning of section 40 of SIBA; or (b) that person is a BVI business company and neither this Offering Circular nor any other document relating to this offer has been received by that person at an address in the British Virgin Islands other than its registered office in the British Virgin Islands; or (c) that person has a close connection (within the meaning of section 2(3) of SIBA) with the Issuer; or (d) that person is the Government of the British Virgin Islands.

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer, the Guarantor nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer, the Guarantor, the Trustee and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Dealers or any affiliate of the Dealers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Dealers or such affiliate on behalf of the Issuer in such jurisdiction.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Issuer, the Guarantor and the relevant Dealer shall agree and as shall be set out in the applicable Pricing Supplement.

The Dealers and certain of their affiliates may have performed certain investment banking and advisory services for the Issuer, the Guarantor and/or their respective affiliates from time to time for which they have received customary fees and expenses and may, from time to time, engage in transactions with and perform services for the Issuer, the Guarantor and/or their respective affiliates in the ordinary course of their business. The Dealers or certain of their affiliates may purchase Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution.

The Dealers or their respective affiliates may purchase Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to Notes and/or other securities of the Issuer, the Guarantor or their respective subsidiaries or associates at the same time as the offer and sale of Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of Notes to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of Notes).

GENERAL INFORMATION

Authorisation

The establishment of the Programme and the issue of Notes have been duly authorised by resolutions of the Board of Directors of the Issuer dated 11th March, 2002 and the giving of the Guarantee has been duly authorised by a resolution of the Board of Directors of the Guarantor dated 1st March, 2002. The increase in aggregate nominal amount of the Programme from U.S.\$1,500,000,000 to U.S.\$2,500,000,000 has been duly authorised by a resolution of the Board of Directors of the Issuer dated 21st November, 2008 and a resolution of the Finance & General Committee of the Guarantor dated 12th November, 2008. The increase in aggregate nominal amount of the Programme from U.S.\$2,500,000,000 to U.S.\$3,500,000,000 has been duly authorised by a resolution of the Board of Directors of the Issuer dated 16th November, 2010 and a resolution of the Finance & General Committee of the Guarantor dated 22nd October, 2010. The increase in aggregate nominal amount of the Programme from U.S.\$3,500,000,000 to U.S.\$4,500,000,000 has been duly authorised by a resolution of the Board of Directors of the Issuer dated 22nd February, 2013 and a resolution of the Finance & General Committee of the Guarantor dated 6th February, 2013.

Listing of Notes on the Hong Kong Stock Exchange

Application has been made to the Hong Kong Stock Exchange for the listing of the Programme. The issue price of Notes on the Hong Kong Stock Exchange will be expressed as a percentage of their nominal amount. Transactions will normally be effected for settlement in the relevant specified currency and for delivery by the end of the second trading day after the date of the transaction. It is expected that dealings will, if permission is granted to deal in and for the listing of such Notes, commence on or about the date of listing of the relevant Notes.

Documents Available

So long as Notes are capable of being issued under the Programme, copies of the following documents will be available from the registered office of the Issuer and the Guarantor:

- (i) the Memorandum and Articles of Association of the Issuer and the Guarantor;
- (ii) the audited financial statements of the Issuer in respect of the financial years ended 31st December, 2013 and 2014 respectively;
- (iii) the audited consolidated annual financial statements of the Guarantor in respect of the financial years ended 31st December, 2013 and 2014 respectively, and the most recently issued consolidated annual financial statements of the Guarantor;
- (iv) the Trust Deed, the Agency Agreement, the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;
- (v) a copy of this Offering Circular;
- (vi) any future offering circulars, prospectuses, information memoranda and supplements including Pricing Supplements (save that a Pricing Supplement relating to an unlisted Series of Notes will only be available for inspection by a holder of any such Notes and such holder must produce evidence satisfactory to the Issuer and the relevant Paying Agent as to its holding of Notes and identity) to this Offering Circular and any other documents incorporated herein or therein by reference; and
- (vii) in the case of each issue of listed Notes subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code and ISIN for each Tranche of Bearer Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Pricing Supplement. The Issuer may also apply to have Bearer Notes accepted for clearance through the CMU Service. The relevant CMU instrument number will be specified in the applicable Pricing Supplement. In addition, the Issuer may make an application for any Registered Notes to be accepted for trading in book-entry form by DTC. The CUSIP and/or CINS numbers for each Tranche of Registered Notes, together with the relevant ISIN and Common Code, will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Pricing Supplement.

Significant or Material Change

Save as disclosed in this Offering Circular, there has been no significant or material adverse change in the financial or trading position of each of the Issuer and the Guarantor since 31st December, 2014.

Litigation

Save as disclosed in this Offering Circular, neither the Issuer nor the Guarantor is or has been involved in any legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Issuer or the Guarantor are aware) which may have or have had in the 12 months preceding the date of this document a significant effect on the financial position of the Issuer or the Guarantor.

Auditor

The Issuer has not published and does not propose to publish any financial statements. The independent auditor of the Guarantor is PricewaterhouseCoopers, Certified Public Accountants, who has audited the Guarantor's consolidated financial statements, without qualification, in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants for the financial year ended 31st December, 2014. Solely in respect of the listing of the Programme on the Hong Kong Stock Exchange, PricewaterhouseCoopers has given and not withdrawn its written consent to the inclusion of its audit report in relation to the Guarantor included in this Offering Circular in the form and context in which it appears.

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Exhibit A

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SUMMARY OF FINANCIAL STATEMENTS

The information on pages F-3 to F-11 has been extracted from the audited consolidated financial statements of the Guarantor and the information on page F-12 has been extracted from the Scheme of Control Statement of the Guarantor for the year ended 31st December, 2014. For the convenience of the reader, the U.S. dollar amounts for 2014 have been added. The U.S. dollar balances have been calculated using a rate of HK\$7.8 to U.S.\$1.00. These translations should not be construed as representations that the Hong Kong dollar amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated.

CLP POWER HONG KONG LIMITED
CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Year ended 31st December,		
	2013	2014	2014
	HK\$M	HK\$M	US\$M
Revenue	33,840	35,303	4,526
Expenses			
Operating lease and lease service charges from CAPCO	12,070	3,607	462
Fuel	-	7,526	965
Purchases of nuclear electricity	4,619	4,867	624
Pumped storage service fee	540	175	22
Staff expenses	934	1,146	147
Other net operating expenses	806	2,089	268
Depreciation and amortisation	4,394	4,085	524
	23,363	23,495	3,012
Gain on disposal of an office property	2,055	-	-
Other income	-	2,025	259
	21,308	21,470	2,753
Operating profit	12,532	13,833	1,773
Finance costs	(3,685)	(1,951)	(250)
Finance income	11	12	2
Share of results of joint ventures, net of income tax	1,318	438	56
Profit before income tax	10,176	12,332	1,581
Income tax expense	(1,003)	(1,803)	(231)
Profit for the year	9,173	10,529	1,350
Earnings attributable to:			
Shareholders	9,173	9,828	1,260
Perpetual capital securities holders	-	152	20
Non-controlling interests	-	549	70
	9,173	10,529	1,350
Dividends			
Interim dividends paid	5,400	6,700	859
Final dividend proposed	-	2,600	333
	5,400	9,300	1,192

CLP POWER HONG KONG LIMITED
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Year ended 31st December,					
	2013		2014		2014	
	HK\$M	HK\$M	HK\$M	HK\$M	US\$M	US\$M
Profit for the year		9,173		10,529		1,350
Other comprehensive income						
Items that can be reclassified to profit or loss:						
Cash flow hedges						
Net fair value losses	(301)		(939)		(120)	
Reclassify to profit or loss	377		638		82	
Tax on the above items	(13)	63	50	(251)	6	(32)
Exchange differences on translation		-		2		-
Share of other comprehensive income of joint ventures		2		(1)		-
Other comprehensive income for the year, net of tax		65		(250)		(32)
Total comprehensive income for the year		9,238		10,279		1,318
Total comprehensive income attributable to						
Shareholders		9,238		9,578		1,228
Perpetual capital securities holders		-		152		20
Non-controlling interests		-		549		70
		9,238		10,279		1,318

CLP POWER HONG KONG LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31st December,		
	2013	2014	2014
	HK\$M	HK\$M	US\$M
Non-current assets			
Fixed assets	93,329	96,945	12,429
Leasehold land under operating leases	1,683	5,571	714
Goodwill and intangible assets	-	10,979	1,408
Interests in joint ventures	9,459	1,516	194
Derivative financial instruments	1,091	684	88
	<u>105,562</u>	<u>115,695</u>	<u>14,833</u>
Current assets			
Inventory-stores and fuel	32	1,962	251
Trade and other receivables	2,813	3,136	402
Derivative financial instruments	460	439	56
Current account with ultimate holding company	30	29	4
Current accounts with fellow subsidiaries	50	29	4
Current accounts with joint ventures	-	2	-
Deposits, bank balances and cash	1,380	1,449	186
	<u>4,765</u>	<u>7,046</u>	<u>903</u>
Current liabilities			
Bank loans and other borrowings	(2,210)	(7,498)	(961)
Finance lease obligations	(2,763)	-	-
Customers' deposits	(4,503)	(4,652)	(596)
Derivative financial instruments	(218)	(277)	(36)
Current accounts with fellow subsidiaries	(983)	(1,332)	(171)
Current accounts with joint ventures	(1,471)	-	-
Advances from non-controlling interests	-	(6,703)	(859)
Trade and other payables	(2,555)	(4,458)	(572)
Income tax payable	(142)	(607)	(78)
	<u>(14,845)</u>	<u>(25,527)</u>	<u>(3,273)</u>
Net current liabilities	<u>(10,080)</u>	<u>(18,481)</u>	<u>(2,370)</u>
Total assets less current liabilities	<u>95,482</u>	<u>97,214</u>	<u>12,463</u>

CLP POWER HONG KONG LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	As at 31st December,		
	2013 HK\$M	2014 HK\$M	2014 US\$M
Financed by:			
Equity			
Share capital	12,442	20,400	2,615
Share premium	7,958	-	-
Reserves			
- Proposed dividend	-	2,600	333
- Others	12,083	12,361	1,585
Shareholders' funds	32,483	35,361	4,533
Perpetual capital securities	-	5,791	743
Non-controlling interests	-	2,036	261
	<u>32,483</u>	<u>43,188</u>	<u>5,537</u>
Non-current liabilities			
Bank loans and other borrowings	26,073	33,340	4,274
Finance lease obligations	25,184	-	-
Deferred tax liabilities	8,038	12,881	1,651
Derivative financial instruments	1,673	1,815	233
Fuel clause account	1,464	2,966	380
Scheme of Control (SoC) reserve accounts	28	1,131	145
Asset decommissioning liabilities	539	1,082	139
Other non-current liabilities	-	811	104
	<u>62,999</u>	<u>54,026</u>	<u>6,926</u>
Equity and non-current liabilities	<u>95,482</u>	<u>97,214</u>	<u>12,463</u>

CLP POWER HONG KONG LIMITED
COMPANY STATEMENT OF FINANCIAL POSITION

	As at 31st December,		
	2013 HK\$M	2014 HK\$M	2014 US\$M
Non-current assets			
Fixed assets	93,329	96,659	12,392
Leasehold land under operating leases	1,683	1,838	236
Interests in subsidiaries	162	23,831	3,055
Interests in joint ventures	9,272	-	-
Derivative financial instruments	1,091	684	88
	<u>105,537</u>	<u>123,012</u>	<u>15,771</u>
Current assets			
Inventory	32	34	4
Trade and other receivables	2,634	2,459	315
Derivative financial instruments	460	439	56
Current account with ultimate holding company	30	29	4
Current accounts with subsidiaries and fellow subsidiaries	50	32	4
Deposits, bank balances and cash	1,380	1,447	186
	<u>4,586</u>	<u>4,440</u>	<u>569</u>
Current liabilities			
Bank loans and other borrowings	(2,210)	(2,640)	(338)
Finance lease obligations	(2,763)	(1,980)	(254)
Customers' deposits	(4,503)	(4,652)	(596)
Derivative financial instruments	(218)	(264)	(34)
Current accounts with subsidiaries and fellow subsidiaries	(983)	(2,800)	(359)
Current accounts with joint ventures	(1,468)	-	-
Trade and other payables	(2,548)	(2,564)	(329)
Income tax payable	(139)	(525)	(67)
	<u>(14,832)</u>	<u>(15,425)</u>	<u>(1,977)</u>
Net current liabilities	<u>(10,246)</u>	<u>(10,985)</u>	<u>(1,408)</u>
Total assets less current liabilities	<u>95,291</u>	<u>112,027</u>	<u>14,363</u>

CLP POWER HONG KONG LIMITED
COMPANY STATEMENT OF FINANCIAL POSITION (CONTINUED)

	As at 31st December,		
	2013 HK\$M	2014 HK\$M	2014 US\$M
Financed by:			
Equity			
Share capital	12,442	20,400	2,615
Share premium	7,958	-	-
Reserves			
- Proposed dividend	-	2,600	333
- Others	11,892	10,077	1,292
Shareholders' funds	<u>32,292</u>	<u>33,077</u>	<u>4,240</u>
Non-current liabilities			
Bank loans and other borrowings	26,073	37,936	4,864
Finance lease obligations	25,184	26,104	3,347
Deferred tax liabilities	8,038	8,439	1,082
Derivative financial instruments	1,673	1,815	233
Fuel clause account	1,464	2,966	380
Scheme of Control (SoC) reserve accounts	28	1,131	145
Asset decommissioning liabilities	539	539	69
Other non-current liabilities	-	20	3
	<u>62,999</u>	<u>78,950</u>	<u>10,123</u>
Equity and non-current liabilities	<u>95,291</u>	<u>112,027</u>	<u>14,363</u>

CLP POWER HONG KONG LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to Shareholders				Perpetual Capital Securities HK\$M	Non- controlling Interests HK\$M	Total Equity HK\$M	Total Equity US\$M
	Share Capital HK\$M	Share Premium HK\$M	Reserves HK\$M	Total HK\$M				
Balance at 1st January 2013	12,442	7,958	10,245	30,645	-	-	30,645	
Profit for the year	-	-	9,173	9,173	-	-	9,173	
Other comprehensive income for the year	-	-	65	65	-	-	65	
Dividends paid								
2012 final	-	-	(2,000)	(2,000)	-	-	(2,000)	
2013 interim	-	-	(5,400)	(5,400)	-	-	(5,400)	
Balance at 31st December 2013	<u>12,442</u>	<u>7,958</u>	<u>12,083</u>	<u>32,483</u>	<u>-</u>	<u>-</u>	<u>32,483</u>	
Balance at 1st January 2014	12,442	7,958	12,083	32,483	-	-	32,483	4,164
Transition to no-par value regime	7,958	(7,958)	-	-	-	-	-	-
Acquisition of subsidiaries	-	-	-	-	-	2,170	2,170	279
Issue of perpetual capital securities	-	-	-	-	5,791	-	5,791	743
Profit for the year	-	-	9,828	9,828	152	549	10,529	1,350
Other comprehensive income for the year	-	-	(250)	(250)	-	-	(250)	(32)
Dividends paid								
2014 interim	-	-	(6,700)	(6,700)	-	-	(6,700)	(859)
Distributions to perpetual capital securities holders	-	-	-	-	(152)	-	(152)	(20)
Dividends paid to non-controlling interests of subsidiaries	-	-	-	-	-	(683)	(683)	(88)
Balance at 31st December 2014	<u>20,400</u>	<u>-</u>	<u>14,961</u>	<u>35,361</u>	<u>5,791</u>	<u>2,036</u>	<u>43,188</u>	<u>5,537</u>

CLP POWER HONG KONG LIMITED
COMPANY STATEMENT OF CHANGES IN EQUITY

	Share Capital HK\$M	Share Premium HK\$M	Reserves HK\$M	Total HK\$M	Total US\$M
Balance as at 1st January 2013	12,442	7,958	10,041	30,441	
Total comprehensive income for the year	-	-	9,251	9,251	
Dividends paid					
2012 final	-	-	(2,000)	(2,000)	
2013 interim	-	-	(5,400)	(5,400)	
Balance as at 31st December 2013	<u>12,442</u>	<u>7,958</u>	<u>11,892</u>	<u>32,292</u>	
Balance as at 1st January 2014	12,442	7,958	11,892	32,292	4,140
Transition to no-par value regime	7,958	(7,958)	-	-	-
Total comprehensive income for the year	-	-	7,485	7,485	959
Dividends paid					
2014 interim	-	-	(6,700)	(6,700)	(859)
Balance as at 31st December 2014	<u>20,400</u>	<u>-</u>	<u>12,677</u>	<u>33,077</u>	<u>4,240</u>

CLP POWER HONG KONG LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31st December,		
	2013 HK\$M	2014 HK\$M	2014 US\$M
Operating activities			
Net cash inflow from operations	15,223	19,539	2,505
Dividends received from joint ventures	1,342	153	20
Income tax paid	(680)	(1,245)	(160)
Net cash inflow from operating activities	<u>15,885</u>	<u>18,447</u>	<u>2,365</u>
Investing activities			
Capital expenditure	(5,485)	(6,641)	(852)
Acquisition of subsidiaries	-	(8,172)	(1,048)
Addition of other intangible assets	-	(8)	(1)
Proceeds from sale of fixed assets and leasehold land	2,266	62	8
Capitalised interest paid	(177)	(210)	(27)
Investment in a joint venture	-	(611)	(78)
Increase in loans and advances to joint ventures	(88)	(1,189)	(152)
Net cash outflow from investing activities	<u>(3,484)</u>	<u>(16,769)</u>	<u>(2,150)</u>
Net cash inflow before financing activities	<u>12,401</u>	<u>1,678</u>	<u>215</u>
Financing activities			
Increase in short-term loans	-	1,547	198
Proceeds from long-term borrowings	1,595	8,939	1,146
Repayment of long-term borrowings	(5,185)	(2,250)	(288)
Repayment of finance lease obligations	(2,500)	(811)	(104)
Settlement of obligations under finance lease	-	(5,338)	(684)
Issue of perpetual capital securities	-	5,791	743
Interest paid	(3,597)	(1,735)	(222)
Interest received	12	82	10
Perpetual capital securities coupon interest paid	-	(115)	(15)
Repayment of advances from non-controlling interests	-	(336)	(43)
Dividends paid to shareholders	(7,400)	(6,700)	(859)
Dividends paid to non-controlling interests of a subsidiary	-	(683)	(88)
Net cash outflow from financing activities	<u>(17,075)</u>	<u>(1,609)</u>	<u>(206)</u>
(Decrease)/Increase in cash and cash equivalents	<u>(4,674)</u>	<u>69</u>	<u>9</u>
Cash and cash equivalents at beginning of year	<u>6,054</u>	<u>1,380</u>	<u>177</u>
Cash and cash equivalents at end of year	<u>1,380</u>	<u>1,449</u>	<u>186</u>
Analysis of cash and cash equivalents			
Deposits, bank balances and cash	<u>1,380</u>	<u>1,449</u>	<u>186</u>
	<u>1,380</u>	<u>1,449</u>	<u>186</u>

SCHEME OF CONTROL STATEMENT
(CLP Power Hong Kong Limited and Castle Peak Power Company Limited)

Year ended 31st December,

	2013	2014	2014
	HK\$M	HK\$M	US\$M
Scheme of Control Revenue	33,184	36,092	4,627
Expenses			
Operating costs	3,711	3,842	492
Fuel	9,645	10,375	1,330
Purchases of nuclear electricity	4,619	4,867	624
Provision for asset decommissioning	52	(10)	(1)
Depreciation	4,475	3,901	500
Operating interest	863	834	107
Taxation	1,649	2,048	263
	<u>25,014</u>	<u>25,857</u>	<u>3,315</u>
Profit after taxation	8,170	10,235	1,312
Interest on increase in customers' deposits	-	-	-
Interest on borrowed capital	887	856	110
Adjustment for performance (incentives)/penalties	(48)	(49)	(6)
Adjustment required under the Scheme of Control (being share of profit on sale of electricity to the Chinese mainland attributable to the Companies)	(64)	(54)	(7)
Profit for Scheme of Control	8,945	10,988	1,409
Transfer from/(to) Tariff Stabilisation Fund	693	(1,030)	(132)
Permitted Return	<u>9,638</u>	<u>9,958</u>	<u>1,277</u>
Deduct Interest on / Adjustment for			
Increase in customers' deposits as above	-	-	-
Borrowed capital as above	887	856	110
Performance (incentives)/penalties as above	(48)	(49)	(6)
Tariff Stabilisation Fund to Rate Reduction Reserve	1	1	-
	<u>840</u>	<u>808</u>	<u>104</u>
Net Return	<u>8,798</u>	<u>9,150</u>	<u>1,173</u>
Divisible as follows:			
CLP Power	5,744	6,070	778
CAPCO	3,054	3,080	395
	<u>8,798</u>	<u>9,150</u>	<u>1,173</u>
CLP Power's share of net return			
CLP Power	5,744	6,070	778
Interest in CAPCO	1,222	1,852	237
	<u>6,966</u>	<u>7,922</u>	<u>1,015</u>

EXHIBIT A

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS
AND SCHEME OF CONTROL STATEMENT
OF CLP POWER HONG KONG LIMITED
FOR THE YEAR ENDED 31ST DECEMBER, 2014**

The information in this Exhibit A has been extracted from the audited consolidated financial statements and Scheme of Control Statement of the Guarantor for the year ended 31st December, 2014. References to page numbers in this Exhibit A are to pages of such documents.



羅兵咸永道

**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF CLP POWER HONG KONG LIMITED**
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of CLP Power Hong Kong Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 6 to 64, which comprise the consolidated and company statements of financial position as at 31 December 2014, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 80 of Schedule 11 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



羅兵咸永道

**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF CLP POWER HONG KONG LIMITED (CONTINUED)**
(Incorporated in Hong Kong with limited liability)

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 13 February 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
for the year ended 31 December 2014

	Note	2014 HK\$M	2013 HK\$M
Revenue	6	35,303	33,840
Expenses			
Operating lease and lease service charges from CAPCO		3,607	12,070
Fuel		7,526	-
Purchases of nuclear electricity		4,867	4,619
Pumped storage service fee		175	540
Staff expenses		1,146	934
Other net operating expenses		2,089	806
Depreciation and amortisation	13,14	4,085	4,394
		<u>23,495</u>	<u>23,363</u>
Gain on disposal of an office property		-	2,055
Other income	7	2,025	-
		<u>21,470</u>	<u>21,308</u>
Operating profit	8	13,833	12,532
Finance costs	9	(1,951)	(3,685)
Finance income	9	12	11
Share of results of joint ventures, net of income tax	16	438	1,318
Profit before income tax		12,332	10,176
Income tax expense	10	(1,803)	(1,003)
Profit for the year		<u>10,529</u>	<u>9,173</u>
Earnings attributable to:			
Shareholders		9,828	9,173
Perpetual capital securities holders		152	-
Non-controlling interests		549	-
		<u>10,529</u>	<u>9,173</u>
Dividends	12		
Interim dividends paid		6,700	5,400
Final dividend proposed		2,600	-
		<u>9,300</u>	<u>5,400</u>

The notes on pages 15 to 64 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2014

	2014		2013	
	HK\$M	HK\$M	HK\$M	HK\$M
Profit for the year		<u>10,529</u>		<u>9,173</u>
Other comprehensive income				
Items that can be reclassified to profit or loss:				
Cash flow hedges				
Net fair value losses	(939)		(301)	
Reclassify to profit or loss	638		377	
Tax on the above items	<u>50</u>	(251)	<u>(13)</u>	63
Exchange differences on translation		2		-
Share of other comprehensive income of joint ventures		<u>(1)</u>		<u>2</u>
Other comprehensive income for the year, net of tax		<u>(250)</u>		<u>65</u>
Total comprehensive income for the year		<u>10,279</u>		<u>9,238</u>
Total comprehensive income attributable to				
Shareholders		9,578		9,238
Perpetual capital securities holders		152		-
Non-controlling interests		<u>549</u>		<u>-</u>
		<u>10,279</u>		<u>9,238</u>

The notes on pages 15 to 64 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2014

	Note	2014 HK\$M	2013 HK\$M
Non-current assets			
Fixed assets	13(A)	96,945	93,329
Leasehold land under operating leases	13(B)	5,571	1,683
Goodwill and intangible assets	14	10,979	-
Interests in joint ventures	16	1,516	9,459
Derivative financial instruments	17	684	1,091
		<u>115,695</u>	<u>105,562</u>
Current assets			
Inventory-stores and fuel		1,962	32
Trade and other receivables		3,136	2,813
Derivative financial instruments	17	439	460
Current account with ultimate holding company		29	30
Current accounts with fellow subsidiaries		29	50
Current accounts with joint ventures		2	-
Deposits, bank balances and cash		1,449	1,380
		<u>7,046</u>	<u>4,765</u>
Current liabilities			
Bank loans and other borrowings	21	(7,498)	(2,210)
Finance lease obligations	22	-	(2,763)
Customers' deposits		(4,652)	(4,503)
Derivative financial instruments	17	(277)	(218)
Current accounts with fellow subsidiaries		(1,332)	(983)
Current accounts with joint ventures		-	(1,471)
Advances from non-controlling interests	23	(6,703)	-
Trade and other payables		(4,458)	(2,555)
Income tax payable		(607)	(142)
		<u>(25,527)</u>	<u>(14,845)</u>
Net current liabilities		<u>(18,481)</u>	<u>(10,080)</u>
Total assets less current liabilities		<u>97,214</u>	<u>95,482</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)*as at 31 December 2014*

	Note	2014 HK\$M	2013 HK\$M
Financed by:			
Equity			
Share capital	18	20,400	12,442
Share premium		-	7,958
Reserves	19		
- Proposed dividend		2,600	-
- Others		12,361	12,083
Shareholders' funds		<u>35,361</u>	<u>32,483</u>
Perpetual capital securities	20	5,791	-
Non-controlling interests		<u>2,036</u>	<u>-</u>
		<u>43,188</u>	<u>32,483</u>
Non-current liabilities			
Bank loans and other borrowings	21	33,340	26,073
Finance lease obligations	22	-	25,184
Deferred tax liabilities	25	12,881	8,038
Derivative financial instruments	17	1,815	1,673
Fuel clause account		2,966	1,464
Scheme of Control (SoC) reserve accounts	24	1,131	28
Asset decommissioning liabilities	24	1,082	539
Other non-current liabilities		811	-
		<u>54,026</u>	<u>62,999</u>
Equity and non-current liabilities		<u>97,214</u>	<u>95,482</u>

The notes on pages 15 to 64 are an integral part of these consolidated financial statements.

.....
William Mocatta
Chairman

13 February 2015

.....
Paul Poon
Managing Director

COMPANY STATEMENT OF FINANCIAL POSITION

as at 31 December 2014

	Note	2014 HK\$M	2013 HK\$M
Non-current assets			
Fixed assets	13(A)	96,659	93,329
Leasehold land under operating leases	13(B)	1,838	1,683
Interests in subsidiaries	15	23,831	162
Interests in joint ventures	16	-	9,272
Derivative financial instruments	17	684	1,091
		<u>123,012</u>	<u>105,537</u>
Current assets			
Inventory		34	32
Trade and other receivables		2,459	2,634
Derivative financial instruments	17	439	460
Current account with ultimate holding company		29	30
Current accounts with subsidiaries and fellow subsidiaries		32	50
Deposits, bank balances and cash		1,447	1,380
		<u>4,440</u>	<u>4,586</u>
Current liabilities			
Bank loans and other borrowings	21	(2,640)	(2,210)
Finance lease obligations	22	(1,980)	(2,763)
Customers' deposits		(4,652)	(4,503)
Derivative financial instruments	17	(264)	(218)
Current accounts with subsidiaries and fellow subsidiaries		(2,800)	(983)
Current accounts with joint ventures		-	(1,468)
Trade and other payables		(2,564)	(2,548)
Income tax payable		(525)	(139)
		<u>(15,425)</u>	<u>(14,832)</u>
Net current liabilities		<u>(10,985)</u>	<u>(10,246)</u>
Total assets less current liabilities		<u>112,027</u>	<u>95,291</u>

COMPANY STATEMENT OF FINANCIAL POSITION (CONTINUED)

as at 31 December 2014

	Note	2014 HK\$M	2013 HK\$M
Financed by:			
Equity			
Share capital	18	20,400	12,442
Share premium		-	7,958
Reserves	19		
- Proposed dividend		2,600	-
- Others		10,077	11,892
Shareholders' funds		<u>33,077</u>	<u>32,292</u>
Non-current liabilities			
Bank loans and other borrowings	21	37,936	26,073
Finance lease obligations	22	26,104	25,184
Deferred tax liabilities	25	8,439	8,038
Derivative financial instruments	17	1,815	1,673
Fuel clause account		2,966	1,464
Scheme of Control (SoC) reserve accounts	24	1,131	28
Asset decommissioning liabilities	24	539	539
Other non-current liabilities		20	-
		<u>78,950</u>	<u>62,999</u>
Equity and non-current liabilities		<u>112,027</u>	<u>95,291</u>

The notes on pages 15 to 64 are an integral part of these consolidated financial statements.

.....
William Mocatta
Chairman

13 February 2015

.....
Paul Poon
Managing Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2014

	Attributable to Shareholders				Perpetual Capital Securities HK\$M	Non- controlling Interests HK\$M	Total Equity HK\$M
	Share Capital HK\$M	Share Premium HK\$M	Reserves HK\$M	Total HK\$M			
Balance at 1 January 2013	12,442	7,958	10,245	30,645	-	-	30,645
Profit for the year	-	-	9,173	9,173	-	-	9,173
Other comprehensive income for the year	-	-	65	65	-	-	65
Dividends paid							
2012 final	-	-	(2,000)	(2,000)	-	-	(2,000)
2013 interim	-	-	(5,400)	(5,400)	-	-	(5,400)
Balance at 31 December 2013	<u>12,442</u>	<u>7,958</u>	<u>12,083</u>	<u>32,483</u>	<u>-</u>	<u>-</u>	<u>32,483</u>
Balance at 1 January 2014	12,442	7,958	12,083	32,483	-	-	32,483
Transition to no-par value regime (Note 18)	7,958	(7,958)	-	-	-	-	-
Acquisition of subsidiaries (Note 5)	-	-	-	-	-	2,170	2,170
Issue of perpetual capital securities (Note 20)	-	-	-	-	5,791	-	5,791
Profit for the year	-	-	9,828	9,828	152	549	10,529
Other comprehensive income for the year	-	-	(250)	(250)	-	-	(250)
Dividends paid							
2014 interim	-	-	(6,700)	(6,700)	-	-	(6,700)
Distributions to perpetual capital securities holders	-	-	-	-	(152)	-	(152)
Dividends paid to non-controlling interests of subsidiaries	-	-	-	-	-	(683)	(683)
Balance at 31 December 2014	<u>20,400</u>	<u>-</u>	<u>14,961</u>	<u>35,361</u>	<u>5,791</u>	<u>2,036</u>	<u>43,188</u>

The notes on pages 15 to 64 are an integral part of these consolidated financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2014

	Share Capital HK\$M	Share Premium HK\$M	Reserves HK\$M	Total HK\$M
Balance as at 1 January 2013	12,442	7,958	10,041	30,441
Total comprehensive income for the year	-	-	9,251	9,251
Dividends paid				
2012 final	-	-	(2,000)	(2,000)
2013 interim	-	-	(5,400)	(5,400)
Balance as at 31 December 2013	<u>12,442</u>	<u>7,958</u>	<u>11,892</u>	<u>32,292</u>
Balance as at 1 January 2014	12,442	7,958	11,892	32,292
Transition to no-par value regime (Note 18)	7,958	(7,958)	-	-
Total comprehensive income for the year	-	-	7,485	7,485
Dividends paid				
2014 interim	-	-	(6,700)	(6,700)
Balance as at 31 December 2014	<u>20,400</u>	<u>-</u>	<u>12,677</u>	<u>33,077</u>

The notes on pages 15 to 64 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2014

	Note	2014 HK\$M	2013 HK\$M
Operating activities			
Net cash inflow from operations	26	19,539	15,223
Dividends received from joint ventures		153	1,342
Income tax paid		(1,245)	(680)
Net cash inflow from operating activities		<u>18,447</u>	<u>15,885</u>
Investing activities			
Capital expenditure		(6,641)	(5,485)
Acquisition of subsidiaries	5	(8,172)	-
Addition of other intangible assets		(8)	-
Proceeds from sale of fixed assets and leasehold land		62	2,266
Capitalised interest paid		(210)	(177)
Investment in a joint venture		(611)	-
Increase in loans and advances to joint ventures		(1,189)	(88)
Net cash outflow from investing activities		<u>(16,769)</u>	<u>(3,484)</u>
Net cash inflow before financing activities		<u>1,678</u>	<u>12,401</u>
Financing activities			
Increase in short-term loans		1,547	-
Proceeds from long-term borrowings		8,939	1,595
Repayment of long-term borrowings		(2,250)	(5,185)
Repayment of finance lease obligations		(811)	(2,500)
Settlement of obligations under finance lease		(5,338)	-
Issue of perpetual capital securities		5,791	-
Interest paid		(1,735)	(3,597)
Interest received		82	12
Perpetual capital securities coupon interest paid		(115)	-
Repayment of advances from non-controlling interests		(336)	-
Dividends paid to shareholders		(6,700)	(7,400)
Dividends paid to non-controlling interests of a subsidiary		(683)	-
Net cash outflow from financing activities		<u>(1,609)</u>	<u>(17,075)</u>
Increase/(decrease) in cash and cash equivalents		69	(4,674)
Cash and cash equivalents at beginning of year		<u>1,380</u>	<u>6,054</u>
Cash and cash equivalents at end of year		<u>1,449</u>	<u>1,380</u>
Analysis of cash and cash equivalents			
Deposits, bank balances and cash		<u>1,449</u>	<u>1,380</u>
		<u>1,449</u>	<u>1,380</u>

The notes on pages 15 to 64 are an integral part of these consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The principal activity of the Company (“CLP Power”) continues to be the generation and supply of electricity. Particulars of the Company’s subsidiaries are set out in Note 15. The Company and its subsidiaries are collectively referred to as the “Group” in the financial statements.

The financial operations of CLP Power and Castle Peak Power Company Limited (collectively the “SoC Companies”) are governed by the Scheme of Control (SoC) entered with the Hong Kong Government. The current SoC Agreement took effect from 1 October 2008. The main features of the SoC agreements are summarised on pages 65 to 66.

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is 8 Laguna Verde Avenue, Hung Hom, Kowloon, Hong Kong.

2. SIGNIFICANT ACCOUNTING POLICIES**(A) 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 have been measured at fair value.

In accordance with the transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), “Accounts and Audit” as set out in sections 76 to 87 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), the consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Companies Ordinance (Cap. 32) for this financial year and the comparative period.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4 below.

(i) Adoption of amendments to standards effective 1 January 2014

The Group has adopted the following amendments to standards effective 1 January 2014 for the first time for the financial year beginning on 1 January 2014:

- Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities
- Amendments to HKAS 36 – Recoverable Amount Disclosures for Non-Financial Assets
- Annual Improvements to HKFRS 2010-2012 Cycle

The adoption of these revised HKFRS has had no significant impact to the results and financial position of the Group.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(A) Basis of Preparation (Continued)**

- (ii) New standards and amendments to standards that have been issued but are not yet effective

The following new standards and amendments to standards, which are potentially relevant to the Group's operations, have been issued and are mandatory for adoption by the Group for accounting periods beginning on or after 1 January 2015. The Group has not early adopted them:

- Amendments to HKFRS 11 Accounting for Acquisitions of Interests in Joint Operations
- Amendments to HKAS 28 and HKFRS 10 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- HKFRS 9 (2014) Financial Instruments
- HKFRS 15 Revenue from Contracts with Customers
- Annual Improvements to HKFRS 2011-2013 Cycle
- Annual Improvements to HKFRS 2012-2014 Cycle

HKFRS 9 (2014) introduces new requirements for classification and measurement of financial instruments, a new expected credit loss model that replaces the incurred loss impairment model used in HKAS 39, and a new hedge accounting model which represents a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in their financial statements. The adoption of HKFRS 9 (2014) may have an effect on the Group's impairment of financial assets and the application of hedge accounting.

Apart from the aforementioned, the adoption of these new standards and amendments to standards is not expected to have significant impact on the results and financial position of the Group.

(B) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to the 31 December and include the Group's interests in joint ventures on the basis as set out in Notes 2(C) and 2(D) below respectively.

Inter-company transactions and balances within the Group are eliminated on consolidation.

(C) Subsidiaries

Subsidiaries are all entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) Subsidiaries (Continued)

Acquisitions of subsidiaries are accounted for using the acquisition method of accounting. The consideration transferred for the acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the acquiree's identifiable net assets

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree plus the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired, is recorded as goodwill. If the purchase consideration is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

A subsidiary company is fully consolidated from the date on which control is transferred to the Group. It is deconsolidated from the date that control ceases.

Investments in subsidiaries together with advances from the Company which are neither planned nor likely to be settled in the foreseeable future, are carried on the statement of financial position of the Company at cost less provision for impairment. Provision for impairment in a subsidiary is made when the recoverable amount of the subsidiary is lower than the Company's respective cost of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(D) Joint Ventures

A joint venture is an arrangement in which the Company has joint control, whereby the Company has rights to the net assets of the arrangement, rather than rights to its assets and obligation for its liabilities. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Investments in joint ventures are accounted for using the equity method. They are initially recognised at cost. Subsequent to initial recognition, the consolidated financial statements include the Company's share of post-acquisition profit or loss and other comprehensive income, until the date on which joint control ceases. Distributions received from the joint ventures reduce the carrying amounts of the investments.

In the consolidated statement of financial position, interests in joint ventures comprise the carrying amounts of the investments and its net advances made to the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred.

Interests in the joint ventures in the statement of financial position of the Company are stated at cost and include the net advances made to the joint ventures, less provision for impairment. The results of joint ventures are accounted for by the Company on the basis of dividends received and receivable.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(E) Fixed Assets and Leasehold Land

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the fixed assets. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. For any asset replacement, the carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the year in which they are incurred.

Depreciation of fixed assets and amortisation of leasehold land is based on the rates which reflect the pattern in which the assets' economic benefits are consumed. With effect from 1 January 2014, the useful lives of the following fixed assets categories are extended after a review by the Group:

	<u>Original useful lives</u>	<u>Revised useful lives</u>
Building and civil structures other than at power stations	50 years	60 years
Overhead lines (33 kV and above)	50 years	60 years
Cables (132 kV and above)	55 years	60 years

- (i) In respect of the fixed assets and leasehold land commissioned before 1 January 2014, the net book values as at 31 December 2013 are being written off uniformly over the remainder of their useful lives as set out in (iii) below.
- (ii) Fixed assets and leasehold land commissioned on or after 1 January 2014 are depreciated/amortised on a straight-line basis over the useful lives as set out in (iii) below commencing from the date of commissioning.
- (iii) Useful lives of fixed assets and leasehold land under operating lease

Leasehold land	unexpired term of the lease
Cable tunnels	100 years
Buildings and civil structures at power stations	35 years
Ash lagoon	35 years
Other buildings and civil structures	60 years
Generating plant	25 years
Overhead lines (33 kV and above)	60 years
Overhead lines (below 33 kV)	45 years
Cables	60 years
Switchgear and transformers	50 years
Substation miscellaneous	25 years
Meters	15 years
System control equipment, furniture, tools, communication and office equipment	10 years
Computers and office automation equipment other than those forming part of the generating plant	5 years
Motor vehicles and marine craft	5 years
Refurbished or improved assets	Remaining original life plus any life extension

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(E) Fixed Assets and Leasehold Land (Continued)

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

The assets' residual values are reviewed and adjusted, if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(F) Leases

A contractual arrangement is to be treated as containing a lease if the fulfilment of the arrangement is dependent on the use of specific assets, and the arrangement conveys the right to use these specific assets to the purchaser. The right to use an asset is conveyed if the purchaser has the ability or right to operate or control physical access to the asset while obtaining or controlling more than an insignificant amount of the output of the asset, or it is remote that other parties will take more than an insignificant amount of the output and the price paid is neither contractually fixed per unit of output nor equal to current per unit market price as of the time of delivery of the output. Payments for services and the cost of inputs of the arrangement containing a lease are excluded from the calculation of minimum lease payments and are recognised as lease service payments.

(i) Finance lease

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at their commencement, at the lower of the fair value of the leased assets and the present value of the minimum lease payments, with corresponding liabilities recorded as obligations under finance leases.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance lease obligation outstanding. The finance charges are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The leased assets are depreciated over the shorter of the useful life of the assets as set out in 2(E)(iii) above or the lease term.

The power purchase agreement between CLP Power and Castle Peak Power Company Limited (CAPCO) was assessed to contain finance leases with effective interest rate being a variable rate which moves with reference to the return allowed under the SoC Agreement and accordingly, the finance charge has been treated as contingent rent. Contingent rent is recognised in profit or loss in the period in which it is incurred prior to the acquisition of CAPCO as a subsidiary (Note 5).

(ii) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases and the corresponding cumulative income/expense are amortised to profit or loss on a systematic basis representative of the time pattern of benefit derived from the use of the asset.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(G) Impairment of Non-Financial Assets

Non-financial assets that have indefinite useful lives are not subject to amortisation. They are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable and, in any case, at least annually. Non-financial assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). An impairment loss is recognised for the amount by which the carrying amount of an asset or a cash generating unit exceeds its recoverable amount. The recoverable amount is the higher of the fair value of an asset or a cash generating unit less costs of disposal and its value in use.

An impairment loss recognised in prior years for an asset other than goodwill is reversed when there is a favourable change in the estimates used to determine the recoverable amount of an asset. A reversal of the impairment loss is limited to the asset's carrying amount (net of accumulated amortisation or depreciation) that would have been determined had no impairment loss been recognised in prior years.

(H) Goodwill and Other Intangible Assets**(i) Goodwill**

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units (CGU), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Goodwill impairment reviews are undertaken at least annually or if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(ii) Other intangible assets

Intangible assets other than goodwill are measured initially at cost or, if acquired in a business combination, fair value at the acquisition date. An intangible asset with a finite useful life is amortised on a straight-line basis over its useful life and carried at cost less accumulated amortisation and accumulated impairment losses.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(I) Derivative Financial Instruments and Hedging Activities

A derivative is initially recognised at fair value on the date a derivative contract is entered into and is subsequently remeasured at its fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either hedges of the fair value of recognised financial assets or financial liabilities or firm commitment (fair value hedges) or hedges of the cash flows of recognised financial assets or financial liabilities or highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss, which offset any changes in the fair value recognised in profit or loss of the corresponding hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting or the hedge relationship is terminated, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit and loss over the period to maturity.

(ii) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit and loss. However, when the highly probable forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are reclassified from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is reclassified from equity to profit or loss in the same period when the hedged forecast cash flows ultimately affect profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that has been deferred in equity is immediately reclassified to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(I) Derivative Financial Instruments and Hedging Activities (Continued)****(iii) Derivatives not qualifying for hedge accounting**

Certain derivative financial instruments do not qualify for hedge accounting. Changes in the fair value of these derivative financial instruments are recognised immediately in profit or loss.

(J) Trade and Other Receivables

Trade and other receivables are classified as loans and receivables and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due after netting the relevant customer deposit balance held. Significant financial difficulties of the debtors, probability that the debtor will enter into bankruptcy or financial reorganisation, and default of payment by the debtors for more than 90 days are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The estimated future cash flows are calculated by reference to the historical past-due recovery pattern together with any relevant customers' deposits balances held. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against profit or loss.

(K) Inventory

Inventory comprises stores and fuel and is valued at the lower of cost and net realisable value. Cost for inventory is determined using the weighted average basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(L) Fuel Clause Account

The cost of fuel consumed is passed on to the customers. Any variations between the actual cost of fuel and the fuel cost billed to customers are captured in the Fuel Clause Account. The balance on the account (inclusive of interest) represents amounts over-recovered or under-recovered and is treated as an amount due to or from customers.

(M) Cash and Cash Equivalents

Cash and cash equivalents comprise cash at banks and on hand, demand deposits with banks and other financial institutions, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

(N) Trade and Other Payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(O) Current and Deferred Tax**

Income tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or equity, respectively.

The current tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the end of the reporting period in countries where the Company and its subsidiaries operate and generate taxable income.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax liability is settled. Deferred tax is also provided on temporary differences arising on investments in joint ventures, except where the timing of the reversal of temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(P) Borrowings and Interest

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition or issue of a financial liability. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is amortised to profit or loss or capitalised as cost of the qualifying assets over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liabilities for at least 12 months after the end of the reporting period.

Interest on borrowings arranged to finance the acquisition, construction or production of fixed assets is:

- (i) incorporated in capital expenditure during the period of time that is required to complete and prepare the assets for its intended use;
- (ii) charged to finance costs when incurred after commissioning.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(Q) Employee Benefits**(i) Retirement benefits**

The Company operates and participates in a defined contribution plan, the CLP Group Provident Fund Scheme (GPFS). It also participates in a Mandatory Provident Fund scheme administered by HSBC Life (International) Limited. These schemes are set up as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance. The assets of these schemes are held in separate trustee-administrated funds. The pension plans are funded by payments from employees and by the participating companies, and provide benefits linked to contributions and investment returns made on the plans.

Contributions to these defined contribution plans are recognised as an expense in profit or loss in the year in which they are incurred, except to the extent that they are capitalised as part of the cost of the qualifying assets. The Group has no further payment obligations once the contributions have been paid.

(ii) Incentive bonus and employee leave entitlement

Provisions are made for the estimated liability for incentive bonus and employee leave entitlement as a result of services rendered by employees up to the end of the reporting period, where there is a contractual obligation or past practice has created a constructive obligation.

(R) Revenue

Revenue primarily represents sales of electricity, and also includes other electricity-related revenue and adjustments for the SoC.

Sales of electricity are based on actual and accrued consumption during the year. Other revenue is recognised when services are rendered.

Interest income is recognised on a time proportion basis using the effective interest method.

(S) Foreign Currency

The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

Foreign currency transactions are translated into Hong Kong dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when deferred in equity as qualifying cash flow hedges.

For the purpose of consolidation, net assets of joint ventures that have a functional currency different from the Group's presentation currency are translated using the closing rate at the end of the reporting period; whilst share of results of joint ventures are translated at the average exchange rate for the reporting period. All resulting exchange differences are recognised in other comprehensive income and as a separate component of equity.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(T) Related Parties

Related parties are individuals and companies, including subsidiaries, fellow subsidiaries, joint ventures, associated companies and key management personnel, where the individual or company has the ability, directly or indirectly, to control or joint control the other party or exercise significant influence over the other party in making financial and operating decisions. A close family member of any such individual is considered to be a related party.

NOTES TO THE FINANCIAL STATEMENTS

3. FINANCIAL RISK MANAGEMENT

(A) Financial Risk Factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise the impact of exchange rate and interest rate fluctuations on the Group's electricity tariff and financial performance. The Group uses different derivative instruments to manage its exposure in these areas. All derivative instruments are employed solely for hedging purposes.

Risk management for the Group is carried out by its ultimate holding company's central treasury department (Group Treasury) under policies approved by the Board of Directors or the Finance & General Committee of the Company. The Group has written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and cash management.

(i) Foreign exchange risk

The Group's potential foreign currency exposures primarily arise from the Company's significant foreign currency obligations relating to its debts denominated in foreign currency, nuclear power purchase off-take commitments and other fuel-related payments.

Under the SoC, the Company and CAPCO is allowed to pass-through foreign exchange gains and losses arising from future commercial transactions and recognised liabilities which are denominated in a currency other than Hong Kong dollars, thus retaining no significant foreign exchange risk over the long term. The Group uses forward contracts and currency swaps to hedge all its debt repayment obligations denominated in foreign currencies for the full tenor, and a significant portion of its U.S. dollar obligations on fuel and nuclear power purchases, provided that for U.S. dollar the hedging can be accomplished at rates below the Hong Kong Government's historical target peg rate of HK\$7.8 : US\$1. The objective is to reduce the potential impact of foreign exchange movement on electricity tariffs.

At the end of the reporting period, the fair value movement of the derivative financial instruments in a cash flow hedge relationship is recorded in equity. The extent of the impact to the hedging reserve under equity due to exchange rate movements, with all other variables held constant, is as follows:

Group and Company	2014 HK\$M	2013 HK\$M
Impact to equity		
Hong Kong dollar against U.S. dollar		
If weakened by 0.6% (2013: 0.6 %)	292	364
If strengthened by 0.6% (2013: 0.6 %)	(292)	(364)
Hong Kong dollar against Japanese yen		
If weakened by 5.0% (2013: 5.0%)	49	45
If strengthened by 5.0% (2013: 5.0%)	(44)	(41)
Hong Kong dollar against Australian dollar		
If weakened by 10.0% (2013: 5.0%)	2	(3)
If strengthened by 10.0% (2013: 5.0%)	(1)	6

NOTES TO THE FINANCIAL STATEMENTS

3. FINANCIAL RISK MANAGEMENT (CONTINUED)**(A) Financial Risk Factors (Continued)****(i) Foreign exchange risk (Continued)**

This fluctuation in equity is a timing difference as when the exchange gain or loss is realised in profit or loss, the amount is recoverable under the SoC.

(ii) Interest rate risk

The Group's interest rate risk arises from debt borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk, whilst borrowings issued at fixed rates expose the Group to fair value interest rate risk. The risks are managed by maintaining an appropriate mix between fixed and floating rate borrowings, and by the use of interest rate swaps. The Group has determined a preferred fixed/floating interest rate mix appropriate for its business profile which is subject to annual review. As at 31 December 2014, 53% (2013: 72%) and 68% (2013: 72%) of the Group's and Company's borrowings were at fixed rates respectively.

The sensitivity analysis below presents the effects on the post-tax profit for the year (as a result of change in interest expense on floating rate borrowings) and equity (as a result of change in the fair value of derivative instruments which qualify as cash flow hedges). Such amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged items affect profit or loss, and offset one another in the profit or loss.

The analysis has been determined based on the exposure to interest rates for both derivative and non-derivative financial instruments at the end of the reporting period. For floating rate borrowings, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. The sensitivity to interest rates used is considered reasonable given the market forecasts available at the end of the reporting period and under the economic environments in which the Group operates, with all other variables held constant.

NOTES TO THE FINANCIAL STATEMENTS

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(A) Financial Risk Factors (Continued)

(ii) Interest rate risk (Continued)

Group	2014 HK\$M	2013 HK\$M
Hong Kong dollar		
If interest rates were 0.65% (2013: 0.2 %) higher		
Post-tax profit for the year	(96)	(14)
Equity – hedging reserve	4	2
If interest rates were 0.65% (2013: 0.2 %) lower		
Post-tax profit for the year	96	14
Equity – hedging reserve	<u>(4)</u>	<u>(2)</u>
Australian dollar		
If interest rates were 1.0% (2013: 0.5%) higher		
Post-tax profit for the year	-	-
Equity – hedging reserve	10	6
If interest rates were 1.0% (2013: 0.5%) lower		
Post-tax profit for the year	-	-
Equity – hedging reserve	<u>(10)</u>	<u>(6)</u>
Japanese yen		
If interest rates were 0.05% (2013: 0.05%) higher		
Post-tax profit for the year	-	-
Equity – hedging reserve	2	1
If interest rates were 0.05% (2013: 0.05%) lower		
Post-tax profit for the year	-	-
Equity – hedging reserve	<u>(2)</u>	<u>(1)</u>

NOTES TO THE FINANCIAL STATEMENTS

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(A) Financial Risk Factors (Continued)

(ii) Interest rate risk (Continued)

Company	2014 HK\$M	2013 HK\$M
Hong Kong dollar		
If interest rates were 0.65% (2013: 0.2 %) higher		
Post-tax profit for the year	(76)	(14)
Equity – hedging reserve	4	2
If interest rates were 0.65% (2013: 0.2 %) lower		
Post-tax profit for the year	76	14
Equity – hedging reserve	<u>(4)</u>	<u>(2)</u>
Australian dollar		
If interest rates were 1.0% (2013: 0.5%) higher		
Post-tax profit for the year	-	-
Equity – hedging reserve	10	6
If interest rates were 1.0% (2013: 0.5%) lower		
Post-tax profit for the year	-	-
Equity – hedging reserve	<u>(10)</u>	<u>(6)</u>
Japanese yen		
If interest rates were 0.05% (2013: 0.05%) higher		
Post-tax profit for the year	-	-
Equity – hedging reserve	2	1
If interest rates were 0.05% (2013: 0.05%) lower		
Post-tax profit for the year	-	-
Equity – hedging reserve	<u>(2)</u>	<u>(1)</u>

NOTES TO THE FINANCIAL STATEMENTS

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(A) Financial Risk Factors (Continued)

(iii) Credit risk

The Group has no significant concentrations of credit risk with respect to the sales of electricity as the customer base is widely dispersed in different sectors and industries. The Group has established a credit policy to allow electricity sale customers to settle their bills within two weeks after bill issuance. To limit the credit risk exposure, the Group has a policy to require cash deposits or bank guarantee from customers for an amount determined from time to time by reference to the usage of the customers, and in the normal course of events will not exceed the highest expected charge for 60 days. For all the deposits held, customers are paid a floating market interest rate equivalent to the HSBC bank saving rate. The customers' deposits are treated on the statement of financial position as current liabilities on the basis that they are repayable on demand.

As at 31 December 2014, HK\$130 million (2013: HK\$86 million) of the Group's trade receivables was past-due but not impaired, with HK\$43 million (2013: HK\$27 million) being past-due for more than 30 days. Those impaired trade receivables were captured under the allowance account which balance at 31 December 2014 amounted to HK\$4 million (2013: HK\$4 million).

On the treasury side, all finance-related hedging transactions and deposits of the Group are made with counterparties with good credit quality in conformance to the Group treasury policies to minimise credit exposure. Good credit ratings from reputable credit rating agencies is an important criterion in the selection of counterparties. The credit quality of counterparties will be closely monitored over the life of the transaction. The Group further assigns mark-to-market limits to its financial counterparties to limit credit risk concentrations relative to the underlying size and credit strength of each counterparty; and regularly monitors potential exposures to all counterparties utilising value-at-risk methodology.

The Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of the each financial asset, including trade and other receivables and derivative financial instruments, as reported in the statement of financial position.

(iv) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and making available an adequate amount of committed credit facilities with staggered maturities to reduce refinancing risk in any year and to fund working capital, debt servicing, dividend payments and capital investments. The Group maintains significant flexibility to respond to opportunities and events by ensuring that adequate committed credit lines are available to meet future funding requirements. Management also monitors rolling forecasts of the Group's undrawn borrowing facilities and cash and cash equivalents on the expected cash flow.

The following table analyses the remaining contractual maturities at the end of the reporting period of the non-derivative financial liabilities and derivative financial liabilities (both net settled and gross settled), which are based on contractual undiscounted cash flows:

NOTES TO THE FINANCIAL STATEMENTS

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(A) Financial Risk Factors (Continued)

(iv) Liquidity risk (Continued)

Group

	Within 1 year HK\$M	Between 1 and 2 years HK\$M	Between 2 to 5 years HK\$M	Over 5 years HK\$M	Total HK\$M
As at 31 December 2014					
Non-derivative financial liabilities					
Bank loans	6,351	7,252	3,765	-	17,368
Other borrowings	2,073	1,825	5,049	22,378	31,325
Customers' deposits	4,652	-	-	-	4,652
Fuel clause account	-	-	2,966	-	2,966
SoC reserve accounts	-	-	1,131	-	1,131
Asset decommissioning liabilities	-	-	1,082	-	1,082
Current accounts with fellow subsidiaries	1,332	-	-	-	1,332
Advances from non-controlling interests	6,703	-	-	-	6,703
Trade and other payables	4,458	-	-	-	4,458
	25,569	9,077	13,993	22,378	71,017
Derivative financial liabilities					
Net settled:					
Interest rate swaps	83	45	83	103	314
Gross settled:					
Forward foreign exchange contracts					
- Outflow	37,802	31,485	27,156	-	96,443
- Inflow	38,064	31,662	27,108	-	96,834
Cross currency & interest rate swaps					
- Outflow	459	1,448	3,700	16,474	22,081
- Inflow	538	1,327	3,331	15,601	20,797
As at 31 December 2013					
Non-derivative financial liabilities					
Bank loans	903	1,349	2,614	-	4,866
Other borrowings	2,277	2,180	4,691	22,771	31,919
Finance lease obligations	5,406	5,121	13,403	22,666	46,596
Customers' deposits	4,503	-	-	-	4,503
Fuel clause account	-	-	1,464	-	1,464
SoC reserve accounts	-	-	28	-	28
Asset decommissioning liabilities	-	-	539	-	539
Current accounts with fellow subsidiaries	983	-	-	-	983
Current accounts with joint ventures	1,471	-	-	-	1,471
Trade and other payables	2,555	-	-	-	2,555
	18,098	8,650	22,739	45,437	94,924

NOTES TO THE FINANCIAL STATEMENTS

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(A) Financial Risk Factors (Continued)

(iv) Liquidity risk (Continued)

Group

	Within 1 year HK\$M	Between 1 and 2 years HK\$M	Between 2 to 5 years HK\$M	Over 5 years HK\$M	Total HK\$M
As at 31 December 2013					
Derivative financial liabilities					
Net settled:					
Interest rate swaps	85	72	105	263	525
Gross settled:					
Forward foreign exchange contracts					
- Outflow	27,770	31,389	42,262	-	101,421
- Inflow	28,075	31,663	42,429	-	102,167
Cross currency & interest rate swaps					
- Outflow	427	436	2,690	17,593	21,146
- Inflow	541	542	2,534	16,394	20,011

Company

As at 31 December 2014

Non-derivative financial liabilities					
Bank loans	1,412	7,222	2,559	-	11,193
Other borrowings	2,283	2,072	11,612	22,378	38,345
Finance lease obligations	4,686	4,483	12,239	29,414	50,822
Customers' deposits	4,652	-	-	-	4,652
Fuel clause account	-	-	2,966	-	2,966
SoC reserve accounts	-	-	1,131	-	1,131
Asset decommissioning liabilities	-	-	539	-	539
Current accounts with subsidiaries and fellow subsidiaries					
	2,800	-	-	-	2,800
Trade and other payables	2,564	-	-	-	2,564
	18,397	13,777	31,046	51,792	115,012

Derivative financial liabilities

Net settled:

Interest rate swaps	83	45	83	103	314
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Gross settled:

Forward foreign exchange contracts

- Outflow	37,545	31,474	27,156	-	96,175
- Inflow	37,821	31,651	27,108	-	96,580

Cross currency & interest rate swaps

- Outflow	459	1,448	3,700	16,474	22,081
- Inflow	538	1,327	3,331	15,601	20,797

NOTES TO THE FINANCIAL STATEMENTS

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(A) Financial Risk Factors (Continued)

(iv) Liquidity risk (Continued)

Company	Within 1 year HK\$M	Between 1 and 2 years HK\$M	Between 2 to 5 years HK\$M	Over 5 years HK\$M	Total HK\$M
As at 31 December 2013					
Non-derivative financial liabilities					
Bank loans	903	1,349	2,614	-	4,866
Other borrowings	2,277	2,180	4,691	22,771	31,919
Finance lease obligations	5,406	5,121	13,403	22,666	46,596
Customers' deposits	4,503	-	-	-	4,503
Fuel clause account	-	-	1,464	-	1,464
SoC reserve accounts	-	-	28	-	28
Asset decommissioning liabilities	-	-	539	-	539
Current accounts with fellow subsidiaries	983	-	-	-	983
Current accounts with joint ventures	1,468	-	-	-	1,468
Trade and other payables	2,548	-	-	-	2,548
	18,088	8,650	22,739	45,437	94,914
Derivative financial liabilities					
Net settled:					
Interest rate swaps	85	72	105	263	525
Gross settled:					
Forward foreign exchange contracts					
- Outflow	27,770	31,389	42,262	-	101,421
- Inflow	28,075	31,663	42,429	-	102,167
Cross currency & interest rate swaps					
- Outflow	427	436	2,690	17,593	21,146
- Inflow	541	542	2,534	16,394	20,011

(B) Accounting for Derivative Financial Instruments and Hedging Activities

These are covered under the Significant Accounting Policies Note 2(I).

(C) Fair Value Estimation

The fair value of financial instruments that are not traded in an active market is determined by using appropriate valuation techniques and making assumptions that are based on market conditions existing at the end of each reporting period. A discounted cash flow method is used to determine the fair value of long-term borrowings. The fair value of forward foreign exchange contracts is calculated as the present value of expected future cash flows relating to the difference between the contract rates and the market forward rates at the end of the reporting period. In measuring swaps transactions, the fair value is the net present value of the estimated future cash flows discounted at the market quoted swap rates. The carrying amounts of all current financial assets and current financial liabilities approximate their fair values.

NOTES TO THE FINANCIAL STATEMENTS

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(D) Fair Value Hierarchy of Financial Instruments

HKFRS 7 requires disclosure for financial instruments that are measured at fair value by level of the following fair value measurement hierarchy:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the fair value hierarchy for those financial instruments carried at fair value in the statement of financial position at 31 December.

Group

	Level 1 HK\$M	Level 2 HK\$M	Level 3 HK\$M	Total HK\$M
As at 31 December 2014				
Assets				
Forward foreign exchange contracts	-	478	-	478
Cross currency & interest rate swaps	-	536	-	536
Interest rate swaps	-	109	-	109
	<u>-</u>	<u>1,123</u>	<u>-</u>	<u>1,123</u>
Liabilities				
Forward foreign exchange contracts	-	(104)	-	(104)
Cross currency & interest rate swaps	-	(1,720)	-	(1,720)
Interest rate swaps	-	(268)	-	(268)
	<u>-</u>	<u>(2,092)</u>	<u>-</u>	<u>(2,092)</u>
As at 31 December 2013				
Assets				
Forward foreign exchange contracts	-	772	-	772
Cross currency & interest rate swaps	-	560	-	560
Interest rate swaps	-	219	-	219
	<u>-</u>	<u>1,551</u>	<u>-</u>	<u>1,551</u>
Liabilities				
Forward foreign exchange contracts	-	(40)	-	(40)
Cross currency & interest rate swaps	-	(1,494)	-	(1,494)
Interest rate swaps	-	(357)	-	(357)
	<u>-</u>	<u>(1,891)</u>	<u>-</u>	<u>(1,891)</u>

NOTES TO THE FINANCIAL STATEMENTS

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(D) Fair Value Hierarchy of Financial Instruments (Continued)

Company

	Level 1 HK\$M	Level 2 HK\$M	Level 3 HK\$M	Total HK\$M
As at 31 December 2014				
Assets				
Forward foreign exchange contracts	-	478	-	478
Cross currency & interest rate swaps	-	536	-	536
Interest rate swaps	-	109	-	109
	-	1,123	-	1,123
Liabilities				
Forward foreign exchange contracts	-	(91)	-	(91)
Cross currency & interest rate swaps	-	(1,720)	-	(1,720)
Interest rate swaps	-	(268)	-	(268)
	-	(2,079)	-	(2,079)
As at 31 December 2013				
Assets				
Forward foreign exchange contracts	-	772	-	772
Cross currency & interest rate swaps	-	560	-	560
Interest rate swaps	-	219	-	219
	-	1,551	-	1,551
Liabilities				
Forward foreign exchange contracts	-	(40)	-	(40)
Cross currency & interest rate swaps	-	(1,494)	-	(1,494)
Interest rate swaps	-	(357)	-	(357)
	-	(1,891)	-	(1,891)

The Group's policy is to recognise transfers into/out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

During the year, there were no transfers between Level 1 and Level 2 of the fair value hierarchy.

NOTES TO THE FINANCIAL STATEMENTS

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(D) Fair Value Hierarchy of Financial Instruments (Continued)

The valuation technique and inputs used in the fair value measurements within Level 2 are as follows:

	Valuation technique	Significant inputs
Financial assets/liabilities		
Forward foreign exchange contracts	Discounted cash flow	Observable exchange rates
Cross currency interest rate swaps	Discounted cash flow	Observable exchange rates and swap rates of respective currency
Interest rate swaps	Discounted cash flow	Observable swap rates of respective currency

(E) Offsetting Financial Assets and Financial Liabilities

The following financial assets are subject to offsetting, enforceable master netting arrangements and similar agreements:

Group and Company

	Gross amounts of recognised financial assets HK\$M	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position HK\$M	Net amounts of financial assets included in the respective line of the consolidated statement of financial position HK\$M	Related amounts not set off in the consolidated statement of financial position		Net amount HK\$M
				Financial instruments HK\$M	Cash collateral received HK\$M	
At 31 December 2014						
Trade and other receivables	2,097	-	2,097	-	(2,097)	-
Derivative financial instruments	799	-	799	(745)	-	54
Total	<u>2,896</u>	<u>-</u>	<u>2,896</u>	<u>(745)</u>	<u>(2,097)</u>	<u>54</u>
At 31 December 2013						
Trade and other receivables	2,040	-	2,040	-	(2,040)	-
Derivative financial instruments	1,168	-	1,168	(955)	-	213
Total	<u>3,208</u>	<u>-</u>	<u>3,208</u>	<u>(955)</u>	<u>(2,040)</u>	<u>213</u>

NOTES TO THE FINANCIAL STATEMENTS

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(E) Offsetting Financial Assets and Financial Liabilities (Continued)

The following financial liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements:

Group and Company

	Gross amounts of recognised financial liabilities HK\$M	Gross amounts of recognised financial assets set off in the consolidated statement of financial position HK\$M	Net amounts of financial liabilities included in the respective line of the consolidated statement of financial position HK\$M	Related amounts not set off in the consolidated statement of financial position		Net amount HK\$M
				Financial instruments HK\$M	Cash collateral received HK\$M	
At 31 December 2014						
Customers' deposits	4,652	-	4,652	(2,097)	-	2,555
Derivative financial instruments	1,616	-	1,616	(745)	-	871
Total	<u>6,268</u>	<u>-</u>	<u>6,268</u>	<u>(2,842)</u>	<u>-</u>	<u>3,426</u>
At 31 December 2013						
Customers' deposits	4,503	-	4,503	(2,040)	-	2,463
Derivative financial instruments	1,575	-	1,575	(954)	-	621
Total	<u>6,078</u>	<u>-</u>	<u>6,078</u>	<u>(2,994)</u>	<u>-</u>	<u>3,084</u>

Note: For derivative financial instruments, the Group enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master agreements in which there is a set-off provision. Under certain circumstances, for example, when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, a termination value is then assessed and only a single net amount is payable in settlement of all transactions. The ISDA agreements do not meet the criteria for offsetting in the consolidated statement of financial position since the Group does not have any currently legally enforceable right to offset recognised amounts. The right to offset is enforceable only on the occurrence of future events such as a default on the bank transactions or other credit events.

For other financial instruments, the rights to offset are enforceable in the event of default of payments.

NOTES TO THE FINANCIAL STATEMENTS

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(F) Capital Management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern, maintain a strong credit rating and a healthy capital ratio to support its business and to enhance shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and business strategies. To maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders or raise and repay debts. The Group's capital management objectives, policies or processes were unchanged during 2013 and 2014.

The Group monitors capital using "total debt to total capital" ratio. This ratio at 31 December 2014 and 2013 were as follows:

	2014 HK\$M	2013 HK\$M
Total debt ^(a)	40,838	28,283
Total equity ^(b)	49,891	32,483
Total capital ^(c)	90,729	60,766
Total debt to total capital ratio	45.0%	46.5%

Notes:

- (a) Total debt equals to bank loans and other borrowings
- (b) Total equity equals to equity plus the advances from non-controlling interests
- (c) Total capital equals to total debt plus total equity

NOTES TO THE FINANCIAL STATEMENTS

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**(A) SoC-related Accounts**

As stipulated in the current SoC, the balances in the Tariff Stabilisation Fund and the Rate Reduction Reserve shall represent liabilities in the financial statements of CLP Power and shall not accrue to the benefit of its shareholders save as provided for by the SoC. CLP Power also has the obligation to maintain the Fuel Clause Account, which represents the difference between an agreed standard cost of fuel and the actual fuel costs.

The Group considers that CLP Power is required under the SoC to discharge its obligations arising from the SoC upon the expiry of the SoC Agreement such that these account balances meet the definition of a liability.

(B) Asset Impairment

The Group conducts impairment reviews of material non-financial assets whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. The Group also tests annually whether goodwill has suffered any impairment in accordance with the relevant accounting standards.

Determining whether an asset or a cash generating unit is impaired requires an estimation of the value in use, which requires the Group to estimate the future cash flows, a growth rate and a pre-tax discount rate in order to calculate the present value. Where the expected cash flows are less than the asset's carrying amount, an impairment loss may arise. During 2014, after reviewing the business environment as well as the Group's strategies and performances of the material non-financial assets, management concluded that there was no material impairment for goodwill and other long-lived assets. The latest annual impairment models for goodwill indicated that sufficient headroom (meaning the excess of the recoverable amount over carrying value) existed. It is considered that any reasonably possible changes in the assumptions used in the models would not affect the impairment assessment result at 2014 year end.

(C) Asset Retirement Obligations

CLP Power and CAPCO have been investing in the transmission and distribution network and power stations respectively to supply electricity to the customers in its supply area in Hong Kong. CLP Power and CAPCO expect that the land currently used for its transmission and distribution network and generation facilities will continue to be used for generation and distribution of electricity supply in order to maintain the electricity supply to the customers for the foreseeable future. It is considered remote that the transmission and distribution network and the power stations would be removed from the existing land sites. As such, an asset retirement obligation has not been recognised upfront in the respective financial statements of CLP Power and CAPCO in accordance with the requirements of accounting standards.

NOTES TO THE FINANCIAL STATEMENTS

5. BUSINESS COMBINATION

On 12 May 2014 the Group completed the acquisitions of further 30% interest in CAPCO and remaining 51% interests in Hong Kong Pumped Storage Development Company, Limited (PSDC).

The acquisitions were based on the agreements, signed on 19 November 2013, whereby (a) each of CLP Power and China Southern Power Grid International (HK) Co., Limited (CSG HK), a wholly-owned subsidiary of China Southern Power Grid Co., Limited (CSG) would acquire half of ExxonMobil Energy Limited (EMEL)'s 60% equity interest in, and associated shareholder's advances to, CAPCO; and (b) CLP Power would acquire all of EMEL's 51% equity interest in, and associated shareholder's advances to, PSDC. The acquisitions enabled the Group to consolidate its regulated businesses in Hong Kong and allowed it to exercise a greater degree of control over its generation activities.

The aggregate cash consideration is HK\$13,510 million (HK\$11,583 million for the CAPCO acquisition and HK\$1,927 million for the PSDC acquisition). The Group has carried out a consideration allocation exercise in accordance with HKFRS 3 (Revised) Business Combinations (HKFRS 3), which is illustrated as follows:

	CAPCO HK\$M	PSDC HK\$M
Settlement of a pre-existing finance lease payable by the Group to CAPCO	5,338	-
Acquisition of shareholder's advances from EMEL to CAPCO/PSDC	7,036	56
Acquisition of identifiable net assets and liabilities	<u>(791)</u>	<u>1,871</u>
	<u>11,583</u>	<u>1,927</u>

With respect to CAPCO, the consideration allocated to the settlement of a pre-existing finance lease payable of HK\$5,338 million is calculated as the difference between the fair value of the finance lease payable of HK\$34,076 million and its carrying amount of HK\$27,683 million, net of deferred tax of HK\$1,055 million. This amount of HK\$5,338 million is recognised in the Group's consolidated statement of profit or loss (Note 7).

The Group owned a 40% equity interest in CAPCO and a 49% equity interest in PSDC (Initial Equity Investments) before the acquisitions. The acquisitions of additional 30% equity interest in CAPCO and 51% equity interest in PSDC give the Group control over CAPCO and PSDC and thus CAPCO and PSDC have become subsidiaries of the Group from 12 May 2014. The acquisitions have been treated as "step acquisitions" under HKFRS 3.

According to HKFRS 3, a step acquisition is accounted for using the acquisition method of accounting, and the Initial Equity Investments are remeasured to fair value at the acquisition date and any gain or loss arising thereon is recognised in the statement of profit or loss. As such, the Initial Equity Investments are deemed to have been disposed of in return, together with the consideration transferred, for the total 70% equity interest in CAPCO and the total 100% equity interest in PSDC. The fair values of the Initial Equity Investments form one of the components to calculate goodwill, along with the consideration transferred and non-controlling interests, if any, less the fair value of the identifiable net assets of CAPCO and PSDC.

NOTES TO THE FINANCIAL STATEMENTS

5. BUSINESS COMBINATION (CONTINUED)

The aggregate fair value gains upon the deemed disposal of the Initial Equity Investments of HK\$7,363 million (HK\$5,599 million with respect to CAPCO and HK\$1,764 million with respect to PSDC) are recognised in the Group's consolidated statement of profit or loss (Note 7).

The following tables summarise the fair value of assets acquired and liabilities assumed from the acquisitions of CAPCO and PSDC respectively and the illustration of the acquisition method of accounting and the calculation of goodwill:

CAPCO

		Fair value HK\$M
Fixed assets		193
Leasehold land under operating leases		3,811
Finance lease receivable		34,076
Inventories – stores and fuel		2,291
Trade and other receivables		1,416
Trade and other payables		(24,684)
Income tax payable		(365)
Bank loans and other borrowings		(4,347)
Deferred tax liabilities		(4,590)
Other non-current liabilities		(566)
Net assets		<u>7,235</u>
	HK\$M	HK\$M
Consideration for 70% equity interest in CAPCO		
Cash consideration	(791)	
Fair value of existing 40% interest in joint venture ^(a)	<u>6,063</u>	
Total consideration for 70% equity interest in CAPCO		5,272
Non-controlling interests ^(b)		2,170
Less:		
Fair value of net assets	(7,235)	
Consolidation adjustment on settlement of the pre-existing finance lease and the associated deferred tax	<u>5,338</u>	
Fair value of net assets attributable to the Group		<u>(1,897)</u>
Goodwill ^(c)		<u>5,545</u>

Notes:

- (a) The fair value of existing 40% interest in CAPCO was implied from the consideration paid for the acquisition of the 30% interest of HK\$4,547 million (being the consideration of HK\$11,583 million less the amount paid for the acquisition of the shareholder's advances of HK\$7,036 million).
- (b) The Group recognised the non-controlling interest in CAPCO at the non-controlling interest's proportionate share of the fair value of CAPCO's identifiable net assets and liabilities as set out above.
- (c) Goodwill of HK\$5,545 million was recognised which represented the future economic benefits arising from assets acquired that are not currently individually identified and separately recognised. None of the goodwill recognised is expected to be deductible for income tax purposes.

NOTES TO THE FINANCIAL STATEMENTS

5. BUSINESS COMBINATION (CONTINUED)

PSDC

	Fair value HK\$M
Fixed assets	1
Intangible assets	5,607
Trade and other receivables	104
Trade and other payables	(113)
Income tax payable	(7)
Bank loans and other borrowings	(204)
Deferred tax liabilities	(893)
Other non-current liabilities	(826)
Net assets	<u>3,669</u>

	HK\$M	HK\$M
Consideration for 100% equity interest in PSDC		
Cash consideration	1,871	
Fair value of existing 49% interest in joint venture	<u>1,798</u>	
Total consideration for 100% equity interest in PSDC		3,669
Less: Fair value of net assets		<u>(3,669)</u>
Goodwill (note)		<u>-</u>

Note: The Group has determined that the consideration is equal to the fair value of the identifiable net assets of PSDC at the date of the acquisition and therefore no goodwill is recognised.

Acquisition-related costs charged to profit or loss (included in other operating expenses) totalled HK\$39 million, which comprised mainly stamp duty and legal and professional fees.

The respective business of CAPCO and PSDC have been integrated into the existing business of CLP Power through the electricity supply and pumped storage service arrangement with CLP Power and therefore no additional revenue is contributed by CAPCO and PSDC. The profit included in the consolidation statement of profit or loss from May 2014 to December 2014 contributed by the acquisitions was HK\$2,072 million.

Had CAPCO and PSDC been consolidated from 1 January 2014, the consolidated statement of profit or loss would have included profit of HK\$3,096 million.

NOTES TO THE FINANCIAL STATEMENTS

6. REVENUE

	2014 HK\$M	2013 HK\$M
Sales of electricity – Local	35,187	32,090
– Export	782	974
Other revenue	354	135
	<u>36,323</u>	<u>33,199</u>
Transfer for SoC (from)/to revenue (Note 24)	(1,020)	641
	<u>35,303</u>	<u>33,840</u>

7. OTHER INCOME

	2014 HK\$M	2013 HK\$M
Net gain on CAPCO and PSDC acquisitions (Note 5)		
Gain on deemed disposal of previously owned interests in joint ventures	7,363	-
Loss on settlement of a pre-existing finance lease payable	(5,338)	-
	<u>2,025</u>	<u>-</u>

8. OPERATING PROFIT

	2014 HK\$M	2013 HK\$M
Operating profit is stated after charging:		
Staff costs (A)		
Salaries and other costs	1,130	1,121
Retirement benefits costs		
- defined contribution plans including MPF scheme	108	106
Auditors' remuneration		
Audit	7	5
Permissible non-audit services	2	6
Net loss on disposal of fixed assets	263	156
Net fair value (gain)/loss on derivative financial instruments		
- Cash flow hedges, reclassified from equity to purchase of nuclear electricity, fuel and other net operating costs	(258)	(322)
- Transactions not qualifying as hedges	18	(84)
Net exchange loss	23	-
	<u>23</u>	<u>-</u>

(A) Staff costs include amounts recharged to subsidiaries and joint ventures.

NOTES TO THE FINANCIAL STATEMENTS

9. FINANCE COSTS AND INCOME

	2014 HK\$M	2013 HK\$M
Finance costs:		
Interest expenses on		
Bank loans and overdrafts	169	111
Other borrowings		
- wholly repayable within five years	215	240
- not wholly repayable within five years	561	564
Tariff Stabilisation Fund (A)	1	1
Customers' deposits and others	109	31
Finance charges under finance leases (B)	919	2,748
Other finance charges	69	19
Fair value loss/(gain) on derivative financial instruments		
- cash flow hedges, reclassify from equity	896	699
- fair value hedges	(530)	998
- not qualifying as hedges	(1)	(3)
- ineffectiveness of cash flow hedges	(5)	21
Loss/(gain) on hedged items in fair value hedges	517	(978)
Other net exchange gain	(747)	(583)
	<u>2,173</u>	<u>3,868</u>
Less: amount capitalised	(222)	(183)
	<u>1,951</u>	<u>3,685</u>
Finance income	<u>12</u>	<u>11</u>

(A) In accordance with the provisions of the SoC Agreements, CLP Power is required to credit, to a Rate Reduction Reserve in its financial statements, a charge of the average of one-month Hong Kong interbank offered rate on the average balance of the Tariff Stabilisation Fund under the SoC (Note 24).

(B) Finance charges under finance leases are all contingent rent in respect of the power purchase arrangement between CLP Power and CAPCO accounted for as finance lease before the acquisition of CAPCO as a subsidiary (Note 5).

10. INCOME TAX

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

	2014 HK\$M	2013 HK\$M
Current income tax – Hong Kong	1,299	533
– PRC	39	-
	<u>1,338</u>	<u>533</u>
Deferred tax – Hong Kong	501	470
– PRC	(36)	-
	<u>465</u>	<u>470</u>
	<u>1,803</u>	<u>1,003</u>

NOTES TO THE FINANCIAL STATEMENTS

10. INCOME TAX (CONTINUED)

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profit for the year. Income tax on profits assessable in the People's Republic of China (PRC) has been provided at the relevant prevailing rates.

The income tax on the Group's profit before income tax differs from the theoretical amount that would arise using the Hong Kong profits tax rate as follows:

	2014 HK\$M	2013 HK\$M
Profit before income tax (excluding share of results of joint ventures)	11,894	8,858
Calculated at an income tax rate of 16.5% (2013: 16.5%)	1,963	1,461
Income not subject to tax	(340)	(362)
Expenses not deductible for tax purposes	12	9
Revenue adjustment for SoC not subject to tax (Note 24)	168	(105)
Income tax expense	<u>1,803</u>	<u>1,003</u>

11. PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The profit attributable to shareholders of the Company is dealt with in the financial statements of the Company to the extent of HK\$7,736 million (2013: HK\$9,188 million).

12. DIVIDENDS

	2014		2013	
	HK\$ Per share	HK\$M	HK\$ Per share	HK\$M
Interim dividends paid	2.69	6,700	2.17	5,400
Final dividend proposed	1.04	2,600	-	-
	<u>3.73</u>	<u>9,300</u>	<u>2.17</u>	<u>5,400</u>

NOTES TO THE FINANCIAL STATEMENTS

13. FIXED ASSETS AND LEASEHOLD LAND

(A) Fixed Assets - Group

	Land		Buildings		Plant, Machinery and Equipment		Total HK\$M
	Leased HK\$M	Owned HK\$M	Leased ^(a) HK\$M	Owned HK\$M	Leased ^(a) HK\$M		
Net book value at							
1 January 2013	360	8,437	5,617	53,125	21,370	88,909	
Additions	-	780	363	4,896	3,097	9,136	
Transfers and disposals	(18)	(23)	(6)	(153)	(164)	(364)	
Depreciation	(9)	(187)	(358)	(1,826)	(1,972)	(4,352)	
Net book value at							
31 December 2013	<u>333</u>	<u>9,007</u>	<u>5,616</u>	<u>56,042</u>	<u>22,331</u>	<u>93,329</u>	
Cost	410	11,947	12,220	85,421	47,960	157,958	
Accumulated depreciation	(77)	(2,940)	(6,604)	(29,379)	(25,629)	(64,629)	
Net book value at							
31 December 2013	<u>333</u>	<u>9,007</u>	<u>5,616</u>	<u>56,042</u>	<u>22,331</u>	<u>93,329</u>	
Net book value at							
1 January 2014	333	9,007	5,616	56,042	22,331	93,329	
Acquisition of subsidiaries (Note 5)	-	67	-	127	-	194	
Additions	-	1,017	17	6,041	529	7,604	
Transfers and disposals	(6)	(54)	(41)	(326)	23	(404)	
Depreciation	(8)	(339)	(115)	(2,639)	(677)	(3,778)	
Reclassification from leased to owned assets	-	5,477	(5,477)	22,206	(22,206)	-	
Net book value at							
31 December 2014	<u>319</u>	<u>15,175</u>	<u>-</u>	<u>81,451</u>	<u>-</u>	<u>96,945</u>	
Cost	402	25,124	-	138,790	-	164,316	
Accumulated depreciation	(83)	(9,949)	-	(57,339)	-	(67,371)	
Net book value at							
31 December 2014	<u>319</u>	<u>15,175</u>	<u>-</u>	<u>81,451</u>	<u>-</u>	<u>96,945</u>	

- (a) These leased assets represent CAPCO's operational generating plants and associated fixed assets, which are deployed for the generation of electricity supplied to CLP Power under the Electricity Supply Contract between the two parties. This arrangement was accounted for as finance lease in accordance with requirement of HKFRS. Following the acquisition of CAPCO as a subsidiary (Note 5), the leased assets have been reclassified as owned assets.

NOTES TO THE FINANCIAL STATEMENTS

13. FIXED ASSETS AND LEASEHOLD LAND (CONTINUED)

(A) Fixed Assets - Company

	Land		Buildings		Plant, Machinery and Equipment		Total HK\$M
	Leased HK\$M	Owned HK\$M	Leased HK\$M	Owned HK\$M	Leased HK\$M		
Net book value at							
1 January 2013	360	8,437	5,617	53,125	21,370	88,909	
Additions	-	780	363	4,896	3,097	9,136	
Transfers and disposals	(18)	(23)	(6)	(153)	(164)	(364)	
Depreciation	(9)	(187)	(358)	(1,826)	(1,972)	(4,352)	
Net book value at							
31 December 2013	<u>333</u>	<u>9,007</u>	<u>5,616</u>	<u>56,042</u>	<u>22,331</u>	<u>93,329</u>	
Cost	410	11,947	12,220	85,421	47,960	157,958	
Accumulated depreciation	(77)	(2,940)	(6,604)	(29,379)	(25,629)	(64,629)	
Net book value at							
31 December 2013	<u>333</u>	<u>9,007</u>	<u>5,616</u>	<u>56,042</u>	<u>22,331</u>	<u>93,329</u>	
Net book value at							
1 January 2014	333	9,007	5,616	56,042	22,331	93,329	
Additions	-	837	158	4,577	1,936	7,508	
Transfers and disposals	(6)	(8)	(48)	(191)	(151)	(404)	
Depreciation	(8)	(160)	(291)	(1,848)	(1,467)	(3,774)	
Net book value at							
31 December 2014	<u>319</u>	<u>9,676</u>	<u>5,435</u>	<u>58,580</u>	<u>22,649</u>	<u>96,659</u>	
Cost	402	12,773	12,269	89,270	49,292	164,006	
Accumulated depreciation	(83)	(3,097)	(6,834)	(30,690)	(26,643)	(67,347)	
Net book value at							
31 December 2014	<u>319</u>	<u>9,676</u>	<u>5,435</u>	<u>58,580</u>	<u>22,649</u>	<u>96,659</u>	

NOTES TO THE FINANCIAL STATEMENTS

13. FIXED ASSETS AND LEASEHOLD LAND (CONTINUED)

(B) Leasehold Land under Operating Leases

The prepayment for the interest in leasehold land under operating lease is analysed as follows:

	Group		Company	
	2014 HK\$M	2013 HK\$M	2014 HK\$M	2013 HK\$M
Net book value at 1 January	1,683	1,722	1,683	1,722
Acquisition of subsidiaries (Note 5)	3,811	-	-	-
Additions	203	3	200	3
Transfers and disposals	-	-	-	-
Amortisation	(126)	(42)	(45)	(42)
Net book value at 31 December	<u>5,571</u>	<u>1,683</u>	<u>1,838</u>	<u>1,683</u>
Cost	6,087	2,073	2,273	2,073
Accumulated amortisation	(516)	(390)	(435)	(390)
Net book value at 31 December	<u>5,571</u>	<u>1,683</u>	<u>1,838</u>	<u>1,683</u>

(C) Tenure of leasehold land under finance and operating leases

	Group		Company	
	2014 HK\$M	2013 HK\$M	2014 HK\$M	2013 HK\$M
Held in Hong Kong:				
On long-term lease (over 50 years)	117	120	117	120
On medium-term lease (10-50 years)	5,768	1,890	2,035	1,890
On short-term lease (less than 10 years)	5	6	5	6
	<u>5,890</u>	<u>2,016</u>	<u>2,157</u>	<u>2,016</u>

NOTES TO THE FINANCIAL STATEMENTS

14. GOODWILL AND INTANGIBLE ASSETS

	Goodwill ^(a) HK\$M	Capacity right ^(b) HK\$M	Total HK\$M
Net carrying value at 1 January 2014	-	-	-
Acquisition of subsidiaries (Note 5)	5,545	5,607	11,152
Additions	-	8	8
Amortisation	-	(181)	(181)
Net carrying value at 31 December 2014	<u>5,545</u>	<u>5,434</u>	<u>10,979</u>
Cost	5,545	5,615	11,160
Accumulated amortisation	-	(181)	(181)
Net carrying value at 31 December 2014	<u>5,545</u>	<u>5,434</u>	<u>10,979</u>

Notes

- (a) Goodwill arose from the acquisition of CAPCO (Note 5) during the year. In accordance with the Group's accounting policies, the Group has assessed the recoverable amount of goodwill for the corresponding cash generating units and determined that such goodwill has not been impaired. The recoverable amount of the cash generating units tested for impairment has been determined based on value in use calculations. The value in use calculations use cash flow projections as at 31 December 2014 based on an approved Business Plan which has a forecast covering a period of ten years and necessary updates. Projections for a period of greater than five years have been used on the basis that a longer projection period represents the long dated nature of our electricity supply assets and a more appropriate reflection of future cash flows from anticipated legislative, regulatory and structural changes in the industry.

The key assumptions used in the value in use calculations are as follows:

- Goodwill arising from CAPCO acquisition has been allocated to CLP Power and CAPCO combined cash generating unit as the acquisition is considered beneficial to the whole Scheme of Control business.
 - The electricity tariff for the supply of electricity in meeting the demand of customers in Hong Kong over the forecast periods is determined with reference to the rate-setting mechanism under the Scheme of Control.
 - The forecast for electricity demand is based on the load forecast to support local infrastructure development and meeting customer load requirements, maintaining safety and supply reliability, and meeting environmental requirements.
 - Expenditures for the supply of electricity in meeting the forecast demand are based on committed purchase contracts where applicable, and inputs on costs trend as specific to the electricity business in Hong Kong. Such forecast aligns with the projection in the Business Plan for our Hong Kong electricity business, with capital expenditures for the period 2014 to 2018 aligned with those forecasted in the approved development plan.
 - Terminal value of the cash-generating unit is adopted to estimate the cash flows to be generated for the periods beyond ten years. This is expressed as a multiple of net asset values which corresponds to our return model based on fixed assets investment. The terminal value is a multiple of 1.2 times of the net asset values forecasted as at the end of 2024.
 - The cash flow projections are discounted using a pre-tax discount rate of 12.05%, or a post-tax return of 9.99% which reflects the Scheme of Control return rate applicable to the electricity business in Hong Kong.
- (b) Capacity right represents the right to use 50% of the pumped storage capacity of Phase 1 of the Guangzhou Pumped Storage Power Station in Conghua, Guangzhou and the corresponding right to use the associated transmission facilities until 2034. Such right was acquired through the PSDC acquisition in May 2014 (Note 5).

NOTES TO THE FINANCIAL STATEMENTS

15. INTERESTS IN SUBSIDIARIES

	2014 HK\$M	2013 HK\$M
Unlisted shares, at cost	6,443	-
Advances to subsidiaries	17,388	162
	<u>23,831</u>	<u>162</u>

The advances to subsidiaries are unsecured, interest-free and have no fixed terms and are considered equity in nature.

The subsidiaries of the Company at 31 December 2014 are as follows:

Name	Issued Share Capital	Percentage of Issued Share Directly Held	Place of Incorporation and Kind of Legal Entity	Principal Activity
Castle Peak Power Company Limited	HK\$50,000,000	70% ^(note)	Hong Kong / Limited liability company	Generation and sale of electricity
Hong Kong Pumped Storage Development Company, Limited	HK\$10,000,000	100% ^(note)	Hong Kong / Limited liability company	Provision of pumped storage services
CLP Power Hong Kong Financing Limited	1 ordinary share of US\$1	100%	British Virgin Islands / Limited liability company	Acting as the issuer of U.S.\$4,500,000,000 Medium Term Note Programme
CLP Energy Infrastructure Limited	HK\$1,000	100%	Hong Kong / Limited liability company	Investment in energy infrastructure projects
CLP Power HK Finance Ltd. (incorporated on 9 April 2014)	1 ordinary share of US\$1	100%	British Virgin Islands / Limited liability company	Provision of financial services

(Note) CAPCO and PSDC have become subsidiaries of the Group after the acquisition of additional 30% interest in CAPCO and 51% equity interest in PSDC on 12 May 2014 (Note 5).

NOTES TO THE FINANCIAL STATEMENTS

15. INTERESTS IN SUBSIDIARIES (CONTINUED)

Summarised financial information of CAPCO which has material non-controlling interests is set out below:

	HK\$M
Results for the year	
Revenue	15,510
Profit for the year	3,115
Total comprehensive income for the year	<u>3,113</u>
Dividends paid to non-controlling interests	<u>683</u>
Net assets	
Non-current assets	29,262
Current assets	5,820
Current liabilities	(28,926)
Non-current liabilities	<u>(5,186)</u>
	<u>970</u>
Cash flows	
Net cash inflow from operation activities	3,346
Net cash outflow from investment activities	(20)
Net cash outflow from financing activities	<u>(3,326)</u>
Net change in cash and cash equivalents	<u>-</u>

16. INTERESTS IN JOINT VENTURES

	Group		Company	
	2014 HK\$M	2013 HK\$M	2014 HK\$M	2013 HK\$M
Castle Peak Power Company Limited				
Unlisted shares, at costs	-	-	-	20
Share of net assets	-	199	-	-
Advances	-	9,178	-	9,178
	<u>-</u>	<u>9,377</u>	<u>-</u>	<u>9,198</u>
Hong Kong Pumped Storage Development Company, Limited				
Unlisted shares, at costs	-	-	-	5
Share of net assets	-	13	-	-
Advances	-	69	-	69
	<u>-</u>	<u>82</u>	<u>-</u>	<u>74</u>
ShenGang Natural Gas Pipeline Company Limited				
Unlisted shares, at costs	-	-	-	-
Share of net assets	611	-	-	-
Loans	905	-	-	-
	<u>1,516</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>1,516</u>	<u>9,459</u>	<u>-</u>	<u>9,272</u>

NOTES TO THE FINANCIAL STATEMENTS

16. INTERESTS IN JOINT VENTURES (CONTINUED)

ShenGang Natural Gas Pipeline Company Limited (SNGPL) is incorporated in the PRC and is 40% owned by the Company's wholly owned subsidiary, CLP Energy Infrastructure Limited. SNGPL owns and operates the Second West-East Natural Gas Pipeline Hong Kong Branch Line which transports natural gas from Shenzhen to Hong Kong.

The loans to SNGPL are unsecured, interest bearing and with final maturity in September 2022. The current portion of the loans to SNGPL of HK\$94 million was included in other receivables in the statement of financial position.

Summarised financial information and the Group's share of the net assets and capital commitments in joint ventures as at 31 December and its share of the profits for the year then ended are as follows:

	2014				2013		
	CAPCO ^(a) HK\$M	PSDC ^(a) HK\$M	SNGPL HK\$M	Total HK\$M	CAPCO HK\$M	PSDC HK\$M	Total HK\$M
Revenue	4,539	153	51	4,743	14,865	445	15,310
Depreciation and amortisation	(28)	(13)	(23)	(64)	(83)	(39)	(122)
Interest expenses	(5)	(1)	(7)	(13)	(16)	(4)	(20)
Other expenses	(3,268)	(59)	(29)	(3,356)	(11,042)	(173)	(11,215)
Profit/(loss) before income tax	1,238	80	(8)	1,310	3,724	229	3,953
Income tax (expense)/credit	(211)	(20)	2	(229)	(638)	(57)	(695)
Profit/(loss) for the year	1,027	60	(6)	1,081	3,086	172	3,258
Other comprehensive income	(2)	-	-	(2)	4	-	4
Total comprehensive income	1,025	60	(6)	1,079	3,090	172	3,262
Group's share							
Profit/(loss) for the year	411	29	(2)	438	1,234	84	1,318
Other comprehensive income	(1)	-	-	(1)	2	-	2
Total comprehensive income	410	29	(2)	437	1,236	84	1,320
Dividends from joint ventures	145	8	-	153	1,258	84	1,342

(a) Share of results of CAPCO and PSDC was for the period prior to their acquisition as subsidiaries (Note 5).

	2014		2013		
	SNGPL HK\$M	Total HK\$M	CAPCO HK\$M	PSDC HK\$M	Total HK\$M
Non-current assets	4,016	4,016	28,346	1,112	29,458
Cash and cash equivalents	325	325	-	-	-
Other current assets	33	33	6,476	126	6,602
Current financial liabilities (excluding trade and other payables)	(235)	(235)	(28,023)	(271)	(28,294)
Other current liabilities	(347)	(347)	(1,516)	(26)	(1,542)
Non-current financial liabilities (excluding trade and other payables)	(2,264)	(2,264)	(800)	(110)	(910)
Other non-current liabilities	(1)	(1)	(3,987)	(804)	(4,791)
Net assets	1,527	1,527	496	27	523
Group's share of net assets	611	611	199	13	212
			2014 HK\$M	2013 HK\$M	
Share of capital commitment			-	884	

NOTES TO THE FINANCIAL STATEMENTS

17. DERIVATIVE FINANCIAL INSTRUMENTS

Group

	2014		2013	
	Assets HK\$M	Liabilities HK\$M	Assets HK\$M	Liabilities HK\$M
Cash flow hedge				
Forward foreign exchange contracts	398	42	668	22
Cross currency and interest rate swaps	396	1,304	379	632
Interest rate swaps	54	122	124	92
Fair value hedge				
Cross currency and interest rate swaps	140	416	181	862
Interest rate swaps	18	122	18	191
Held for trading or not qualify as hedges				
Forward foreign exchange contracts	80	62	104	18
Interest rate swaps	37	24	77	74
	<u>1,123</u>	<u>2,092</u>	<u>1,551</u>	<u>1,891</u>
Analysed as:				
Current	439	277	460	218
Non-current	684	1,815	1,091	1,673
	<u>1,123</u>	<u>2,092</u>	<u>1,551</u>	<u>1,891</u>

Company

	2014		2013	
	Assets HK\$M	Liabilities HK\$M	Assets HK\$M	Liabilities HK\$M
Cash flow hedge				
Forward foreign exchange contracts	398	42	668	22
Cross currency and interest rate swaps	396	1,304	379	632
Interest rate swaps	54	122	124	92
Fair value hedge				
Cross currency and interest rate swaps	140	416	181	862
Interest rate swaps	18	122	18	191
Held for trading or not qualify as hedges				
Forward foreign exchange contracts	80	49	104	18
Interest rate swaps	37	24	77	74
	<u>1,123</u>	<u>2,079</u>	<u>1,551</u>	<u>1,891</u>
Analysed as:				
Current	439	264	460	218
Non-current	684	1,815	1,091	1,673
	<u>1,123</u>	<u>2,079</u>	<u>1,551</u>	<u>1,891</u>

The notional principal amounts of the outstanding derivative financial instruments are as follows:

	Group		Company	
	2014 HK\$M	2013 HK\$M	2014 HK\$M	2013 HK\$M
Forward foreign exchange contracts	96,560	101,580	96,292	101,508
Interest rate swaps/cross currency interest rate swaps	<u>24,939</u>	<u>23,179</u>	<u>24,939</u>	<u>23,179</u>

NOTES TO THE FINANCIAL STATEMENTS

17. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The maximum exposure to credit risk at the reporting date is the carrying value of the financial instruments.

The net fair value and remaining terms of the derivative financial instruments are set out below:

	Group		Company	
	2014 HK\$M	2013 HK\$M	2014 HK\$M	2013 HK\$M
Forward foreign exchange contracts				
Within one year	250	298	263	298
Between one and two years	170	272	170	272
Between two and five years	(46)	162	(46)	162
	<u>374</u>	<u>732</u>	<u>387</u>	<u>732</u>
Cross currency and interest rate swaps / interest rate swaps				
Within one year	(88)	(56)	(88)	(56)
Between one and two years	(157)	50	(157)	50
Between two and five years	(377)	(157)	(377)	(157)
After five years	(721)	(909)	(721)	(909)
	<u>(1,343)</u>	<u>(1,072)</u>	<u>(1,343)</u>	<u>(1,072)</u>

As at 31 December 2014, the derivative financial instruments qualifying as cash flow hedges have a maturity of up to 13 years (2013: 14 years) from the end of the reporting period. The maturities of the derivative financial instruments used for hedging will correlate to the timing of the cash flows associated with the corresponding hedged items. Gains and losses recognised in the hedging reserve in equity on forward foreign exchange contracts as of 31 December 2014 are to be recognised in profit or loss in the period or periods during which the hedged item affects profit or loss. Gains or losses recognised in the hedging reserve in equity on cross currency and interest rate swap/interest rate swap contracts as of 31 December 2014 will be continuously reclassified to profit or loss until the repayment of the bank loans and other borrowings and the expiry of the derivative contracts.

18. SHARE CAPITAL

	2014		2013	
	Number of Ordinary Shares	HK\$M	Number of Ordinary Shares	HK\$M
Authorised (Note)	-	-	3,900,000,000	19,500
Issued and fully-paid				
At 1 January	2,488,320,000	12,442	2,488,320,000	12,442
Transfer from share premium (Note)	-	7,958	-	-
At 31 December	<u>2,488,320,000</u>	<u>20,400</u>	<u>2,488,320,000</u>	<u>12,442</u>

Note: Under the Hong Kong Companies Ordinance (Cap. 622), which came into force on 3 March 2014, the concept of authorised share capital no longer exists. In accordance with the said Ordinance, the Company's shares no longer have a par or nominal value. There is no impact on the number of shares in issue or the relative entitlement of any of the shareholders as a result of this transition. In addition, in accordance with the transitional provisions set out in section 37 of Schedule 11 to the said Ordinance, any amount standing to the credit of the share premium account has become part of the Company's share capital.

NOTES TO THE FINANCIAL STATEMENTS

19. RESERVES

Group

	Translation Reserves HK\$M	Hedging Reserves HK\$M	Retained Profits ^(a) HK\$M	Total HK\$M
Balance at 1 January 2013	-	811	9,434	10,245
Earnings attributable to shareholders	-	-	9,173	9,173
Other comprehensive income				
Cash flow hedges	-	63	-	63
Share of other comprehensive income of joint ventures	-	2	-	2
Total comprehensive income attributable to shareholders	-	65	9,173	9,238
Dividends paid				
2012 final	-	-	(2,000)	(2,000)
2013 interim	-	-	(5,400)	(5,400)
Balance at 31 December 2013	-	876	11,207	12,083
Balance at 1 January 2014	-	876	11,207	12,083
Earnings attributable to shareholders	-	-	9,828	9,828
Other comprehensive income				
Exchange differences on translation of a joint venture	2	-	-	2
Cash flow hedges	-	(251)	-	(251)
Share of other comprehensive income of joint ventures	-	(1)	-	(1)
Total comprehensive income attributable to shareholders	2	(252)	9,828	9,578
Dividends paid				
2014 interim	-	-	(6,700)	(6,700)
Balance at 31 December 2014	2	624	14,335	14,961

Company

	Hedging Reserves HK\$M	Retained Profits ^(b) HK\$M	Total HK\$M
Balance at 1 January 2013	812	9,229	10,041
Total comprehensive income for the year	63	9,188	9,251
Dividends paid			
2012 final	-	(2,000)	(2,000)
2013 interim	-	(5,400)	(5,400)
Balance at 31 December 2013	875	11,017	11,892
Balance at 1 January 2014	875	11,017	11,892
Total comprehensive income for the year	(251)	7,736	7,485
Dividends paid			
2014 interim	-	(6,700)	(6,700)
Balance at 31 December 2014	624	12,053	12,677

Notes

- (a) The proposed final dividend as at 31 December 2014 was HK\$2,600 million (2013: nil). The balance of consolidated retained profits after proposed final dividend was HK\$11,735 million (2013: HK\$11,207 million).
- (b) The balance of Company's retained profits after proposed final dividend was HK\$9,453 million (2013: HK\$11,017 million).
- (c) The Company's retained profits as at 31 December 2014 and 2013 included an amount of HK\$104 million being the difference between the deferred taxation provision on accelerated tax depreciation using enacted tax rate at the end of the reporting period under HKFRS, and that amount calculated using tax rate applicable to each respective year under the Scheme of Control. Such amount of profit shall be retained within the Company until it may be required to pay tax and is therefore not to be distributed.

NOTES TO THE FINANCIAL STATEMENTS

20. PERPETUAL CAPITAL SECURITIES

During the year, the Group issued a total of US\$750 million perpetual capital securities through its wholly owned subsidiary, CLP Power HK Finance Ltd. The securities are perpetual, non-callable in the first 5.5 years and entitle the holders to receive distributions at a distribution rate of 4.25% per annum in the first 5.5 years, floating thereafter and with fixed step up margins at year 10.5 and at year 25.5, payable semi-annually in arrears, cumulative and compounding. The distributions are at the Group's discretion, if the issuer and CLP Power, as guarantor of the securities, do not (a) declare or pay dividends to their shareholders or (b) cancel or reduce their share capitals within each distribution payment period. As the perpetual capital securities do not contain any contractual obligation to pay cash or other financial assets, in accordance with HKAS 32, they are classified as equity.

21. BANK LOANS AND OTHER BORROWINGS

	Group		Company	
	2014 HK\$M	2013 HK\$M	2014 HK\$M	2013 HK\$M
Current				
Short-term bank loans	3,988	-	-	-
Current portion of				
- Long-term bank loans	2,170	830	1,300	830
- Notes under MTN programme (A)	1,340	1,380	-	-
- Loans from CLP Power Hong Kong Financing Limited (A)	-	-	1,340	1,380
	<u>7,498</u>	<u>2,210</u>	<u>2,640</u>	<u>2,210</u>
Non-current				
- Long-term bank loans	10,814	3,835	9,614	3,835
- Notes under MTN programme (A)	22,526	22,238	-	-
- Loans from CLP Power Hong Kong Financing Limited (A)	-	-	22,526	22,238
- Loans from CLP Power HK Finance Ltd. (B)	-	-	5,796	-
	<u>33,340</u>	<u>26,073</u>	<u>37,936</u>	<u>26,073</u>
Total bank loans and other borrowings	<u>40,838</u>	<u>28,283</u>	<u>40,576</u>	<u>28,283</u>

(A) In 2002, the Company set up a US\$1.5 billion Medium Term Note Programme (the Programme) through its wholly-owned subsidiary CLP Power Hong Kong Financing Limited (the subsidiary) to raise financing for the Company. The amount of the Programme was increased to US\$2.5 billion in 2009 and was further increased to US\$3.5 billion in 2011. In 2013, the Programme was further increased to US\$4.5 billion. Under an inter-company lending arrangement, the Company unconditionally and irrevocably guarantees all the obligations of the subsidiary in respect of notes issued under the Programme. In return, all proceeds from any issuance of notes under the Programme are lent onward to the Company at the same interest rates and terms as those notes issued by the subsidiary, and the Company reimburses the subsidiary any related expenses incurred.

(B) In 2014, the Company issued a total of US\$750 million perpetual capital securities through its wholly owned subsidiary, CLP Power HK Finance Ltd., to raise financing for the Company (Note 20). The loans from CLP Power HK Finance Ltd. represent the lending of the proceeds from such securities issuances through an inter-company lending arrangement at terms which substantially reflects the terms of the securities.

NOTES TO THE FINANCIAL STATEMENTS

21. BANK LOANS AND OTHER BORROWINGS (CONTINUED)

As at 31 December 2014, bank loans and other borrowings were repayable as follows:

Group

	Bank Loans		Other Borrowings		Total	
	2014 HK\$M	2013 HK\$M	2014 HK\$M	2013 HK\$M	2014 HK\$M	2013 HK\$M
Within one year	6,158	830	1,340	1,380	7,498	2,210
Between one and two years	7,128	1,300	1,000	1,340	8,128	2,640
Between two and five years	3,686	2,535	2,741	2,450	6,427	4,985
After five years	-	-	18,785	18,448	18,785	18,448
	<u>16,972</u>	<u>4,665</u>	<u>23,866</u>	<u>23,618</u>	<u>40,838</u>	<u>28,283</u>

Company

	Bank Loans		Other Borrowings		Total	
	2014 HK\$M	2013 HK\$M	2014 HK\$M	2013 HK\$M	2014 HK\$M	2013 HK\$M
Within one year	1,300	830	1,340	1,380	2,640	2,210
Between one and two years	7,128	1,300	1,000	1,340	8,128	2,640
Between two and five years	2,486	2,535	2,741	2,450	5,227	4,985
After five years	-	-	24,581	18,448	24,581	18,448
	<u>10,914</u>	<u>4,665</u>	<u>29,662</u>	<u>23,618</u>	<u>40,576</u>	<u>28,283</u>

The bank loans and other borrowings before swapping arrangements are denominated in the following currencies:

	Group		Company	
	2014 HK\$M	2013 HK\$M	2014 HK\$M	2013 HK\$M
Hong Kong dollar	24,923	14,055	18,865	14,055
U. S. dollar	10,731	10,295	16,527	10,295
Japanese yen	4,486	3,174	4,486	3,174
Australian dollar	698	759	698	759
	<u>40,838</u>	<u>28,283</u>	<u>40,576</u>	<u>28,283</u>

NOTES TO THE FINANCIAL STATEMENTS

21. BANK LOANS AND OTHER BORROWINGS (CONTINUED)

With the swapping of the borrowings denominated in the above foreign currencies to Hong Kong dollars, all the loans and borrowings are effectively denominated in Hong Kong dollars.

The effective interest rates of the loans and other borrowings at the balance sheet date were as follows:

	Group		Company	
	2014 HK\$M	2013 HK\$M	2014 HK\$M	2013 HK\$M
Fixed rate loans and loans swapped to fixed rates	1.7% - 4.8%	1.8% - 4.9%	1.7% - 4.8%	1.8% - 4.9%
Variable rate loans and loans swapped from fixed rates	0.7% - 2.1%	1.0% - 2.1%	0.7% - 2.1%	1.0% - 2.1%

As at 31 December 2014, the proportion of total borrowings with interest rates fixed to maturity was 53% (2013: 72%) for the Group, and was 68% (2013: 72%) for the Company.

The fair value of bank loans and other borrowings approximate to their carrying amounts. The fair value of long-term borrowings is determined using the expected future payments discounted at market interest rates prevailing at the year end.

22. FINANCE LEASE OBLIGATIONS

The obligations under finance leases arose from the power purchase arrangement between CLP Power and CAPCO in respect of the operational generating plant and associated fixed assets, which are accounted for as finance leases in accordance with HKFRS. The finance lease obligation for the Group was settled on acquisition of CAPCO as a subsidiary in 2014 (Note 5).

The commitments and present value of the Company's finance lease obligations under finance leases in relation to the operational generating plants and associated assets from CAPCO and their maturity are analysed as below:

	Company	
	2014 HK\$M	2013 HK\$M
Within one year	1,980	2,763
Between one and five years	7,864	10,655
After five years	18,240	14,529
Present value of finance lease liabilities	<u>28,084</u>	<u>27,947</u>

The effective interest rate of the finance lease obligation is a variable rate which moves with reference to the return allowed under the SoC and accordingly, the finance charge has been treated as contingent rent. For 2014, the interest rate was 9.99% (2013: 9.99%).

NOTES TO THE FINANCIAL STATEMENTS

23. ADVANCES FROM NON-CONTROLLING INTERESTS

The advances from non-controlling interests represented the advances from CSG HK to CAPCO. Pursuant to the agreement between the shareholders of CAPCO, both CLP Power and CSG HK are required to provide shareholders' advances pro rata to their shareholdings in CAPCO. The advances are unsecured, interest free and have no fixed repayment terms. The advances are mainly denominated in US dollar.

24. SCHEME OF CONTROL (SOC) RESERVE ACCOUNTS

The Tariff Stabilisation Fund, Rate Reduction Reserve and Rent and Rates Interim Refunds of CLP Power are collectively referred to as SoC reserve accounts. The respective balances at the end of the year are:

	2014 HK\$M	2013 HK\$M
SoC reserve accounts		
Tariff Stabilisation Fund (A)	1,058	19
Rate Reduction Reserve (B)	1	9
Rent and Rates Interim Refunds (C)	72	-
	<u>1,131</u>	<u>28</u>

The movements in SoC reserve accounts during the year are shown as follows:

(A) Tariff Stabilisation Fund

	2014 HK\$M	2013 HK\$M
As at 1 January	19	712
Transfer from Rate Reduction Reserve	9	-
Transfer under the SoC (i)		
- transfer for SoC from/(to) revenue (Note 6)	1,020	(641)
- charge for asset decommissioning (ii)	10	(52)
As at 31 December	<u>1,058</u>	<u>19</u>

- (i) Under the SoC Agreement, if the gross tariff revenue 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. In any period, the amount of deduction from or addition to the Tariff Stabilisation Fund is recognised as revenue adjustment to the extent that the return and charges under the SoC are recognised in the profit or loss (Note 6).
- (ii) Under the SoC, a periodic charge for asset decommissioning is made with corresponding deferred liabilities recognised in the statement of financial position of the SoC Companies. The balance of the asset decommissioning liabilities account recognised under the SoC represents a liability to the Group. The carrying amount of the asset decommissioning liabilities approximates its fair value.

(B) Rate Reduction Reserve

	2014 HK\$M	2013 HK\$M
As at 1 January	9	8
Transfer to Tariff Stabilisation Fund	(9)	-
Interest expense charged to profit or loss (Note 9)	1	1
As at 31 December	<u>1</u>	<u>9</u>

NOTES TO THE FINANCIAL STATEMENTS

24. SCHEME OF CONTROL (SOC) RESERVE ACCOUNTS (CONTINUED)

(C) Rent and Rates Interim Refunds

CLP Power is challenging the amount of Government rent and rates levied dating back to the year of assessment 2001/02. While the original Lands Tribunal judgment and the subsequent judgment on the review of valuation matters were received in CLP Power's favour, final resolution of the case will be subject to the outcome of appeals to the Court of Appeal against the Lands Tribunal judgment on points of law.

The interim refunds received by CLP Power from the Hong Kong Government in 2012 and 2013 totalling HK\$1,641 million had been fully expended in Rent and Rates Special Rebate provided to customers during 2012 and 2013. In 2014, a further interim refund of HK\$72 million was received. These interim refunds were made by the Hong Kong Government without prejudice to the final outcome of the appeals which means that these amounts will be adjusted by reference to the decisions of the Lands Tribunal and subsequent appeals.

Based on the latest development of the case, CLP Power maintains that it would recover no less than interim refunds received to date in the final outcome of these appeals. The interim refunds continued to be classified within the SoC reserve accounts. The Rent and Rates Special Rebate, which was ceased in October 2013, had been offset against the interim refunds received.

In the event that the final amount recovered on conclusion of these appeals is less than the total amount rebated to customers, CLP Power will seek to recover any shortfall in the amounts of Rent and Rates Special Rebate already paid to customers. Similarly, if the final amount recovered exceeds the special rebates paid out, these additional amounts will be returned to customers.

NOTES TO THE FINANCIAL STATEMENTS

25. DEFERRED TAX LIABILITIES

The movement on the deferred tax liabilities account is as follows:

Group	Tax Depreciation on		Deferred Revenue		Pumped Storage		Derivatives		Total	
	Fixed Assets				Capacity					
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
At 1 January	7,889	7,412	-	-	-	-	149	143	8,038	7,555
Acquisition of subsidiaries	3,535	-	(186)	-	1,079	-	-	-	4,428	-
Charged/(credited) to profit or loss	512	477	(1)	-	(35)	-	(11)	(7)	465	470
Charged/(credited) to other comprehensive income	-	-	-	-	-	-	(50)	13	(50)	13
At 31 December	11,936	7,889	(187)	-	1,044	-	88	149	12,881	8,038

Company	Tax Depreciation on		Derivatives		Total	
	Fixed Assets					
	2014	2013	2014	2013	2014	2013
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
At 1 January	7,889	7,412	149	143	8,038	7,555
Charged/(credited) to profit or loss	460	477	(9)	(7)	451	470
Charged/(credited) to other comprehensive income	-	-	(50)	13	(50)	13
At 31 December	8,349	7,889	90	149	8,439	8,038

NOTES TO THE FINANCIAL STATEMENTS

26. RECONCILIATION OF PROFIT BEFORE INCOME TAX TO NET CASH INFLOW FROM OPERATIONS

	2014 HK\$M	2013 HK\$M
Profit before income tax	12,332	10,176
Adjustments for:		
Transfer for SoC	1,020	(641)
Net finance costs	1,818	3,656
Depreciation and amortisation	4,085	4,394
Net loss/(gain) on disposal of fixed assets	263	(1,899)
Gain on deemed disposal of joint ventures (Note 7)	(2,025)	-
Share of profits of joint ventures	(438)	(1,318)
Net fair value changes in financial instruments and exchange differences	66	(88)
Increase in customers' deposits	149	185
Increase in fuel clause account	1,393	1,770
Increase/(decrease) in rent and rates interim refunds	72	(525)
Decrease in inventory	361	5
Increase in debtors and prepayment	(119)	(376)
Increase in trade and other payables	272	248
Decrease/(increase) in current account with ultimate holding company	1	(23)
Increase/(decrease) in current accounts with fellow subsidiaries	370	(314)
Decrease in Tariff Stabilisation Fund for asset decommissioning charge for a joint venture	(13)	(52)
(Decrease)/increase in current accounts with joint ventures	<u>(68)</u>	<u>25</u>
Net cash inflow from operations	<u>19,539</u>	<u>15,223</u>

27. COMMITMENTS

- (A) Capital expenditure on fixed assets and leasehold land authorised but not brought into the financial statements is as follows:

	Group		Company	
	2014 HK\$M	2013 HK\$M	2014 HK\$M	2013 HK\$M
Contracted but not provided for	3,823	3,158	2,653	3,158
Authorised but not contracted for	<u>6,904</u>	<u>8,603</u>	<u>5,811</u>	<u>8,603</u>
	<u>10,727</u>	<u>11,761</u>	<u>8,464</u>	<u>11,761</u>

- (B) The Company's future aggregate minimum lease payments in respect of the operating leases contained in the power purchase agreement with CAPCO are as follows:

	2014 HK\$M	2013 HK\$M
Within one year	348	357
After one year but within five years	1,310	1,343
After five years	<u>5,418</u>	<u>5,733</u>
	<u>7,076</u>	<u>7,433</u>

NOTES TO THE FINANCIAL STATEMENTS

28. RELATED PARTY TRANSACTIONS

- (A) The following is a summary of significant transactions between the Group and related parties, which were carried out in the normal course of business during the year ended 31 December:

	2014 HK\$M	2013 HK\$M
Lease and lease service payment to CAPCO (i)	5,341	17,324
Costs reimbursed from CAPCO (ii)	352	1,037
Purchase of electricity from a fellow subsidiary (iii)	4,974	4,619
Purchase of pumped storage service from PSDC (iv)	175	540
Capital works rendered by a fellow subsidiary (v)	425	376

- (i) Under the power purchase agreement between CLP Power and CAPCO, CLP Power is obligated to purchase all of CAPCO's generating capacity. The power purchase agreement provides that the price paid by CLP Power to CAPCO is sufficient to cover all of CAPCO's operating expenses under the SoC, including fuel cost, depreciation, interest expenses and current and deferred taxes, as well as CAPCO's share of the return permitted under the SoC.

Pursuant to the requirement of HKFRS, the electricity supply arrangement was assessed to contain leases and service elements. The payment made to CAPCO pursuant to the contract has been allocated to the different leases and service elements according to the requirements of the standards. The amount was accounted for in the consolidated financial statements up to the date of acquisition of CAPCO as a subsidiary (Note 5).

- (ii) In accordance with an operating and maintenance agreement between CLP Power and CAPCO, CLP Power is responsible to CAPCO for the efficient and proper construction, commissioning, operation and maintenance of the electricity generating facilities of CAPCO. In return, CAPCO reimburses CLP Power for all costs incurred in performance of the agreement. The portion of the amount recharged by CLP Power which is accounted for as operating expenses by CAPCO is covered under the power purchase agreement in (i) above. The amount was accounted for in the consolidated financial statements up to the date of acquisition of CAPCO as a subsidiary (Note5).

NOTES TO THE FINANCIAL STATEMENTS

28. RELATED PARTY TRANSACTIONS (CONTINUED)

- (iii) Under the off-take and resale contracts, CLP Power Hong Kong is obliged to purchase from the fellow subsidiary, Hong Kong Nuclear Investment Company Limited (HKNIC), 25% equity share of the output from Guangdong Daya Bay Nuclear Power Station (GNPS) and an additional 45% of GNPS's output from Guangdong Nuclear Investment Company, Limited (GNIC). The price paid by CLP Power Hong Kong for electricity generated by GNPS throughout the terms of the power purchase agreements is determined by a formula based on GNPS's operating costs and a calculation of profits. The calculation of profits was with reference to shareholders' funds and the capacity factor for periods up to 6 May 2014, and with reference to capacity factor for periods thereafter. The purchase of nuclear electricity under the arrangement was HK\$4,867 million (2013: \$4,619 million).

Under a separate purchase arrangement with HKNIC, CLP Power Hong Kong will purchase an approximately 10% of additional nuclear electricity from GNPS on a best endeavour basis from October 2014 to end of 2018, at the same unit price as that under the off-take and resale arrangement, together with a fee associated with the additional purchase. As such additional purchase is mainly to replace the use of more expensive gas fuel, the related amount paid is included in fuel cost and amounted to HK\$107 million for 2014.

- (iv) Under a capacity purchase contract, Hong Kong Pumped Storage Development Co., Ltd (PSDC) has the right to use 50% of the 1,200MW capacity of Phase 1 of the Guangzhou Pumped Storage Power Station. CLP Power has entered into a contract with PSDC to make use of this capacity. The price paid by CLP Power to PSDC is sufficient to cover all of PSDC's operating expenses and net return. PSDC's net return is based on a percentage of its net fixed assets in a manner analogous to the SoC, subject to a minimum return level. The amount was accounted for in the consolidated financial statements up to the date of acquisition of PSDC as a subsidiary (Note5).
- (v) CLP Power has entered into a number of capital work contracts with a fellow subsidiary, CLP Engineering Limited, to develop and construct CLP Power's transmission and distribution facilities. The prices of the contracts are determined with reference to the prevailing market prices.

- (B) Total remuneration of the Company's directors, who are the key management personnel of the Group, is as follows:

	2014 HK\$M	2013 HK\$M
Fees	-	1
Salaries, allowances and benefits in kind	42	41
Provident fund contributions and gratuity payment	2	2
	<u>44</u>	<u>44</u>

29. ULTIMATE AND IMMEDIATE HOLDING COMPANY

The ultimate holding company, and the immediate holding company of the Group is CLP Holdings Limited, a company incorporated in Hong Kong and listed on The Stock Exchange of Hong Kong.

30. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors on 13 February 2015.

**SCHEME OF CONTROL STATEMENT
(CLP Power Hong Kong Limited and Castle Peak Power Company Limited)****Overview**

In Hong Kong, CLP Power Hong Kong Limited (“CLP Power”) operates a vertically integrated electricity generation, transmission and distribution business. The generating plants in Hong Kong are owned by Castle Peak Power Company Limited (“CAPCO”), in which CLP Power originally owned 40% and was further increased to 70% since May 2014. CLP Power builds and operates CAPCO’s power stations under contract and is the sole customer for CAPCO’s electricity which CLP Power transmits and distributes to its customers in Kowloon and the New Territories. CLP Power owns the transmission and distribution network.

Since financial year 1964, the electricity-related operations of CLP Power and CAPCO (“the Companies”) have been governed by a Scheme of Control Agreement (SoC) with the Hong Kong Government. The SoC specifies the Companies’ obligations to supply adequate and reliable electricity supplies to customers at the lowest reasonable cost and the mechanism for Hong Kong Government to monitor their financial affairs and operating performance. In return, CLP Power is allowed to charge tariffs designed to recover the operating costs (including tax) and allowed net return of the Companies.

The current SoC took effect from 1 October 2008. The SoC covers a period of 10 years to 30 September 2018, with the Hong Kong Government having the right to extend by 5 years on the same terms to 30 September 2023 by giving notice before 1 January 2016. In the event that the 5 years extension option is not exercised by the Hong Kong Government, the Companies will continue to earn the permitted return until 30 September 2023 on all approved investments.

The current SoC includes a provision to give the Companies protection for stranded costs, which may arise as a result of future changes to the market structure which adversely impact on the Companies’ ability to recover and to earn returns on existing investments made in good faith in accordance with the SoC. These costs will include the costs of investments, fuel and power purchase agreements previously approved by the Hong Kong Government. If stranded costs arise after the Companies have implemented mitigation measures reasonably required by the Hong Kong Government, the Companies are entitled to recover them from the market, consistent with international practice. Three years before market changes are introduced, the Companies and the Hong Kong Government will agree on the amount of stranded costs and the mechanism for their recovery by the Companies.

Tariff Setting Mechanism

For each year, CLP Power designs the net tariff it charges to cover the Companies’ operating costs and allowed net return. The net tariff consists of the following components:

- (i) basic tariff rate which is derived by taking into account the annual forecast of (a), (b) and (c) below, using the formula “(a-b)/c”:
 - (a) the allowed net return and operating costs including the standard cost of fuel; generation, transmission, distribution and administration expenses; depreciation; interest expenses; and taxes;
 - (b) 80% of the profit on electricity sale to the Chinese mainland; and
 - (c) local unit sales as determined by the load forecast.
- (ii) fuel clause charge or rebate (Fuel Cost Adjustment) which represents the difference between the costs of fuel (including natural gas, coal and oil) and the standard cost recovered through the basic tariff rate.

SCHEME OF CONTROL STATEMENT (Continued)
(CLP Power Hong Kong Limited and Castle Peak Power Company Limited)**Tariff Setting Mechanism (Continued)**

Any difference between the actual profit for SoC operations and the permitted return for the year is transferred to or from a Tariff Stabilisation Fund. The Tariff Stabilisation Fund does not form part of distributable shareholders' funds and represents a liability in the accounts of CLP Power. A charge on the average balance of the Tariff Stabilisation Fund is credited to the Rate Reduction Reserve in the accounts of CLP Power, which balance as at the end of each year is to be transferred to the Tariff Stabilisation Fund in the following year.

Permitted and Net Return

The permitted and net return that the SoC Companies are allowed under the SoC are calculated as follows:

- The annual permitted return under the SoC is 9.99% of the Companies' average net fixed assets other than renewable energy investments; and 11% for renewable energy investments.
- The net return is the permitted return after the deduction or adjustment of the following items:
 - (a) interest up to a maximum of 8% per annum on borrowed capital arranged for financing fixed assets;
 - (b) a charge of the average one-month Hong Kong interbank offered rate on the average balance of the Tariff Stabilisation Fund under the SoC, which is credited to the Rate Reduction Reserve;
 - (c) an excess capacity adjustment of 9.99% under the SoC on the average excess capacity expenditure less an allowed interest charge up to 8% per annum on the average excess capacity expenditure;
 - (d) interest up to 8% per annum on the increase in average balance of the customers' deposits in excess of the balance as at 30 September 1998; and
 - (e) performance related incentives / penalties adjustments in the range of -0.03% to +0.1% on the average net fixed assets with respect to customer performance, energy efficiency and renewables performance applicable to each full calendar year under the SoC.
- The rate of return on average net fixed assets of the Companies for the year ended 31 December 2014 was 9.18% (2013: 9.11%).

The net return is divided between the Companies in accordance with the provisions of the agreements between the Companies. These provisions state that each company will receive that proportion of the total net return represented by the net return that company would receive if it were the only company under the SoC and the net return were calculated solely on the basis of its own financial statements. In year 2014, 66% (2013: 65%) of the net return was allocated to CLP Power and 34% (2013: 35%) to CAPCO.

The calculations shown on page 67 are in accordance with the SoC and the agreements between the Companies.

SCHEME OF CONTROL STATEMENT (Continued)
(CLP Power Hong Kong Limited and Castle Peak Power Company Limited)

	2014 HK\$M	2013 HK\$M
Scheme of Control Revenue	36,092	33,184
Expenses		
Operating costs	3,842	3,711
Fuel	10,375	9,645
Purchases of nuclear electricity	4,867	4,619
Provision for asset decommissioning	(10)	52
Depreciation	3,901	4,475
Operating interest	834	863
Taxation	2,048	1,649
	<u>25,857</u>	<u>25,014</u>
Profit after taxation	10,235	8,170
Interest on increase in customers' deposits	-	-
Interest on borrowed capital	856	887
Adjustment for performance (incentives)/penalties	(49)	(48)
Adjustment required under the Scheme of Control (being share of profit on sale of electricity to the Chinese mainland attributable to the Companies)	(54)	(64)
	<u>10,988</u>	<u>8,945</u>
Profit for Scheme of Control	10,988	8,945
Transfer (to)/from Tariff Stabilisation Fund	(1,030)	693
	<u>9,958</u>	<u>9,638</u>
Permitted Return	9,958	9,638
Deduct Interest on / Adjustment for		
Increase in customers' deposits as above	-	-
Borrowed capital as above	856	887
Performance (incentives)/penalties as above	(49)	(48)
Tariff Stabilisation Fund to Rate Reduction Reserve	1	1
	<u>808</u>	<u>840</u>
Net Return	<u>9,150</u>	<u>8,798</u>
Divisible as follows:		
CLP Power	6,070	5,744
CAPCO	3,080	3,054
	<u>9,150</u>	<u>8,798</u>
CLP Power's share of net return		
CLP Power	6,070	5,744
Interest in CAPCO	1,852	1,222
	<u>7,922</u>	<u>6,966</u>

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