**Announcement of Interim Results**
**as from 1 January 2014 to 30 June 2014,**
**Dividend Declaration and Closure of Books**

**Financial Highlights**

- Group operating earnings for the first half of 2014 amounted to HK$4,768 million, a 22.4% increase over the corresponding period in 2013.
- Total earnings including net gain on CAPCO and PSDC acquisitions increased 78.4% to HK$6,721 million; earnings per share increased to HK$2.66 per share.
- Operating earnings from our electricity business in Hong Kong increased 7.5% to HK$3,674 million.
- Consolidated revenue down by 8.9% to HK$47,102 million.
- Second interim dividend of HK$0.54 per share.

## CHAIRMAN'S STATEMENT

I am pleased to report strong first half results in 2014. In the first six months of this year, the Group's operating earnings were HK$4,768 million, a 22% increase over the same period last year. After the one-off net gain on the acquisitions of Castle Peak Power Company Limited (CAPCO) and Hong Kong Pumped Storage Development Company, Limited (PSDC), total earnings were up 78% to HK$6,721 million. This reflected a much improved operational performance in most of our businesses. In this regard, we have increased the level of both the first and second interim dividends of 2014 to HK$0.54 per share (compared to HK$0.53 per share in the previous year).

Our electricity business in Hong Kong remains the Group's largest earnings contributor with operating earnings of HK$3,674 million in the first six months of 2014, an increase of over 7% from the corresponding period in 2013. The successful placement of our first ever US$750 million hybrid securities at a very low coupon rate of 4.25% in the second quarter represented a vote of confidence from the capital market.

In the first half, operating earnings from Mainland China, including our 25% stake in Guangdong Daya Bay Nuclear Power Station (GNPS), were down 21% to HK$662 million largely due to depreciation of the Renminbi and divestment of some of our minority owned coal projects. Our India business returned to earnings of HK$82 million, as compared to a loss of HK$212 million in the same period last year. Operating earnings from Southeast Asia and Taiwan also increased 79% to HK$113 million. In Australia, operating earnings from our business improved significantly to HK$585 million, compared with a loss of HK$45 million in the corresponding period in 2013.

This solid performance is a testament to CLP's "focused" strategy, underpinned by our two strongest commitments. The first is our long-term strategy to grow our business in the Asia Pacific, which includes two of the world's biggest and most promising markets – Mainland China and India. Second, it reflects our dedication to operational excellence, supply reliability and professionalism. I would like to touch on developments in the first half of 2014 to illustrate how these commitments are working for us.

Shareholders will be aware from my statements earlier this year of the various issues and concerns raised in the fuel mix consultation in Hong Kong, so I shall not repeat the details here. Suffice to say, we submitted our views to the Government in May and are pleased that much of the public discussions during the consultation period rightly focused on issues such as reliability, flexibility and environmental responsibilities – priorities highlighted in our own submission. We put forward a "phased and flexible" approach because we believe such an approach would bring the best value not only to Hong Kong now but also for future generations. We believe that keeping fuel source and generation options open and flexible will best serve the long-term interests of Hong Kong.

Fuel mix is an important decision not only for our stakeholders, but for Hong Kong as a whole. It will have a determining effect on our city's competitiveness, and the local and regional environment for many years to come. This is why we have actively participated in the public consultation exercise and provided additional background information in order to facilitate a healthy and informed debate on these technical and complex issues.

As the Government prepares to undertake further consultations on the future shape of the power industry in Hong Kong, we will continue to contribute our expertise and knowledge as best as we can. For any reviews to be effective, the objectives must be clearly defined. The current regulatory structure has served Hong Kong well and helped the city achieve world class levels of reliability, affordability and environmental performance. Any changes to the current regime will need to consider and balance these three factors.

A major milestone for the Company in the first half of the year was the completion of our acquisition of a majority interest in CAPCO in May. This acquisition reaffirms our commitment and determination to continue to serve Hong Kong. Completion of the acquisition took place slightly ahead of our expectations. That has contributed to the growth in the Hong Kong business and allowed us an earlier start of forging our new partnership with China Southern Power Grid Co., Limited.

As CLP shareholders, I am sure you share my views that we should always keep the interests of Hong Kong and the community at large in mind. This is why every year we do our best to keep our tariff adjustment low. We must however recognise the fact that we operate in a market environment where we do not have control of all the factors that impact on our cost of doing business. An obvious and important example is the volatility of international fuel prices. Nevertheless, we have taken a host of measures to mitigate the impact of increasing fuel costs, details of which will be discussed later in the "Performance & Business Outlook" section of our Hong Kong business.

Turning to our business in Mainland China, we have chosen to invest selectively in projects with the latest and most efficient power generation technologies, and in renewable projects such as solar and wind, which is in line with the Chinese Government's economic and environmental policies. We are also monitoring evolutions in the nuclear field.

I am glad to report that our selective investment strategy is paying off in Mainland China. We see excellent investment opportunities in Guangxi and the Beibu Gulf Economic Zone in particular, which is one of the fastest growing regions in the Mainland. This is why we established a firm presence in Fangchenggang. The Fangchenggang Power Station (Fangchenggang) already accounts for 6% of Guangxi's electricity demand. Customer demand is strong and we believe the potential for further growth is significant. Hence we are fast-tracking our expansion in Fangchenggang with phase II of the project now under construction which will double our generation capacity in the station when it is completed over the next two years.

As in Mainland China, we continue to build our presence and pursue new opportunities in India. We are encouraged by the proposed reform of the power sector by the newly-elected government in India, which aims to resolve the longstanding coal supply issue and develop renewables in the country. Our efforts to diversify and improve the reliability of our coal supply have helped our Jhajjar Power Station (Jhajjar) achieve significant improvements to availability levels compared to the first half of last year. The new government’s commitment to the development of renewable energy is good news for us since we are the biggest wind power project developer in India. We expanded our wind portfolio by 100MW in the first half and are committed to grow our business in this area.

During the first half of 2014, market conditions in Australia remain challenging due to ongoing weak demand and intense competition. In the face of these challenges, I am pleased that EnergyAustralia’s own operational performance and cost structure showed improvement. We have also taken steps to respond to the oversupply situation on the generation side by rationalising our generation portfolio. As we expect the external market to remain difficult in the years ahead, we will continue to optimise our business, strategy and structure in response to changing market conditions.

The Australian Government's recent repeal of the carbon tax reflects a fundamental policy platform, upon which it won the election late last year. The Government is continuing to progress legislation that will deliver its approach to reducing emissions. EnergyAustralia will continue to work with the Government to explore the most cost-effective and sustainable ways of implementing its preferred approach. However, in the short term, our earnings in Australia will be negatively impacted by the repeal of the carbon tax.

We are delighted that Catherine Tanna has joined the Company as the new Managing Director of EnergyAustralia. Catherine brings a wealth of experience and knowledge to the team and I am confident she will lead EnergyAustralia to achieve its full potential over the coming years.

The electricity business rewards experience and commitment, and repays patience and perseverance. CLP’s healthy performance in the first half of 2014 demonstrates our ability to cope with volatility and difficulties in various markets. Our dedicated staff and professional management are addressing the challenges and opportunities. With their hard work and our supportive partners, I am confident that our business will continue to grow and prosper.

**The Honourable Sir Michael Kadoorie**

## FINANCIAL PERFORMANCE

Operating earnings grew by 22.4% to HK$4,768 million mainly due to the increased earnings from Hong Kong electricity business and improved performance from India and Australia. Total earnings, after the one-off net gain on CAPCO and PSDC acquisitions of HK$1,953 million, rose to HK$6,721 million, a 78.4% increase from the corresponding period.

| | Six months ended 30 June | | | | Increase | |
|---|---|---|---|---|---|---|
| | **2014** | | 2013 | | | |
| | **HK$M** | **HK$M** | HK$M | HK$M | **HK$M** | **%** |
| Electricity business in Hong Kong (HK) | | **3,674** | | 3,417 | 257 | 7.5 |
| PSDC and sales to Guangdong from HK | **48** | | 55 | | | |
| Power projects in Mainland China | **662** | | 835 | | | |
| Electricity business in India | **82** | | (212) | | | |
| Power projects in Southeast Asia and Taiwan | **113** | | 63 | | | |
| Energy business in Australia | **585** | | (45) | | | |
| Other earnings | **(33)** | | 24 | | | |
| Earnings from other investments/operations | | **1,457** | | 720 | 737 | 102.4 |
| Unallocated net finance costs | | **(28)** | | (15) | | |
| Unallocated Group expenses | | **(335)** | | (226) | | |
| **Operating earnings** | | **4,768** | | 3,896 | 872 | 22.4 |
| Net gain on CAPCO and PSDC acquisitions | | **1,953** | | - | | |
| Divestment from Boxing Biomass | | **-** | | (87) | | |
| Yallourn mine flooding | | **-** | | (42) | | |
| **Total earnings** | | **6,721** | | 3,767 | 2,954 | 78.4 |

The performance of individual business is analysed under individual business section.

## PERFORMANCE & BUSINESS OUTLOOK

### Hong Kong

Financial Performance

Earnings from our Hong Kong electricity business increased by 7.5% due to higher return on higher average net fixed assets and share of additional 30% of CAPCO's earnings after the completion of the acquisition in May 2014.

The net gain of HK$1,953 million on the acquisitions of CAPCO and PSDC represents the deemed disposal gain of previously held interests in CAPCO (40%) and PSDC (49%) net of the loss on settlement of a pre-existing finance lease arrangement with CAPCO and related transaction and financing costs.

Operational Performance

We achieved good results in our home market while maintaining our world class reliability record. We do this by continuing to invest in our facilities and our people and focusing on the quality and reliability of the services we provide.

During the first half of the year, local sales of electricity were 15,202 gigawatt hours (GWh), representing an increase of 2.7% over the same period last year. Sales to the Residential sector in the first six months recorded a significant increase of 7.5% because of a higher heating and dehumidifying load in the first quarter and an increased cooling load in the second quarter when compared to the first half of 2013. Both the Commercial and Infrastructure & Public Services sectors recorded slight to moderate sales increases while sales to the Manufacturing sector decreased by 3.0%. A breakdown by sector of the changes in sales during the period is as follows:

| | Increase/(Decrease) | | As Percentage of Total Local Sales |
|---|---|---|---|
| Residential | 284GWh | 7.5% | 27% |
| Commercial | 41GWh | 0.7% | 41% |
| Infrastructure & Public Services | 97GWh | 2.4% | 27% |
| Manufacturing | (26GWh) | (3.0%) | 5% |

Sales to the Mainland amounted to 617GWh in the first six months, a decrease of 0.5% over the same period last year.

Total electricity sales, including both local sales and sales to the Mainland, increased by 2.5% to 15,819GWh.

On 23 July 2014, local maximum demand hit a record high of 7,030MW. This represented an increase of 3.9% over the previous peak of 6,769MW recorded in 2012 and reduced our generation reserve margin to 26.4%.

On a strategic level, we have completed the acquisition of an additional 30% interest in CAPCO, taking our ownership to 70%. CLP also increased its stake in PSDC to 100%. These acquisitions are a significant investment for CLP, giving us majority control over our core generating assets and enabling us to further pursue cost efficiency. This will help us in our continual endeavour to meet Hong Kong's diversified and rapidly changing needs.

In May, we submitted our response to the HKSAR Government's public consultation on Future Fuel Mix for Electricity Generation for Hong Kong. In the Government's consultation paper, two alternatives are identified: Option 1 assumes that approximately 30% of future needs would be met through grid imports of power from the Mainland; and in Option 2 these needs would be met by using more natural gas for local generation. CLP's view is that both options present opportunities and challenges. We believe that a phased and flexible approach, which combines both planning for a small number of new gas units locally and a comprehensive study to see how the Mainland could provide Hong Kong with highly reliable supplies of low-carbon energy at reasonable cost, would deliver the best long-term value for Hong Kong.

The phased and flexible approach is a long-term strategy that seeks to maximise the advantages of each option at minimum cost to customers. It would allow Hong Kong more time and options to gauge what is the best way forward whilst maintaining the reliability and security of our electricity supply, allowing a choice in energy supplies, delivering environment performance improvements and minimising over-investment in energy infrastructure until more certainty on costs and benefits is available.

In the nearer term, we understand the potential impact of tariff adjustments on the community as a result of increased gas consumption to meet environmental policy objectives. To keep any movement within a manageable range, we have taken a number of measures to mitigate the impact of increasing fuel costs. These include temporarily increasing the import of nuclear power from Daya Bay effective from the last quarter of this year through 2018, maximising the use of our less costly gas supply from the depleting Yacheng gas field, deferring and reducing the use of the pricier gas from Second West-East Gas Pipeline, using more low emission coal, enhancing the operational performance of our generation facilities and implementing stringent cost control measures.

CLP continued to deliver one of the most reliable electricity supplies in the world during the first half of 2014, with supply reliability maintained at above 99.999%. This was achieved despite the heavy thunderstorms in May and June. The performance demonstrates CLP's continued efforts in improving the resilience of its power system through advanced technologies, emergency preparedness, preventive maintenance, and timely investment in the electricity supply infrastructure.

In the first half of 2014, we invested HK$3.1 billion in generation, transmission and distribution networks as well as in customer services and supporting facilities. The investments aim at enhancing the reliability, security and efficiency of our supply network and our service quality. They also safeguard the timely provision of electricity supply for our customers and new infrastructure projects. These include supply to new data centres, the developments in ex-Kai Tak and West Kowloon areas, the Hong Kong-Zhuhai-Macau Bridge and the rapid expansion of Hong Kong's railway network, which together provide us with steady growth in sales.

CLP is fully committed to the promotion of energy efficiency. The CLP Eco Building Fund is one of the initiatives in the 2013 Interim Review under the Scheme of Control (SoC) Agreement with the HKSAR Government. It is a major step towards achieving greater energy efficiency in the community. The Fund was officially launched in June and is now open for application. It aims to help eligible residential building owners in our service areas to implement energy-efficiency improvement works to their facilities in the common areas with a special subsidy granted on a "50/50 matching" basis.

As part of CLP's effort to help its customers to become more energy efficient, we successfully launched the new GREEN$^{PLUS}$ Experience Centre in Sham Shui Po in May to assist small businesses in various industries to save energy and cost. Caring for the community is at the heart of our operations and our people. Through partnership with community organisations and the active participation by CLP Volunteers, we initiated a number of new activities such as "CLP Green Volunteers for Seniors Programme" and distribution of 4,000 sets of energy saving electrical appliances to needy families in the first half of 2014, alongside many other programmes. Details of our community initiatives will be discussed in the section "Stakeholder Engagement & Social Performance" of the Interim Report.

On a different note, foundation work of the redevelopment of CLP's former head office on Argyle Street is progressing on schedule. We are currently reviewing different options for a permanent headquarters.

Outlook

CLP has been serving Hong Kong for 113 years. We are committed to maintaining our supply reliability, environmental and safety performance and excellent services to customers. Following the completion of the CAPCO and PSDC acquisitions, internal processes are being streamlined to enable us to capture the maximum benefits from controlling the core assets so that we can continuously improve our service.

To meet tighter statutory emissions caps for power generation which will come into effect in 2015, CLP will need to use more gas to generate electricity in place of cheaper coal. In view of this, we will continue to do our best to mitigate the impact of tariff increases to customers.

Following the recent fuel mix consultation, we understand that there will be another Government consultation on the post-2018 regulatory framework for the electricity market to be launched later. Both consultations will shape Hong Kong's energy policy choices and have significant implications for our business. We will continue to facilitate public discussions on these issues and actively engage the Government, key stakeholders and the community on the appropriate direction for Hong Kong's future fuel mix and the post-2018 regulatory regime.

We are aware of the public concern over tariff adjustments. We will continue to listen to our customers and stakeholders on the issue. At the same time, we are committed to investing in new energy efficiency initiatives and other conservation efforts, including the newly-established CLP Eco Building Fund, for a greener Hong Kong.

**Mainland China**

Financial Performance

Lower earnings from Mainland China were mainly due to depreciation of the Renminbi, no profit sharing under the Share Transfer Agreement of CSEC Guohua and Shenmu disposal, and lower contribution from Fangchenggang as a result of a tariff reduction effective September 2013 and the expiry of an income tax credit. Whilst the financial performance of our wind portfolio remained stable helped by the commissioning of more wind farms, lower generation from our hydro projects due to lower water flows at Jiangbian and suspended operations of certain units at Huaiji as a result of flooding resulted in lower earnings from renewables. Earnings from GNPJVC were higher due to strong operational performance. The new Daya Bay contract which relates to the extension of nuclear power supply to Hong Kong became effective in May 2014.

Operational Performance

In Mainland China, we continued our strategy of selective investments in renewable energy, nuclear power and highly-efficient coal-fired generation, accompanied by the divestment of stakes in joint ventures where we have no significant control and growth prospects appear limited.

CLP's coal-fired projects on the Mainland continued to perform reliably throughout the first half of 2014, during which time coal prices declined and remained at low levels. We have made significant progress on several fronts at Fangchenggang during the period. Construction of Fangchenggang Phase II (2 x 660MW ultra-supercritical units) has commenced after we obtained project approval from the National Development and Reform Commission in May 2014. Selective catalytic reduction equipment has been retrofitted at Fangchenggang Phase I to reduce nitrogen oxide emissions.

On 19 July 2014, typhoon Rammasun directly hit Fangchenggang. No one was injured. However, one of the station's two generating units was taken out of service after the boiler structure was damaged. Repair will take one to two months. Construction works for Fangchenggang II were temporarily impacted but no long term delays are anticipated. During the typhoon, the station opened its recreation centre to provide shelter to more than 120 local villagers.

During the first six months, we continued to expand our presence in the renewable energy sector, which is one of our major growth areas. In Shandong, our new 49.5MW, wholly-owned wind power project Laiwu Phase I has been operating smoothly since it achieved commercial operation in January. In Shandong and Jilin, where the majority of our wind farms are located, wind speed was lower than average but the grid restriction situation in Jilin has slightly improved.

As for new projects, we are pursuing approval from relevant provincial governments for four wholly-owned projects (Xundian Phase I in Yunnan, CLP Laizhou Phase I and Laiwu Phase II in Shandong, and Sandu Phase I in Guizhou) with a total generation capacity of around 250MW. All of them have been registered at the National Energy Administration. Development work is being finalised in anticipation of project approval later this year or in early 2015. We are also applying for approval for Huadian Laizhou Phase II, a minority-owned 49.5MW project in Shandong.

In hydro, low water flow has led to reduced power generation from Jiangbian Power Station in Sichuan. Output from our Huaiji project in Guangdong has dropped because a flooding in May damaged some of the power stations. Repair works are in progress.

Our solar project in Jinchang in Gansu Province (85MW) has been affected by grid restriction because of the commissioning of other thermal and solar power plants in the region. We expect the situation to be resolved after the inter-provincial transmission network, currently under construction, comes online.

Construction of our 42MW, wholly-owned Xicun Solar Power Station in Yunnan commenced in the first quarter of 2014 and is targeted to complete by the fourth quarter of 2014. Construction of Sihong Solar Power Station in Jiangsu (93MW, 51% owned by CLP) is progressing well and is targeted to complete in the third quarter.

In line with our selective investment strategy, we signed a Share Transfer Agreement on 2 April 2014 to divest our interest in CLP Power China (Tianjin) Limited and CLP Power China (Shenmu) Limited for the US dollars equivalent of RMB2,250 million. These companies hold our investments in the CSEC Guohua and Shenmu power projects respectively. Completion of the transaction is subject to a restructuring of internal shareholdings which in turn requires corporate and regulatory approvals. The restructuring is progressing at the moment.

In May 2014, GNPS, in which CLP has a 25% stake, commemorated its 20th anniversary of commercial operation. This partnership with China General Nuclear Power Corporation has been extended for another 20 years to 2034. GNPS continued to operate smoothly in the first half of 2014 with no Licensing Operational Events reported in the period.

Outlook

In the second half of 2014, we expect the financial performance of our coal-fired plants to continue to benefit from the low coal prices. We will continue the construction of Fangchenggang Phase II which we expect to commission in 2016.

As an important part of our strategy, we will continue to expand our wind portfolio. We expect to obtain approval for Xundian Phase I, CLP Laizhou Phase I, and Sandu Phase I in the second half of this year and we are hopeful that we will be able to commence construction of Huadian Laizhou Phase II in the same period. We also anticipate commissioning Sihong Solar by the end of this year, as we continue the construction of Xicun Solar Phase I.

Finally, we target to complete the disposal of CLP Power China (Tianjin) Limited and CLP Power China (Shenmu) Limited by the end of 2014.

**India**

Financial Performance

Higher earnings from India were mainly due to improved performance from Jhajjar as a result of improved coal supplies and a net translation gain on US dollar loans. On the other hand, due to shortages of domestic natural gas, despatches of Paguthan remained very low. The plant's customer Gujarat Urja Vikas Nigam Limited (GUVNL) requested a reduction in fixed charges under the Power Purchase Agreement (PPA). We reached agreement with them in November 2013 which led to lower earnings of Paguthan in this period.

Operational Performance

Business performance at CLP India improved significantly in the first half of 2014, particularly at Jhajjar Power Limited. Thanks to improved coal supply, Jhajjar achieved a high availability of 80.4% in the six-month period. All technical performance indicators also reflected stable plant operations. We expect this operational performance to continue for the whole year.

Despite continuous coal shortages in India, our efforts to adjust local sourcing have resulted in significant improvement of domestic coal supplies for Jhajjar in the first half of 2014, compared with the same period in 2013. Thanks to our continuous engagement with different stakeholders and improved performance, we have been given the approval to import 2 million tonnes of coal for a year from June 2014 onwards, up from 1.7 million in the previous 12-month period. As a result and in spite of the planned outage of one unit, average availability has now reached 80% – the minimum level required for payment of capacity charges in full. On top of that, we are in advanced discussion to increase the blending of imported coal from 35% to 50%, which will further improve our coal supply position. We expect to maintain the availability level for the whole year as the supply of coal improves.

While availability at Jhajjar was high, utilisation was low at about 44.4% due to sluggish winter demand. Nevertheless, we expect utilisation will improve in the third quarter as demand picks up in summer.

Performance of Jhajjar

| | **2014 First Half** | 2013 First Half |
|---|---|---|
| Availability (%) | **80.4** | 38.7 |
| Utilisation (%) | **44.4** | 30.6 |
| Domestic coal (rakes)[1] | **381** | 301 |
| Imported coal (rakes) | **132** | 60 |

Note:

1 A "rake" is the equivalent of about 3,800 tonnes of coal and broadly represents a single load of 59 wagons.

During the first six months of this year, our gas-fired Paguthan Power Station continued to make the units available, on which capacity payments under the PPA were based. Availability remained high at 84.2%, despite a planned shutdown in March and April and a forced outage in June. However, due to high gas price, our customer GUVNL has decided to despatch cheaper power elsewhere, resulting in a low utilisation for Paguthan at 4.5%. As long as gas price stays high, we expect the plant to continue to operate intermittently during peak demand periods or in emergencies only. We have renegotiated the PPA with GUVNL, pursuant to its request for reduction in tariff emanating from low level of despatches. The new arrangement includes a higher incentive threshold and sharing of some savings with the customer to help reduce its cost of power, whilst giving us greater certainty for the rest of the PPA-tenor.

CLP is the largest developer of wind energy in India and we see attractive investment and growth opportunities in the renewable energy sector. Our three wind projects in Gujarat, Maharashtra and Rajasthan with a combined capacity of 100MW (Jath 60MW, Bhakrani 23.2MW, Mahidad 16.8MW) were commissioned in the first half of this year. However, due to the delay in the onset of the monsoon and the dust storm in Rajasthan, generation from our operational wind farms was lower than expected.

On the financial side, the reinstatement of Generation Based Incentive (GBI) for wind energy, which reflects the Government's support of renewable energy, has benefitted almost all of our wind projects. In another positive development, CLP Wind Farms (India) Private Limited has become the first wind business in India to receive an investment grade rating, allowing it to raise cheaper financing in the debt markets.

Outlook

Election of the new Federal Government earlier this year has provided encouraging signs to the energy sector. Its decision to put the Ministries of Power, New & Renewable Energy and Coal under a common minister signifies the Government's determination to promote greater efficiency and flexibility in planning, execution and decision making. We are closely monitoring progress of the reforms.

The new Government is contemplating the revival of gas-fired power plants idled by the lack of affordable gas by providing "fuel subsidies" to state utilities to purchase power from these plants. If this new policy is implemented, it will improve demand for gas-fired electricity which could be beneficial for our Paguthan project.

The prospects for our wind development platform continue to be good with the new Government's greater commitment to develop the renewable energy sector. We will continue to expand our wind portfolio and seek to enter the solar sector to strengthen our leadership position in renewable energy in India.

Jhajjar's performance is expected to further improve in the second half of 2014. With our significant build-up of coal stocks, and improvement in the sourcing of domestic coal supply and imports, we are confident that we would be able to deliver good performance for the remainder of the year.

**Southeast Asia and Taiwan**

Financial Performance

Higher earnings from Southeast Asia and Taiwan were mainly due to the one-off penalty imposed on Ho-Ping by the Fair Trade Commission (FTC) of Taiwan in 2013 and higher generation from Natural Energy Development Co., Ltd. (NED) as a result of higher solar irradiance and the commissioning of 8MW expansion in May 2013.

Operational Performance

Ho-Ping Power Station in Taiwan, 20% owned by CLP, continued to operate reliably during the first half of 2014. The major overhaul of a generating unit was successfully completed and high plant availability and low coal prices resulted in a strong financial performance.

In 2013, Ho-Ping settled its prolonged negotiations with Taiwan Power Company (Taipower) and agreed to a tariff reduction under its PPA. However, Ho-Ping is continuing its administrative appeal and litigation against the penalty imposed by the FTC for the alleged violation of the Fair Trade Act over earlier tariff negotiations with Taipower.

In Thailand, the 63MW Lopburi solar farm owned by NED entered its second year of full operation. NED recorded good earnings in the first half of 2014 thanks to high plant availability and good solar resources which were in line with expectations. CLP owns one-third of NED and provides management leadership to the company.

We have been developing the Vung Ang II and Vinh Tan III coal-fired projects in Vietnam for some years. Contracts for the construction of Vung Ang II and the supply and transportation of coal for the project have been finalised. Negotiations with the government on the PPA and the build-operate-transfer contract (BOTC) have largely been completed, although a final agreement will be needed before the project can proceed. Meanwhile, good progress has also been made on Vinh Tan III, which is located in southern Vietnam near Ho Chi Minh City where demand of electricity is high. Coal supply and transportation contracts have been agreed, and contracts for the supply and construction of plant equipment are in the final stage of negotiations. Progress on the Vinh Tan III's PPA and BOTC will depend on the priorities set by our customer Vietnam Electricity (EVN) and the Vietnamese Government.

Outlook

For Ho-Ping in Taiwan and Lopburi in Thailand, the focus is on maintaining safe and reliable operations. We will support Ho-Ping to continue its appeal against the FTC penalty. In Vietnam, we plan to further engage with EVN and the Vietnamese Government with the aim to complete negotiations of the key project agreements including PPAs and BOTCs of Vung Ang II and Vinh Tan III, and proceed with the financing arrangements for the projects. Investment decisions on these two projects will be made after the terms of the key agreements are finalised, project economics determined and financing secured.

**Australia**

Financial Performance

Our Australia business recorded earnings of HK$585 million as compared to a loss of HK$45 million in the first half of 2013. The improved performance was mainly attributable to lower depreciation and amortisation on reduced asset bases after the 2013 impairment, lower finance costs and operating expenses (mainly costs for operating Mount Piper and Wallerawang and lower marketing expense), partially offset by reduced gross margin due to lower customer accounts and usage.

Operational Performance

EnergyAustralia made good progress in operational performance in the first half of 2014. However, the external environment remains challenging with ongoing declining wholesale market demand, heavy retail competition, and mild winter weather.

The generation business continues to be challenged by overcapacity and falling market demand, leading to further decline in wholesale electricity prices and historically low electricity price volatility. An unseasonal warm start to winter, with Sydney experiencing the warmest May on record, has further dampened electricity demand.

Prevailing market conditions led the Australian Energy Market Operator (AEMO) to forecast the largest one-year drop in electricity demand ever recorded in Australia. Key factors include the announcement that the Point Henry Aluminium Smelter will be closed in the second half of 2014 – together with rising penetration of rooftop solar and adoption of energy efficiency measures by retail consumers. AEMO has also significantly revised its electricity consumption annual growth forecast for the next 10 years down to just 0.3% per annum, compared with the 1.3% forecast made in 2013 and the 2.3% three years ago.

In this environment, containing costs and maintaining flexibility in operations are of paramount importance. Responding to suppressed wholesale market conditions and a lack of competitive coal supply, EnergyAustralia has closed and is decommissioning Unit 7 at Wallerawang Power Station. On

30 March 2014, we also removed Unit 8 from service and placed it on a three-month recall. This will significantly reduce the future capital and operating costs of our generation portfolio.

As a result of lower output from Wallerawang and planned maintenance outages at the Mount Piper and Yallourn power stations, the overall sent-out generation across EnergyAustralia's portfolio was down 11.4% in the first half of 2014 compared with the first half of 2013.

In our major retail markets of Victoria and New South Wales (NSW), churn rates, which measure customer loss, remained at 21.5% and 12.3% respectively. Due to strong competition as well as a focus on stabilisation and integration, our net customer numbers decreased by 66,800, or 2.5%, during the six-month period to 30 June 2014.

Mass market sales volumes for electricity and gas dropped 12.6% and 15.9% respectively compared with the prior corresponding six-month period. This reflects lower customer numbers, reduced usage per customer and mild weather conditions at the start of the 2014 winter.

Despite these difficult external conditions, we have improved operations under our control, most notably in the stabilisation of our new billing and customer care system, C1. Delayed billing has reduced to around 4,000 accounts as of 30 June 2014, much lower than the level of 22,000 accounts at the time of switching systems in October 2012. In June 2014, we achieved a major milestone with the successful transfer of new sales accounts from the Ausgrid system onto the new system. Full system integration to migrate 1.3 million customers from Ausgrid onto C1 is on track for late 2014.

From 1 July, retail electricity prices in NSW were deregulated. Customers are expected to benefit from robust market competition and a greater selection of products and services from competing suppliers. Retail price deregulation also reduces regulatory risk for industry participants.

Outlook

Notwithstanding near-term challenges arising from difficult market conditions and likely changes to carbon and renewable energy policy settings, EnergyAustralia is making good progress in implementing operational efficiencies. We are on track to deliver operational savings of A$100 million (about HK$730 million) per year once our billing system integration is fully implemented during the course of 2015. However, wholesale prices continue to trend downwards, which are likely to have a negative impact on 2015 outlook. Our short term earnings will also be negatively impacted by the removal of the carbon tax and associated transitional assistance, which provided a net benefit estimated at A$82 million (HK$583 million) across our generation portfolio in the first half of 2014. Longer term this change should enhance returns from our low-cost base load power stations.

In the second half of 2014, EnergyAustralia will continue to focus on improving earnings through managing costs and enhancing productivity. Key projects are as follows:

- Continue to improve customer service;
- Complete the migration of EnergyAustralia's customers from Ausgrid to C1;
- Improve the productivity of IT service delivery and back office processes;
- Strengthen EnergyAustralia's digital capabilities; and
- Optimise the fuel and generation portfolio.

The Federal Parliament has repealed the Clean Energy Act, effective from 1 July 2014. EnergyAustralia has begun a programme to remove the carbon component from its products and tariffs by mid-September and backdated to 1 July 2014 as a credit on household bills. The Federal Government is also reviewing the Renewable Energy Target. We are awaiting details of the anticipated changes to assess any short-term and long-term impacts on our business.

Catherine Tanna took over as Managing Director of EnergyAustralia on 1 July following the departure of Richard McIndoe, who left after eight years of service. Ms Tanna was previously Chair of the BG Group in Australia from 2012. She has extensive experience in the gas and energy sector and has held various senior roles at BHP Petroleum and Royal Dutch Shell.

**Human Resources**

As at 30 June 2014, the Group employed 7,208 staff (2013: 6,634), of whom 4,151 were employed in the Hong Kong electricity and related business, 2,818 by our businesses in Mainland China, India, Southeast Asia, Taiwan and Australia, as well as 239 by CLP Holdings. Employee number increased mainly due to the takeover of staff from Wallerawang and Mount Piper, which we acquired in September 2013. Total remuneration for the six months ended 30 June 2014 amounted to HK$2,663 million (2013: HK$2,108 million), including retirement benefit costs of HK$179 million (2013: HK$186 million).

**Safety**

Safety has always been a core value in CLP. This applies to all stakeholders including our employees, contractors, and customers. Our shared goal is zero injuries in all our assets. In the first six months of 2014, our safety performance was better than the same period in 2013. We had no fatal incidents and both our Lost Time Injury Rate (LTIR)[1] and Total Recordable Injury Rate (TRIR)[2] were better than last year (see table below).The most serious incident which happened in this period involved a contractor who suffered a fracture and deep cut to his right ankle when he was working at a coal handling plant of Jhajjar in India.

| | **2014 First Half** | | 2013 First Half | |
|---|---|---|---|---|
| | **Employees** | **Employees and Contractors** | Employees | Employees and Contractors |
| LTIR[1] | **0.02** | **0.09** | 0.08 | 0.19 |
| TRIR[2] | **0.15** | **0.36** | 0.25 | 0.39 |

Notes:
1 The number of lost time injuries measured over 200,000 working hours of exposure
2 The number of recordable injuries measured over 200,000 working hours of exposure

For many years, CLP has been the industry leader in safety and we are proud of our track records. To further improve our safety standard and ensure consistency across all our assets, we will implement our Health, Safety, Security and Environment (HSSE) Management System Standard in all our power stations this year. Building on our experiences, a set of 10 Critical Risk Standards specifying the minimum safety requirements at our power stations will also be introduced. We are confident that these new standards will enable us to do even better in terms of safety, continue our zero injuries target and align safety practices across our assets.

**Environment**

In the first half of 2014, our environmental performance continued to reflect the strong disciplines we have put in place to assess and manage the environmental impacts of our existing facilities (both under construction and operation) and new projects. This is an ongoing effort and we are in the process of enhancing our measures to strengthen our management of the environment.

Compliance

CLP Group had had no environmental regulatory non-compliance incidents in the first half of 2014 that resulted in fines or prosecutions. Our power plants experienced occasional licence limit exceedances due to normal operational fluctuations. There were a few minor incidents but they were all short episodic incidents that did not bear significant or additional impact on the environment. They also did not result in any regulatory sanctions.

Climate Change

As mentioned in CLP's 2013 Annual and Sustainability Reports, the Group's carbon intensity increased for the first time last year since we published our *Climate Vision 2050* in 2007, up from 0.77kg $CO_2$ / kWh in 2012 to 0.82kg $CO_2$ / kWh. During the first half of 2014, there were slight increases in both renewable energy and non-carbon emitting generation capacity. We expect the percentages of the above generation capacity of our total generation capacity to continue to fluctuate in the remainder of this year as our energy portfolio and equity ownership of our assets change.

We are witnessing a rise in the desire by governments worldwide to intervene more directly in power plants' environmental performance, often through strengthened regulatory control. Much of this intervention relates specifically to carbon (and air emissions) legislations. Two recent examples are the fuel mix consultation in Hong Kong and, in Australia, the repeal of carbon tax and substituting that with Direct Action Plan, a form of carbon mitigation policy that includes a government fund to pay for emission reductions. In both cases, we will continue to work with the governments to ascertain the best ways of meeting their environmental objectives.

At the same time, we have observed that regulatory changes in some countries have created new business opportunities for us especially in the area of renewable energy. These trends have most strongly benefited our businesses in China and India, where governments have developed supportive policies over the past five to 10 years that enabled renewable projects, especially wind, to compete on equal financial grounds with traditional coal-fired generation projects. CLP has actively taken advantage of these opportunities. Since 2007, we have built or contracted the output of projects from third parties for more than 1.5GW of wind projects, in India, China and Australia.

Reducing our carbon intensity in power generation and raising the share of renewable and non-carbon energy in our generation portfolio will continue to be challenging. Success will depend on many factors such as government policies, technological advancement (both in generation and mitigation), fuel prices, as well as the future of nuclear power and what role it will play in our portfolio. As a responsible enterprise, we will continue to do our best to meet the ambitious emissions targets we have set for ourselves, albeit not without challenges.

Air Quality

We have made a public commitment to significantly reduce air emissions of our power plants and we continue to work towards this goal.

As a regional power company, we recognise that to maintain our leadership position, we need to do more than mere compliance. We are now in the final stage of finalising a set of internal fossil fuel power plant air emissions requirements which we are going to adopt as the minimum performance requirements for our portfolio even if the requirements may be of a higher standard compared with the local regulations. We will report on this initiative in more detail in our next Sustainability Report.

In Hong Kong, we are committed to working diligently towards the government's emissions caps set for 2015 against a projected growth in electricity demand in the period. According to the government's blueprint, we are required to cut our sulphur dioxide ($SO_2$) emissions by over 60% and nitrogen oxides ($NO_X$) and respirable suspended particulates (RSP) by over 30% respectively from the 2010's emissions levels, while maintaining a reliable electricity supply and a reasonable tariff level.

**FINANCIAL INFORMATION**

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

***Consolidated Statement of Profit or Loss – Unaudited***

| | | **Six months ended 30 June** | |
|---|---|---|---|
| | | **2014** | 2013 |
| | ***Note*** | **HK$M** | HK$M |
| **Revenue** | *3, 4* | **47,102** | 51,706 |
| Expenses | | | |
| Purchases of electricity, gas and distribution services | | **(20,625)** | (25,199) |
| Operating lease and lease service payments | | **(3,606)** | (6,100) |
| Staff expenses | | **(1,953)** | (1,463) |
| Fuel and other operating expenses | | **(10,497)** | (8,877) |
| Depreciation and amortisation | | **(3,260)** | (3,871) |
| | | **(39,941)** | (45,510) |
| Other gain | *5* | **2,025** | - |
| Operating profit | *6* | **9,186** | 6,196 |
| Finance costs | | **(2,538)** | (3,382) |
| Finance income | | **62** | 98 |
| Share of results, net of income tax | | | |
| Joint ventures | | **964** | 1,230 |
| An associate | | **401** | 294 |
| Profit before income tax | | **8,075** | 4,436 |
| Income tax expense | *7* | **(1,182)** | (628) |
| Profit for the period | | **6,893** | 3,808 |
| **Earnings attributable to:** | | | |
| **Shareholders** | | **6,721** | 3,767 |
| Perpetual capital securities holders | | **29** | - |
| Non-controlling interests | | **143** | 41 |
| | | **6,893** | 3,808 |
| **Dividends** | *8* | | |
| First interim paid | | **1,364** | 1,339 |
| Second interim declared | | **1,364** | 1,339 |
| | | **2,728** | 2,678 |
| **Earnings per share, basic and diluted** | *9* | **HK$2.66** | HK$1.49 |

***Consolidated Statement of Profit or Loss and Other Comprehensive Income – Unaudited***

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$M** | HK$M |
| **Profit for the period** | **6,893** | 3,808 |
| Other comprehensive income | | |
| Items that can be reclassified to profit or loss | | |
| Exchange differences on translation | **1,492** | (4,469) |
| Cash flow hedges | **(461)** | 1 |
| Fair value changes on available-for-sale investments | **-** | 10 |
| Reclassification adjustment upon loss of joint control of joint ventures | **(422)** | - |
| Share of other comprehensive income of joint ventures | **19** | 3 |
| | **628** | (4,455) |
| Items that cannot be reclassified to profit or loss | | |
| Share of other comprehensive income of joint ventures | **(49)** | 111 |
| **Other comprehensive income for the period, net of tax** | **579** | (4,344) |
| Total comprehensive income for the period | **7,472** | (536) |
| **Total comprehensive income attributable to:** | | |
| **Shareholders** | **7,303** | (579) |
| Perpetual capital securities holders | **29** | - |
| Non-controlling interests | **140** | 43 |
| | **7,472** | (536) |

## *Consolidated Statement of Financial Position – Unaudited*

| | *Note* | **30 June 2014 HK$M** | (Audited) 31 December 2013 HK$M |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed assets | *10* | **128,916** | 126,876 |
| Leasehold land and land use rights under operating leases | *10* | **5,711** | 1,806 |
| Investment property | *10* | **2,276** | 2,221 |
| Goodwill and other intangible assets | | **36,636** | 23,847 |
| Interests in joint ventures | | **7,375** | 19,940 |
| Interest in an associate | | **1,176** | 1,675 |
| Finance lease receivables | | **985** | 989 |
| Deferred tax assets | | **3,128** | 3,084 |
| Derivative financial instruments | | **2,464** | 3,118 |
| Available-for-sale investments | | **1,263** | 1,263 |
| Other non-current assets | | **121** | 147 |
| | | **190,051** | 184,966 |
| **Current assets** | | | |
| Inventories – stores and fuel | | **3,749** | 1,482 |
| Renewable energy certificates | | **758** | 997 |
| Trade and other receivables | *11* | **20,416** | 17,953 |
| Finance lease receivables | | **52** | 49 |
| Derivative financial instruments | | **724** | 1,005 |
| Bank balances, cash and other liquid funds | | **6,822** | 5,233 |
| Other current assets | *12* | **2,700** | - |
| | | **35,221** | 26,719 |
| **Current liabilities** | | | |
| Customers' deposits | | **(4,576)** | (4,506) |
| Trade and other payables | *13* | **(22,848)** | (19,325) |
| Income tax payable | | **(918)** | (141) |
| Bank loans and other borrowings | | **(13,210)** | (7,118) |
| Obligations under finance leases | | **(1)** | (2,763) |
| Derivative financial instruments | | **(1,281)** | (1,279) |
| | | **(42,834)** | (35,132) |
| Net current liabilities | | **(7,613)** | (8,413) |
| **Total assets less current liabilities** | | **182,438** | 176,553 |

## *Consolidated Statement of Financial Position – Unaudited (continued)*

| | *Note* | **30 June 2014 HK$M** | (Audited) 31 December 2013 HK$M |
|---|---|---|---|
| **Financed by:** | | | |
| **Equity** | | | |
| Share capital | *15* | **23,243** | 12,632 |
| Share premium | | **-** | 8,119 |
| Reserves | | | |
| Declared dividends | | **1,364** | 2,476 |
| Others | | **66,217** | 64,134 |
| Shareholders' funds | | **90,824** | 87,361 |
| Perpetual capital securities | *16* | **5,791** | - |
| Non-controlling interests | | **2,192** | 120 |
| | | **98,807** | 87,481 |
| **Non-current liabilities** | | | |
| Bank loans and other borrowings | | **62,203** | 48,933 |
| Obligations under finance leases | | **31** | 25,213 |
| Deferred tax liabilities | | **13,233** | 8,548 |
| Derivative financial instruments | | **3,045** | 3,440 |
| Fuel clause account | | **2,091** | 1,464 |
| Scheme of Control (SoC) reserve accounts | *14* | **135** | 28 |
| Other non-current liabilities | | **2,893** | 1,446 |
| | | **83,631** | 89,072 |
| **Equity and non-current liabilities** | | **182,438** | 176,553 |

*Notes:*

## 1. Basis of Preparation

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

The interim financial statements have been prepared in accordance with the accounting policies adopted in the Group's annual consolidated financial statements for the year ended 31 December 2013, except for the adoption of the following revised Hong Kong Financial Reporting Standards (HKFRS) effective 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 Improvement to HKFRS 2010-2012 Cycle

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

The condensed consolidated interim financial statements were approved for issue by the Board of Directors on 14 August 2014.

## 2. Business Combinations

On 12 May 2014 the Group completed the acquisition of a further 30% interest in Castle Peak Power Company Limited (CAPCO) and the remaining 51% interest in Hong Kong Pumped Storage Development Company, Limited (PSDC).

The acquisitions were based on the agreements, signed on 19 November 2013, (a) whereby each of CLP Power Hong Kong Limited (CLP Power Hong Kong) 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) whereby CLP Power Hong Kong agreed to 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 was 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 | (791) | 1,871 |
| | 11,583 | 1,927 |

**2. Business Combinations (continued)**

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 5).

The Group owned a 40% equity interest in CAPCO and a 49% equity interest in PSDC ("Initial Equity Investments") before the acquisitions. The acquisition of the additional 30% equity interest in CAPCO and 51% equity interest in PSDC gives the Group control over both CAPCO and PSDC. Therefore 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. Therefore the Initial Equity Investments are remeasured to fair value at the acquisition date and any gain or loss arising is recognised in the statement of profit or loss. The Initial Equity Investments are deemed to have been disposed of, in return, 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. The aggregate gain on deemed disposal of the Initial Equity Investments is HK$7,363 million (HK$5,599 million with respect to CAPCO and HK$1,764 million with respect to PSDC). This is recognised in the Group's consolidated statement of profit or loss (Note 5).

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:

<u>CAPCO</u>

Fair value of net assets:

| | HK$M |
|---|---|
| Fixed assets | 193 |
| Leasehold land and land use rights 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 | 7,235 |

Acquisition method of accounting:

| | HK$M | HK$M |
|---|---|---|
| Consideration for 70% equity interest in CAPCO | | |
| Cash consideration | (791) | |
| Fair value of existing 40% interest in joint venture [(a)] | 6,063 | |
| 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 | 5,338 | |
| Fair value of net assets attributable to the Group | | (1,897) |
| Goodwill [(c)] | | 5,545 |

## 2. Business Combinations (continued)

Notes:

(a) The fair value of existing 40% interest in CAPCO was derived 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 interests in CAPCO at the non-controlling interests' 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. The goodwill is allocated to the Hong Kong segment. None of the goodwill recognised is expected to be deductible for income tax purposes.

PSDC

Fair value of net assets:

| | 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 | 3,669 |

Acquisition method of accounting:

| | HK$M | HK$M |
|---|---|---|
| Consideration for 100% equity interest in PSDC | | |
| Cash consideration | 1,871 | |
| Fair value of existing 49% interest in joint venture | 1,798 | |
| Total consideration for 100% equity interest in PSDC | | 3,669 |
| Less: Fair value of net assets | | (3,669) |
| Goodwill (note) | | - |

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 are included in fuel and other operating expenses in the consolidated statement of profit or loss. These 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 Hong Kong through the electricity supply and pumped storage service arrangements with CLP Power Hong Kong and therefore, no additional revenue is contributed by CAPCO and PSDC. The profit included in the consolidated statement of profit or loss from May 2014 to June 2014 contributed by CAPCO and PSDC was HK$514 million. Had CAPCO and PSDC been consolidated from 1 January 2014, the consolidated statement of profit or loss would have included profit of HK$1,536 million.

## 3. Revenue

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

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$M** | HK$M |
| Sales of electricity | **40,126** | 44,069 |
| Sales of gas | **3,588** | 4,087 |
| Lease service income under Power Purchase Agreement (PPA) | **140** | 355 |
| Finance lease income under PPA | **77** | 131 |
| Operating lease income under PPA | **1,555** | 784 |
| Other revenue [(a)] | **1,651** | 1,567 |
| | **47,137** | 50,993 |
| Transfer for SoC (from)/to revenue [(b)] | **(35)** | 713 |
| | **47,102** | 51,706 |

Notes:

(a) Including carbon compensation in the form of free carbon units totalling HK$924 million (A$130 million) (2013: cash assistance of HK$1,005 million (A$129 million)) received by EnergyAustralia Holdings Limited (EnergyAustralia) under the Energy Security Fund with respect to Yallourn Power Station. The compensation received was recognised as revenue over the relevant period on a systematic basis.

(b) Under the SoC, if the gross tariff revenue in Hong Kong in a period is less than or exceeds the total of the SoC operating costs, permitted return and taxation charges, such deficiency shall be deducted from, or such excess shall be added to, the Tariff Stabilisation Fund under the SoC (Note 14). 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.

## 4. Segment Information

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

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

| | Hong Kong HK$M | Mainland China HK$M | India HK$M | Southeast Asia & Taiwan HK$M | Australia HK$M | Unallocated Items HK$M | Total HK$M |
|---|---|---|---|---|---|---|---|
| **Six months ended 30 June 2014** | | | | | | | |
| Revenue | 16,843 | 378 | 2,165 | 3 | 27,711 | 2 | **47,102** |
| EBITDAF[(a)] of subsidiaries | 9,422 | 195 | 862 | (20) | 2,355 | (315) | **12,499** |
| Share of results, net of income tax | | | | | | | |
| Joint ventures | 411 | 424 | - | 131 | (2) | - | **964** |
| An associate | - | 401 | - | - | - | - | **401** |
| EBITDAF[(a)] of the Group | 9,833 | 1,020 | 862 | 111 | 2,353 | (315) | **13,864** |
| Depreciation and amortisation | (1,917) | (158) | (238) | - | (927) | (20) | **(3,260)** |
| Fair value adjustments | 3 | - | - | - | (56) | - | **(53)** |
| Finance costs | (1,465) | (101) | (399) | - | (532) | (41) | **(2,538)** |
| Finance income | 7 | 2 | 24 | 2 | 14 | 13 | **62** |
| Profit/(loss) before income tax | 6,461 | 763 | 249 | 113 | 852 | (363) | **8,075** |
| Income tax expense | (684) | (64) | (167) | - | (267) | - | **(1,182)** |
| Profit/(loss) for the period | 5,777 | 699 | 82 | 113 | 585 | (363) | **6,893** |
| Earnings attributable to | | | | | | | |
| Perpetual capital securities holders | (29) | - | - | - | - | - | **(29)** |
| Non-controlling interests | (136) | (7) | - | - | - | - | **(143)** |
| Earnings/(loss) attributable to shareholders | 5,612 | 692 | 82 | 113 | 585 | (363) | **6,721** |
| Excluding: One-off items | (1,953) | - | - | - | - | - | **(1,953)** |
| Operating earnings | 3,659 | 692 | 82 | 113 | 585 | (363) | **4,768** |
| **At 30 June 2014** | | | | | | | |
| Fixed assets | 94,959 | 5,285 | 11,973 | - | 16,536 | 163 | **128,916** |
| Goodwill and other intangible assets | 5,545 | 5,600 | 30 | - | 25,461 | - | **36,636** |
| Interests in joint ventures | 17 | 5,343 | - | 1,652 | 363 | - | **7,375** |
| Interest in an associate | - | 1,176 | - | - | - | - | **1,176** |
| Deferred tax assets | - | 57 | 3 | - | 3,068 | - | **3,128** |
| Other assets | 17,523 | 6,477 | 5,815 | 83 | 14,214 | 3,929 | **48,041** |
| Total assets | 118,044 | 23,938 | 17,821 | 1,735 | 59,642 | 4,092 | **225,272** |
| Bank loans and other borrowings | 40,316 | 3,551 | 9,156 | - | 16,290 | 6,100 | **75,413** |
| Current and deferred tax liabilities | 12,620 | 1,034 | 497 | - | - | - | **14,151** |
| Obligations under finance leases | - | - | - | - | 32 | - | **32** |
| Other liabilities | 21,436 | 1,359 | 1,036 | 3 | 12,894 | 141 | **36,869** |
| Total liabilities | 74,372 | 5,944 | 10,689 | 3 | 29,216 | 6,241 | **126,465** |

## 4. Segment Information (continued)

| | Hong Kong HK$M | Mainland China HK$M | India HK$M | Southeast Asia & Taiwan HK$M | Australia HK$M | Unallocated Items HK$M | Total HK$M |
|---|---|---|---|---|---|---|---|
| Six months ended 30 June 2013 | | | | | | | |
| Revenue | 15,897 | 445 | 1,601 | 8 | 33,753 | 2 | 51,706 |
| EBITDAF[(a)] of subsidiaries | 7,209 | 242 | 598 | (10) | 2,351 | (207) | 10,183 |
| Share of results, net of income tax | | | | | | | |
| Joint ventures | 611 | 568 | - | 70 | (19) | - | 1,230 |
| An associate | - | 294 | - | - | - | - | 294 |
| EBITDAF[(a)] of the Group | 7,820 | 1,104 | 598 | 60 | 2,332 | (207) | 11,707 |
| Depreciation and amortisation | (2,152) | (105) | (220) | - | (1,375) | (19) | (3,871) |
| Fair value adjustments | (5) | - | 5 | - | (116) | - | (116) |
| Finance costs | (1,795) | (101) | (563) | - | (896) | (27) | (3,382) |
| Finance income | 7 | 1 | 53 | 3 | 22 | 12 | 98 |
| Profit/(loss) before income tax | 3,875 | 899 | (127) | 63 | (33) | (241) | 4,436 |
| Income tax expense | (421) | (68) | (85) | - | (54) | - | (628) |
| Profit/(loss) for the period | 3,454 | 831 | (212) | 63 | (87) | (241) | 3,808 |
| Earnings attributable to non-controlling interests | - | (41) | - | - | - | - | (41) |
| Earnings/(loss) attributable to shareholders | 3,454 | 790 | (212) | 63 | (87) | (241) | 3,767 |
| Excluding: One-off items | - | 87 | - | - | 42 | - | 129 |
| Operating earnings | 3,454 | 877 | (212) | 63 | (45) | (241) | 3,896 |
| At 31 December 2013 | | | | | | | |
| Fixed assets | 93,782 | 5,405 | 11,628 | - | 15,889 | 172 | 126,876 |
| Goodwill and other intangible assets | - | 40 | 29 | - | 23,778 | - | 23,847 |
| Interests in joint ventures | 9,478 | 8,349 | - | 1,789 | 324 | - | 19,940 |
| Interest in an associate | - | 1,675 | - | - | - | - | 1,675 |
| Deferred tax assets | - | 60 | 3 | - | 3,021 | - | 3,084 |
| Other assets | 10,044 | 3,177 | 5,443 | 87 | 15,702 | 1,810 | 36,263 |
| Total assets | 113,304 | 18,706 | 17,103 | 1,876 | 58,714 | 1,982 | 211,685 |
| Bank loans and other borrowings | 28,293 | 3,457 | 8,479 | - | 14,406 | 1,416 | 56,051 |
| Current and deferred tax liabilities | 8,193 | 188 | 308 | - | - | - | 8,689 |
| Obligations under finance leases | 27,947 | - | - | - | 29 | - | 27,976 |
| Other liabilities | 13,768 | 400 | 1,426 | 3 | 15,708 | 183 | 31,488 |
| Total liabilities | 78,201 | 4,045 | 10,213 | 3 | 30,143 | 1,599 | 124,204 |

Note:
(a) EBITDAF refers to Earnings before interest, tax, depreciation and amortisation, and fair value adjustments.

## 5. Other Gain

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$M** | HK$M |
| Net gain on CAPCO and PSDC acquisitions (Note 2) | | |
| 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)** | - |
| | **2,025** | - |

## 6. Operating Profit

Operating profit is stated after charging/(crediting) the following:

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$M** | HK$M |
| **Charging** | | |
| Staff costs | | |
| Salaries and other costs | **1,831** | 1,331 |
| Retirement benefits costs | **122** | 132 |
| Impairment of fixed assets and leasehold land and land use rights | - | 38 |
| Net fair value (gain)/loss on non-financing related derivative financial instruments | | |
| Cash flow hedges, reclassified from equity to | | |
| Purchases of electricity, gas and distribution services | **(140)** | (333) |
| Fuel and other operating expenses | **(63)** | (97) |
| Transactions not qualifying as hedges | **53** | 302 |
| Ineffectiveness of cash flow hedges | - | (186) |
| Net exchange loss/(gain) | **110** | (4) |
| **Crediting** | | |
| Net gain on disposal of fixed assets | **(11)** | (46) |
| Gain on sale of interest in Waterloo | - | (33) |

## 7. Income Tax Expense

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$M** | HK$M |
| Current income tax | | |
| Hong Kong | **492** | 230 |
| Outside Hong Kong | **102** | 154 |
| | **594** | 384 |
| Deferred tax | | |
| Hong Kong | **191** | 191 |
| Outside Hong Kong | **397** | 53 |
| | **588** | 244 |
| | **1,182** | 628 |

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits for the period. Income tax on profits assessable outside Hong Kong has been provided at the rates prevailing in the respective jurisdictions.

## 8. Dividends

| | Six months ended 30 June | | | |
|---|---|---|---|---|
| | **2014** | | 2013 | |
| | **HK$ per share** | **HK$M** | HK$ per share | HK$M |
| First interim dividend paid | **0.54** | **1,364** | 0.53 | 1,339 |
| Second interim dividend declared | **0.54** | **1,364** | 0.53 | 1,339 |
| | **1.08** | **2,728** | 1.06 | 2,678 |

At the Board meeting held on 14 August 2014, the Directors declared the second interim dividend of HK$0.54 per share (2013: HK$0.53 per share). The second interim dividend is not reflected as a dividend payable in the interim financial statements, but as a separate component of the shareholders' funds at 30 June 2014.

## 9. Earnings per Share

The earnings per share are computed as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| Earnings attributable to shareholders (HK$M) | **6,721** | 3,767 |
| Number of shares in issue (thousand shares) | **2,526,451** | 2,526,451 |
| Earnings per share (HK$) | **2.66** | 1.49 |

Basic and fully diluted earnings per share are the same as the Company did not have any dilutive equity instruments throughout the six months ended 30 June 2014 and 30 June 2013.

## 10. Fixed Assets, Leasehold Land and Land Use Rights under Operating Leases and Investment Property

Fixed assets, leasehold land and land use rights under operating leases and investment property totalled HK$136,903 million at 30 June 2014 (31 December 2013: HK$130,903 million). Movements in the accounts are as follows:

| | Fixed Assets | | | | | | | Leasehold Land and Land Use Rights under Operating Leases | Investment Property |
|---|---|---|---|---|---|---|---|---|---|
| | Land | | Buildings | | Plant, Machinery and Equipment | | | | |
| | Freehold HK$M | Leased HK$M | Owned HK$M | Leased [(a)] HK$M | Owned HK$M | Leased [(a)] HK$M | Total HK$M | HK$M | HK$M |
| Net book value at 1 January 2014 | 826 | 506 | 13,473 | 5,615 | 84,063 | 22,393 | 126,876 | 1,806 | 2,221 |
| Acquisition of subsidiaries (Note 2) | - | - | 5,544 | (5,477) | 22,333 | (22,206) | 194 | 3,811 | - |
| Additions | - | - | 445 | 18 | 2,640 | 569 | 3,672 | 139 | 55 |
| Transfers and disposals | (79) | (6) | 310 | (41) | (260) | (66) | (142) | - | - |
| Depreciation/ amortisation | - | (7) | (178) | (115) | (1,776) | (678) | (2,754) | (43) | - |
| Exchange differences | 32 | - | (36) | - | 1,072 | 2 | 1,070 | (2) | - |
| **Net book value at 30 June 2014** | **779** | **493** | **19,558** | **-** | **108,072** | **14** | **128,916** | **5,711** | **2,276** |
| Cost/valuation | 795 | 592 | 30,457 | - | 187,977 | 34 | 219,855 | 6,183 | 2,276 |
| Accumulated depreciation/ amortisation and impairment | (16) | (99) | (10,899) | - | (79,905) | (20) | (90,939) | (472) | - |
| **Net book value at 30 June 2014** | **779** | **493** | **19,558** | **-** | **108,072** | **14** | **128,916** | **5,711** | **2,276** |

Note:

(a) At 31 December 2013, these leased assets included mainly CAPCO's operational generating plant and associated fixed assets of net book value of HK$27,947 million, which were deployed for the generation of electricity supplied to CLP Power Hong Kong under the Electricity Supply Contract between the two parties. This arrangement was accounted for as finance leases in accordance with HK(IFRIC)-Int 4 and HKAS 17. Following the acquisition of CAPCO as a subsidiary (Note 2), these leased assets have been reclassified as owned assets.

## 11. Trade and Other Receivables

| | **30 June 2014 HK$M** | 31 December 2013 HK$M |
|---|---|---|
| Trade receivables (note) | **15,795** | 13,864 |
| Deposits, prepayments and other receivables | **3,094** | 3,187 |
| Dividends receivable from | | |
| Joint ventures | **1,240** | 760 |
| An available-for-sale investment | **80** | 82 |
| Current accounts with | | |
| Joint ventures | **207** | 58 |
| An associate | **-** | 2 |
| | **20,416** | 17,953 |

Note: The Group has established credit policies for customers in each of its retail businesses. CLP Power Hong Kong's credit policy in respect of receivables arising from its principal electricity business is to allow customers to settle their electricity bills within two weeks after issue. Customers' receivable balances are generally secured by cash deposits or bank guarantees. For subsidiaries outside Hong Kong, the credit term for trade receivables ranges from about 14 to 90 days.

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

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

| | **30 June 2014 HK$M** | 31 December 2013 HK$M |
|---|---|---|
| 30 days or below | **13,537** | 11,366 |
| 31 – 90 days | **888** | 1,292 |
| Over 90 days | **1,370** | 1,206 |
| | **15,795** | 13,864 |

## 12. Other Current Assets

On 2 April 2014, the Group entered into the share transfer agreement (the "Agreement") with a third party to sell the entire issued share capital and all related shareholder's loans of CLP Power China (Tianjin) Limited (CLP China Tianjin) and CLP Power China (Shenmu) Limited (CLP China Shenmu) for a cash consideration of US dollar equivalent of RMB2,250 million (HK$2,808 million).

It is a condition under the Agreement that CLP China Tianjin will undergo an internal restructuring before completion of the disposal so that it will own 30% of the registered capital of CSEC Guohua International Power Company Limited (CSEC Guohua) upon completion of the internal restructuring. CLP China Shenmu owns 49% of the registered capital of CLP Guohua Shenmu Power Company Limited (Shenmu). Completion of the sale is subject to the internal shareholding restructuring which in turn requires corporate and regulatory approvals. The transaction is expected to be completed by the end of 2014.

According to the provisions of the Agreement, the Group considered that the Group lost the joint control over the joint ventures of CSEC Guohua and Shenmu. Accordingly, the aggregate interests in these joint ventures of HK$2,700 million have been reclassified as other current assets.

## 13. Trade and Other Payables

| | 30 June 2014 HK$M | 31 December 2013 HK$M |
|---|---|---|
| Trade payables (note) | **8,011** | 11,336 |
| Other payables and accruals | **7,067** | 5,436 |
| Advances from non-controlling interests | **7,006** | - |
| Current accounts with | | |
| Joint ventures | **1** | 1,474 |
| An associate | **164** | 55 |
| Deferred revenue | **599** | 1,024 |
| | **22,848** | 19,325 |

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

| | 30 June 2014 HK$M | 31 December 2013 HK$M |
|---|---|---|
| 30 days or below | **7,472** | 10,641 |
| 31 – 90 days | **193** | 472 |
| Over 90 days | **346** | 223 |
| | **8,011** | 11,336 |

## 14. SoC Reserve Accounts

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

| | 30 June 2014 HK$M | 31 December 2013 HK$M |
|---|---|---|
| Tariff Stabilisation Fund | **63** | 19 |
| Rate Reduction Reserve | **-** | 9 |
| Rent and Rates Interim Refunds (note) | **72** | - |
| | **135** | 28 |

Note: CLP Power Hong Kong is challenging the amount of Government rent and rates levied dating back to the year of assessment 1999/2000. While the original Lands Tribunal judgment and the subsequent judgment on the review of valuation matters were received in CLP Power Hong Kong'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 Hong Kong 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 the current period, 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 Hong Kong 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 Hong Kong 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.

## 15. Share Capital

| | Number of Ordinary Shares | Amount HK$M |
|---|---|---|
| Issued and fully-paid | | |
| At 1 January 2014 | 2,526,450,570 | 12,632 |
| Transfer from share premium and capital redemption reserve (note) | - | 10,611 |
| **At 30 June 2014** | **2,526,450,570** | **23,243** |

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 and the capital redemption reserve has become part of the Company's share capital.

## 16. Perpetual Capital Securities

During the period, 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 payable semi-annually in arrears. The distributions are at the Group's discretion, if the issuer and CLP Power Hong Kong, 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.

## 17. Commitments

(A) Capital expenditure on fixed assets, leasehold land and land use rights under operating leases and investment property, as well as intangible assets, contracted or authorised but not recorded in the statement of financial position is as follows:

| | **30 June 2014 HK$M** | 31 December 2013 HK$M |
|---|---|---|
| Contracted but not provided for | **6,155** | 5,812 |
| Authorised but not contracted for | **7,628** | 9,834 |
| | **13,783** | 15,646 |

(B) The Group has entered into a number of joint arrangements to develop power projects. At 30 June 2014, remaining equity contributions of HK$110 million (31 December 2013: HK$742 million) were required to be made by the Group.

(C) At 30 June 2014, the Group's share of capital commitments of its joint ventures was HK$3,384 million (31 December 2013: HK$1,956 million).

## 18. Contingent Liabilities

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

Under the original power purchase agreement between CLP India and its off-taker GUVNL, GUVNL was required to make a "deemed generation incentive" payment to CLP India when the plant availability of Paguthan was above 68.5% (subsequently revised to 70% in 2003 and 80% in 2013). GUVNL has been making such payments since December 1997.

In September 2005, GUVNL filed a petition before the Gujarat Electricity Regulatory Commission (GERC) claiming that the "deemed generation incentive" payment should not be paid for the periods when Paguthan is declared with availability to generate on "naphtha" as fuel rather than on "gas". GUVNL's contention is based on a 1995 Government of India notification which disallowed "deemed generation incentive" for naphtha-based power plants. The total amount of the claim plus interest calculated up to June 2005 amounts to about Rs.7,260 million (HK$937 million). CLP India's position, amongst other arguments, is that Paguthan is not naphtha-based and therefore the Government of India notification does not apply to disallow the payments of the "deemed generation incentive".

GUVNL also claimed that CLP India has wrongly received interest on "deemed loans" under the existing power purchase agreement. GUVNL's claim rests on two main grounds: (i) CLP India had agreed that interest paid by GUVNL for the period from December 1997 to 1 July 2003 was to be refunded; and (ii) interest was to be calculated on a reducing balance rather than on the basis of a bullet repayment on expiry of the loan term. The total amount of the claim plus interest for the "deemed loans" amounts to a further Rs.830 million (HK$107 million) (31 December 2013: Rs.830 million (HK$104 million)).

On 18 February 2009, the GERC made an adjudication on GUVNL's claims. On the issue related to the payment to CLP India of "deemed generation incentive", the GERC decided that the "deemed generation incentive" was not payable when Paguthan was declared with availability to generate on naphtha. However, the GERC also decided that GUVNL's claim against CLP India in respect of deemed generation incentive up to 14 September 2002 was time-barred under the Limitations Act of India. Hence, the total amount of the claim allowed by the GERC was reduced to Rs.2,523 million (HK$326 million). The GERC also dismissed GUVNL's claim to recover interest on the "deemed loans".

**18. Contingent Liabilities (continued)**

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

CLP India filed an appeal with the Appellate Tribunal for Electricity (ATE) against the decision of the GERC. GUVNL also filed an appeal in the ATE against an order of the GERC rejecting GUVNL's claims on interest on deemed loans and the time barring of the deemed generation claim to 14 September 2002. On 19 January 2010, the ATE dismissed both CLP India and GUVNL's appeals and upheld the decision of the GERC. CLP India has filed an appeal against the ATE order in the Supreme Court of India. The appeal petition was admitted on 16 April 2010 but the next date of hearing has not yet been fixed by the court. GUVNL has also filed a cross appeal challenging those parts of the ATE judgment which held that GUVNL's claims before September 2002 were time barred and which disallowed its claims for interest on "deemed loans".

Following the issue of the ATE's judgment, GUVNL deducted Rs.3,731 million (HK$482 million) from January to March 2010 invoices after adjustment for a previous deposit of Rs.500 million (HK$65 million), which included tax on incentive relating to deemed generation on naphtha, and delayed payment charges on associated incentive calculated up to March 2010.

Subsequent to the above deduction, CLP India represented to GUVNL that, during April 2004 to March 2006, gas was available for generation and therefore should not be considered as availability (deemed generation) on naphtha. GUVNL accepted the representation and refunded the base amount of Rs.292 million (HK$38 million) and interest of Rs.150 million (HK$19 million) in March 2011. However, during the first and last quarter of 2011, with the spot gas availability being constrained, Paguthan was forced to declare availability on naphtha for certain periods, which resulted in deduction of incentive revenue by GUVNL under deemed generation of Rs.17 million (HK$2 million). At 30 June 2014, the total amount of the claim plus interest and tax with respect to the "deemed generation incentive" amounted to Rs.8,543 million (HK$1,103 million) (31 December 2013: Rs.8,543 million (HK$1,073 million)). There have been no significant developments in this case during the period. Subsequent to 30 June 2014, the case has been accelerated through the judicial process and it is expected that it may be heard by the Supreme Court in the second half of 2014.

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

## 18. Contingent Liabilities (continued)

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

CLP Wind Farms (India) Private Limited, CLP India and its subsidiaries (CLP India group) have invested (or are committed to invest) in around 681MW of wind power projects to be developed with Wind World India Limited (WWIL). WWIL's major shareholder, Enercon GmbH, has commenced litigation against WWIL claiming infringement of intellectual property rights. CLP India group, as a customer of WWIL, has been named as a defendant. Enercon GmbH is also seeking an injunction restraining CLP India group's use of certain rotor blades acquired from WWIL. As at 30 June 2014, the Group considered that CLP India group has good prospects of defending these claims and the legal proceedings are unlikely to result in any material outflow of economic benefits from the Group.

(C) Jhajjar – Disputed Charges with Off-takers

Jhajjar has disputes with its off-takers over applicable tariff of capacity charges, energy charges relating to transit loss, coal-handling agent charges and Unscheduled Interchange charges payable as per the Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2009. Total disputed amounts were Rs.1,677 million (HK$216 million) at 30 June 2014 (31 December 2013: Rs.1,433 million (HK$180 million)). Jhajjar has filed a petition against its off-takers in March 2013. The Group considered that Jhajjar has a strong case and hence, no provision has been made.

(D) Land Premium of a Property in Hong Kong

The Group received a demand note in 2013 from the relevant authorities of the Hong Kong Government in an amount of HK$280 million as land premium relating to the Group's new office at Laguna Verde at Hung Hom.

As an alternative to paying a land premium, the Group applied for a temporary waiver of the relevant lease approval which gave rise to the land premium. Under the waiver, an annual waiver fee is payable over the waiver term. While the Group is appealing on the quantum of the waiver fee, the Group accepted the other terms of the waiver offer and settled the waiver fees in July 2014. So long as the waiver remains in place, the above land premium will not apply.

## 19. Event after the End of the Reporting Period

On 17 July 2014, the Australian Federal Government passed legislation to repeal the carbon tax effective from 1 July 2014. The repeal legislation requires retailers of electricity and natural gas to pass on the cost savings that are directly or indirectly attributable to the carbon tax repeal to their respective customers.

As the impact of the carbon tax repeal legislation was factored into relevant Australian asset and liability valuations at 30 June 2014, the new legislation will not result in any change to the balances presented in the consolidated statement of financial position. Further assessment will be conducted at 2014 year end for any subsequent unanticipated impacts after the implementation of the legislation.

If the legislative provisions of the carbon tax repeal had been in effect for the first half ended 30 June 2014, it is estimated that there would have been a HK$583 million (A$82 million) reduction in earnings of EnergyAustralia. This would have been primarily due to a net reduction in earnings in relation to the operations of the Yallourn Power Station following the cessation of transitional assistance arrangements associated with the carbon tax. Further, there would have also been an earnings reduction related to our gas generation and renewable portfolios. The Group considers that the repeal of the carbon tax will have a negative impact on the short term earnings of EnergyAustralia. For the longer term, this change should enhance returns from our low-cost base load stations.

# SUPPLEMENTARY INFORMATION ON TREASURY ACTIVITIES

The Group engaged in new financing activities in the first half of 2014 in support of the expansion of its electricity business. CLP Power Hong Kong successfully arranged its inaugural issuance of US$500 million (HK$3.9 billion) 4.25% perpetual capital securities in April 2014 (with about 2.4 times over-subscription by US$1.2 billion orders from about 100 global investors) and with an upsize of US$250 million (HK$1.9 billion) (collectively "Hybrid Securities") in June 2014 following strong reverse enquiry demand by investors. The Hybrid Securities achieved a record of lowest fixed rate US dollar denominated corporate hybrid ever issued globally, and one of the tightest ever senior-hybrid premiums for a corporate hybrid. The Hybrid Securities, which are perpetual and non-callable in the first 5.5 years, are classified as equity in the Group financial statements and allow CLP Power Hong Kong to achieve 50% equity credit from Moody's for life and Standard and Poor's (S&P) for the first 5.5 years from issuance. The issuance further strengthens CLP Power Hong Kong's credit profile which filters through to CLP Holdings', diversifies funding sources and helps maintain the strong credit ratings of CLP Holdings and CLP Power Hong Kong. The US dollar principal amount of the Hybrid Securities was hedged back to Hong Kong dollars to mitigate foreign currency risk. CLP Power Hong Kong also completed HK$4 billion conventional debt funding in the first half of the year when the financial market remained borrower-friendly so that the Company can lock in attractive financing terms. These comprise: (i) JPY26 billion (HK$2 billion) 3-year cross-border bank loans syndicated to 24 regional and city banks in Japan with 1.3 times oversubscription in June 2014. The cost of such borrowing was lower than that of loans offered by Hong Kong based banks with the same tenor. Japanese yen proceeds were swapped back to Hong Kong dollars to mitigate foreign currency risk; (ii) HK$1.2 billion 5-year bank loan facilities arranged in March 2014 at preferential rates; and (iii) HK$800 million 12-year fixed rate bonds issued under the Medium Term Note (MTN) Programme in January and February 2014 at attractive terms. CLP Power Hong Kong's MTN Programme was set up by its wholly-owned subsidiary CLP Power Hong Kong Financing Limited in 2002. Under the MTN Programme, bonds in an aggregate amount of up to US$4.5 billion may be issued and will be unconditionally and irrevocably guaranteed by CLP Power Hong Kong. As at 30 June 2014, notes with an aggregate nominal value of about HK$24.9 billion have been issued under the MTN Programme.

In Australia, EnergyAustralia extended a A$700 million (HK$5.1 billion) working capital facility in June 2014 by one year from June 2016 to June 2017 with existing lenders at a lower interest margin. In India, Jhajjar Power Limited executed a Rs.4.15 billion (HK$536 million) project loan facility with an Indian bank in July 2014 to refinance part of the existing Indian rupee debt at a reduced interest rate. The domestic credit ratings of CLP India Private Limited and CLP Wind Farms (India) Private Limited benefited from a revised rating approach by Fitch India and were upgraded to AAA (three notches higher than previously) and AA (two notches higher) respectively. CLP India Wind Farms (India) Private Limited arranged Rs.4.7 billion (HK$607 million) one to three years bank loans in the first half of 2014 to bridge finance the construction of various wind projects which will be replaced by long-term financing after completion of construction. In Mainland China, a RMB630 million (HK$785 million) non-recourse project level loan for Sihong solar project (51% CLP owned) was arranged in June 2014.

As at 30 June 2014, the Group maintained HK$110.3 billion financing facilities, including HK$36.9 billion for EnergyAustralia and subsidiaries in India. Of the facilities available, HK$75.4 billion had been drawn down, of which HK$25.4 billion relates to EnergyAustralia and subsidiaries in India. The Group's total debt to total capital ratio as at 30 June 2014 was 41.6%, decreasing to 39.3% after netting off bank balances, cash and other liquid funds. Interest cover for the period ended 30 June 2014 was 8 times.

CLP always strives to maintain good investment grade credit ratings. In November 2013, following the announcement of the proposed acquisition of a further 30% interest in CAPCO and the remaining 51% interest in PSDC, S&P and Moody's put the credit ratings of CLP Holdings and CLP Power Hong Kong on watch with negative implication. Since then, CLP had entered into constructive dialogues with credit rating agencies to show the strategic rationale of the acquisition as well as the sound business profile and the robust cash flow of the transaction. CLP also reviewed the capital structure of the SoC business and issued an aggregate of US$750 million Hybrid Securities to further optimise the balance sheet of the regulated utility and holding company. In addition, the divestment of minority interests in two Chinese coal-fired projects (CSEC Guohua and Shenmu) announced in April 2014 will generate cash flow and reduce the Group's debt leverage.

These proactive initiatives delivered good outcome. In response to CLP Power Hong Kong's issuance of Hybrid Securities, Moody's revised the rating outlook of CLP Power Hong Kong to stable from negative and affirmed the A1 and A2 credit ratings of CLP Power Hong Kong and CLP Holdings respectively in April 2014. The rating outlook of CLP Holdings remains negative mainly due to challenges in EnergyAustralia's business. Following the completion of CAPCO and PSDC acquisitions in May 2014, S&P removed the credit ratings of CLP Holdings and CLP Power Hong Kong from credit watch and kept the outlook for both companies negative. S&P assessed the business risk profile of CLP Power Hong Kong as "excellent" and opined that CLP Power Hong Kong would remain financial stable on a standalone basis. However, as S&P's rating methodology tightly links the outlook of an operating company with that of the holding company, CLP Power Hong Kong's outlook was affected by the operating environment for CLP Holdings' overseas businesses, particularly in Australia. In May 2014, S&P Australia affirmed the BBB- credit rating of EnergyAustralia with negative outlook.

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

As at 30 June 2014, the Group had gross outstanding derivative financial instruments amounted to HK$170.7 billion. The fair value of these derivative instruments was a net deficit of HK$1,138 million, representing the net amount payable if these contracts were closed out on 30 June 2014.

**CORPORATE GOVERNANCE**

## Corporate Governance Practices

In the Corporate Governance Report of 27 February 2014, which was published in our 2013 Annual Report, we reported that the Company had adopted its own Code on Corporate Governance (CLP Code) in February 2005 (most recently updated in February 2012). This incorporated all of the Code Provisions and Recommended Best Practices in the Hong Kong Stock Exchange's Corporate Governance Code and Corporate Governance Report (the Stock Exchange Code), Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, save for one exception.

This single deviation from the Recommended Best Practices of the Stock Exchange Code relates to the recommendation that an issuer should announce and publish quarterly financial results. The considered reasons for this deviation were stated in the Corporate Governance Report on page 116 of the Company's 2013 Annual Report. Although CLP does not issue quarterly financial results, CLP issues quarterly statements which set out key business information such as electricity sales, dividends and progress in major activities.

During the six months ended 30 June 2014, the Company met the Code Provisions set out in the Stock Exchange Code.

So far in 2014, we have made further progress in our corporate governance practices. This included:

(a) Setting a 10% cap on the price discount for any new shares to be issued under the General Mandate to issue shares. Such cap has received overwhelming support from shareholders as evident by their votes in favour of the General Mandate to issue shares at the Annual General Meeting held on 8 May 2014 increased to 99.5% from 81.4% in the previous year.

(b) Conducting a performance evaluation of the CLP Holdings Board and its Board Committees for 2013 by the Company Secretary in the form of a questionnaire to all Directors individually, with a focus on the review of the implementation of the recommendations of the Spencer Stuart's Board Performance Evaluation Report in 2012. The 2013 Board Performance Evaluation covered similar areas as those in the 2012 Board Performance Evaluation: dynamics and overall impression of the Board; organisation of the Board; Committee organisation; Board composition; Board involvement and engagement; communication with shareholders and stakeholders; and overall Board effectiveness. The findings of the 2013 Board Performance Evaluation, as summarised in the Company Secretary's report, were that the recommendations of the 2012 Board Performance Evaluation were, in general, effectively implemented as appropriate. CLP's corporate governance policies and processes continue to be strong. They satisfy and/or exceed current Hong Kong Stock Exchange Corporate Governance Code and Listing Rule requirements. Any exceptions to the Code are relatively minor, are recognised by the Company and are capable of being suitably explained. A copy of the conclusion of the 2013 Board and Board Committees Performance Evaluation has been published on the CLP website. The Board considered the findings and recommendations of the Company Secretary on the 2013 Board and Board Committees Performance Evaluation at its meeting on 19 May 2014 and approved the recommendations for implementation. Board performance is evaluated on an ongoing basis with an independent evaluation every three years.

(c) Holding our second ESG webcast on 22 April 2014 to further enhance our communication with institutional investors and their proxy advisors on the ESG aspects of our business. The recording of the webcast is available on the CLP website.

(d) Providing updates on the new Connected Transaction Rules and their implications to CLP Directors, management, subsidiaries and joint ventures.

Since 1 January 2014, there have been a number of changes in the Board as set out below:

- Mr Andrew Brandler was re-designated as a Non-executive Director with effect from 1 April 2014;

- Professor Judy Tsui retired as an Independent Non-executive Director effective from the conclusion of the 2014 Annual General Meeting held on 8 May 2014;
- Mr Ian Boyce retired as a Non-executive Director with effect from the conclusion of the 2014 Annual General Meeting held on 8 May 2014;
- Mr Andrew Brandler was appointed an alternate to both Mr Ronald McAulay and Mr William Mocatta on the Board in place of Mr Ian Boyce who ceased to be their alternate upon his retirement as a Non-executive Director;
- Mr Paul Theys resigned as a Non-executive Director following completion of the CAPCO acquisition on 12 May 2014; and
- Mr David William Moore ceased to be Mr Paul Theys' alternate on the Board with effect from 12 May 2014.

The composition of Board Committees remains the same as set out in the 2013 Annual Report (pages 122, 123, 144, 147 and 150), save that

- Mr Mark Takahashi resigned as a member of the Finance & General Committee and Provident & Retirement Fund Committee on 31 March 2014 following his resignation as the Group Director & Chief Financial Officer of CLP Holdings due to his departure from Hong Kong. Mr Takahashi was succeeded by Mr Geert Peeters who was appointed as a member of the Finance & General Committee and Provident & Retirement Fund Committee on 10 February 2014 and these appointments had been reported in the 2013 Annual Report;
- Professor Judy Tsui retired as a member of the Audit Committee and the Sustainability Committee following her retirement as an Independent Non-executive Director with effect from the conclusion of the 2014 Annual General Meeting held on 8 May 2014;
- Mr Ian Boyce retired as a member of the Finance & General Committee following his retirement as a Non-executive Director with effect from the conclusion of the 2014 Annual General Meeting held on 8 May 2014;
- Sir Rod Eddington resigned as a member of the Human Resources & Remuneration Committee with effect from the conclusion of the 2014 Annual General Meeting held on 8 May 2014;
- Ms Irene Lee was appointed a member of the Sustainability Committee with effect from 8 May 2014;
- Dr Jeanne Ng resigned as a member of the Sustainability Committee with effect from 8 May 2014; and
- Mr Richard Iain James McIndoe resigned as a member of the Finance & General Committee on 30 June 2014 following his resignation as Managing Director - EnergyAustralia.

There were no substantial changes to the information of Directors as disclosed on pages 110 and 111 of the 2013 Annual Report and on CLP's website. The positions held by each Director with CLP Holdings' subsidiary companies and their directorships held in the last three years in public companies are updated in each Director's biography on CLP's website.

The Company has received confirmation from each Director that he/she has given sufficient time and attention to the affairs of the Company during the six-month period ended 30 June 2014. Directors have also disclosed to the Company the number and nature of offices held in Hong Kong or overseas listed public companies or organisations and other significant commitments, with the identity of the public companies or organisations and an indication of the time involved. During this period, no current Director held directorships in more than six public companies including the Company. No Executive Director holds any directorship in any other public companies, but he is encouraged to participate in professional, public and community organisations. Other details of Directors' appointments are available on CLP's website.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the unaudited condensed consolidated interim financial statements for the six months ended 30 June 2014. All of the Audit Committee members are appointed from the Independent Non-executive Directors, with the Chairman, Mr Vernon Moore, and Mr Nicholas Allen having appropriate professional qualifications, including membership of the Hong Kong Institute of Certified Public Accountants, and experience in financial matters. Mrs Fanny Law has extensive experience in public administration and Ms Irene Lee has wide experience in financial services, including banking, funds management and general insurance.

At the Company's Annual General Meeting held on 8 May 2014 shareholders approved the re-appointment of PricewaterhouseCoopers as the Company's external auditor for the financial year ending 31 December 2014.

Further information of CLP's corporate governance practices is set out in the Corporate Governance section of CLP's website.

**Change of Remuneration**

Non-executive Directors

There has been no change to the basis of determining Directors' remuneration. The levels of fees payable to Non-executive Directors and Independent Non-executive Directors for serving on the Board and Board Committees for each of the financial years of 2013, 2014 and 2015, effective from 1 May in respect of each year, were approved by shareholders at the Annual General Meeting held on 30 April 2013 and were set out in the Human Resources & Remuneration Committee Report on page 152 of the Company's 2013 Annual Report.

Executive Directors and Senior Management

Details of the remuneration of Executive Directors and Senior Management prepared in accordance with the Hong Kong Financial Reporting Standards for the six months ended 30 June 2014 are set out in the table on page 38.

The amounts disclosed consist of remuneration accrued or paid for service during the first six months of 2014 and, for the annual and long-term incentives, service and performance in previous years. Both the annual incentive and long-term incentive are paid in the first half of the year. As a result, the totals in the table do not represent half of the remuneration which will be accrued or paid for the full year.

The amounts disclosed are the amounts recognised in the financial year for accounting purposes, which do not necessarily reflect the cash actually received by the individual. Where payments are made to the individual over more than one financial year, this is explained in the notes.

To provide a clear picture of remuneration, amounts are shown as recurring or non-recurring items. Recurring items are the normal annual remuneration of Senior Management, whilst non-recurring items relate primarily to the appointment or termination of Senior Management. As the first half of 2014 included three departures and one new hire, there are a significant amount of non-recurring items.

In the table on page 38 the Total Remuneration column includes the following recurring items for the six months ended 30 June 2014:

(i) base compensation, allowances & benefits paid.
(ii) 2014 annual incentive accrued based on past Company performance (or pro-rata annual incentive paid for departed Senior Management). Additionally, as the Company performance actually achieved in 2013 was higher than the annual incentive accrual for 2013, the difference was added in the current period.
(iii) the 2011 long-term incentive award paid in January 2014 when the vesting conditions were satisfied.
(iv) provident fund contributions made.

The Other Payments column includes the following non-recurring items:

(i) sign-on payments accrued or paid in accordance with the Company's contractual obligation for newly hired Senior Management in consideration of income foregone with their previous employer on joining CLP.
(ii) relocation payments for newly hired Senior Management.
(iii) approved acceleration of long-term incentive payments and any contractual termination payments for departed Senior Management.

| Six months ended 30 June 2014 | Recurring Remuneration Items: Base Compensation, Allowances & Benefits HK$M | Performance Bonus [1]: Annual Incentive (2014 Accrual + 2013 Adjustment) HK$M | Performance Bonus [1]: Long-term Incentive (Payment for 2011) HK$M | Provident Fund Contribution HK$M | Total Remuneration HK$M | Non-recurring Remuneration Items: Other Payments HK$M | Total HK$M |
|---|---|---|---|---|---|---|---|
| CEO (Mr Richard Lancaster) | 3.6 | 5.1 | 3.3 | 0.5 | **12.5** | - | **12.5** |
| Executive Director (Mr Andrew Brandler) [2] | 0.6 | - | - | 0.1 | **0.7** | - | **0.7** |
| Group Director & Chief Financial Officer (Mr Mark Takahashi) [3] | 1.2 | 2.5 | 3.2 | 0.2 | **7.1** | 12.2 | **19.3** |
| Group Director & Chief Financial Officer (Mr Geert Peeters) [4] | 2.5 | 1.5 | - | 0.3 | **4.3** | 10.8 | **15.1** |
| Vice Chairman – CLP Power Hong Kong (Mrs Betty Yuen) [5] | 1.8 | 3.1 | - | 0.2 | **5.1** | - | **5.1** |
| Managing Director – CLP Power (Mr Paul Poon) | 2.2 | 3.1 | 1.9 | 0.3 | **7.5** | - | **7.5** |
| Managing Director – EnergyAustralia (Mr Richard McIndoe) [6] | 5.8 | 1.8 | 5.4 | 0.1 | **13.1** | 16.5 | **29.6** |
| Group Director – Operations (Mr Peter Littlewood) [7] | 1.0 | 2.1 | 2.7 | 0.1 | **5.9** | 5.3 | **11.2** |
| Managing Director – India (Mr Rajiv Mishra) [8] | 1.6 | 1.5 | 1.9 | 0.2 | **5.2** | - | **5.2** |
| Managing Director – China (Mr Chan Siu Hung) | 1.7 | 2.2 | 1.5 | 0.2 | **5.6** | - | **5.6** |
| Group General Counsel & Chief Administrative Officer (Mr David Simmonds) | 2.1 | 2.8 | 1.8 | 0.2 | **6.9** | - | **6.9** |
| Chief Corporate Development Officer (Ms Quince Chong) | 2.1 | 2.7 | - | 0.2 | **5.0** | - | **5.0** |
| Director – Group Human Resources (Mr Roy Massey) | 1.3 | 1.6 | 1.7 | 0.2 | **4.8** | - | **4.8** |
| **Total** | **27.5** | **30.0** | **23.4** | **2.8** | **83.7** | **44.8** | **128.5** |

Notes:

1 Performance bonus consists of (a) annual incentive and (b) long-term incentive. The annual incentive payments and long-term incentive awards were approved by the Human Resources & Remuneration Committee (HR&RC). For Mr Richard McIndoe, the annual incentive payment was approved by the EnergyAustralia Board following consultation between the CEO, the Chairman of the EnergyAustralia Nomination and Remuneration Committee and members of the HR&RC.

2 After stepping down as the CEO on 30 September 2013, Mr Andrew Brandler was employed in a limited capacity by the Company until 31 March 2014 on a remuneration equivalent to the Directors' fees payable on a pro rata basis for service on the boards and committees of the Company and EnergyAustralia on which he continued to serve. His entitlements to annual incentive and long-term incentive up to 30 September 2013 were fully paid out in 2013. No annual incentive and long-term incentive awards were made to Mr Andrew Brandler in 2014.

3 Mr Mark Takahashi left the Company on 31 March 2014. The other payments of HK$12.2 million included (a) retention award (HK$6.5 million) for remaining in service until 31 March 2014 to facilitate the transition to a new Chief Financial Officer, (b) accelerated payment of long-term incentive for 2012, 2013 and 2014 (HK$5.6 million) and (c) encashment of untaken annual leave (HK$0.1 million). The annual incentive and the long-term incentive for the year 2014 were made on a pro-rata basis for his service up to 31 March 2014.

4 Mr Geert Peeters joined the Company on 1 February 2014. The other payments of HK$10.8 million included (a) a relocation payment (HK$0.1 million) and (b) sign-on award of HK$10.7 million to be made in 3 payments over 3 years. The 1st instalment of the sign-on award (HK$5.7 million) was paid in March 2014. The 2nd (HK$2.5 million) and 3rd instalments (HK$2.5 million) were accrued in 2014 in accordance with the contractual obligation to pay and will be paid in March 2015 and March 2016. The sign-on award is to compensate for income lost as a result of forfeiture of pension contributions and incentive awards with his previous employer on joining CLP. On relocation costs, there were also relocation expenses of HK$0.4 million directly settled by CLP for Mr Geert Peeters to the service providers.

5 The annual incentive of HK$3.1 million for Mrs Betty Yuen included an additional discretionary annual incentive of HK$1.0 million for 2013 performance. The HR&RC approved the inclusion of Mrs Betty Yuen on to the long-term incentive scheme effective 1 January 2014 to reflect an increase in her responsibilities and to align with other Hong Kong based Senior Management.

6 Mr Richard McIndoe left the Company on 30 June 2014. The long-term incentive of HK$5.4 million included the 2011 additional discretionary long-term incentive award of HK$1.6 million. The other payments of HK$16.5 million included (a) Australian tax equalisation (HK$3.0 million) for the 2011 long-term incentive award, (b) a final payment consisting of a contractual termination payment of 12 months Fixed Annual Remuneration (HK$11.0 million) and (c) encashment of untaken annual and long service leave (HK$2.5 million) paid in accordance with Australian law. The remuneration of Mr Richard McIndoe is denominated in Australian dollars. The month end exchange rates prevailing at the month of payment were adopted for conversion to Hong Kong dollars.

7 Mr Peter Littlewood left the Company on 31 March 2014. The other payments of HK$5.3 million included (a) accelerated payment of long-term incentive for 2012, 2013 and 2014 (HK$5.1 million) and (b) encashment of untaken annual leave (HK$0.2 million). The annual incentive and the long-term incentive for the year 2014 were made on a pro rata basis for his service up to 31 March 2014.

8 The remuneration of Mr Rajiv Mishra is denominated in Indian Rupees. There is a temporary currency relief arrangement for Mr Rajiv Mishra for 2 years from 1 October 2013 to 30 September 2015 where 50% of his base salary and annual incentive payment in Rupees are converted to pay in Hong Kong dollars at an exchange rate of 1HKD = 7.4 Rupees. For the remaining payments in Rupees, the month end exchange rates prevailing at the month of payment were adopted for the conversion to Hong Kong dollars.

## Internal Control

Pursuant to the delegated responsibility from the Board to assure that adequate internal controls are in place and followed, the Audit Committee reviewed the CLP Group's internal control review approach and the audit reports submitted by Group Internal Audit. Based on the information received from management, the external auditor and Group Internal Audit, the Audit Committee believed that overall financial and operating controls in place for the Group during 2013 continued to be effective and adequate.

During the six-month period ended 30 June 2014, all the reports submitted by Group Internal Audit carried satisfactory audit opinion and no significant areas of concern that might affect shareholders were identified. Details of the standards, processes and effectiveness of CLP's internal control system were set out in the Corporate Governance Report on pages 129 to 132 of the Company's 2013 Annual Report.

## Interests in CLP Holdings' Securities

Since 1989, the Company has adopted its own CLP Securities Code. This is largely based on the Model Code set out in Appendix 10 of the Listing Rules. The CLP Securities Code has been updated from time to time to reflect new regulatory requirements as well as CLP Holdings' strengthened regime of disclosure of interests in its securities. The current CLP Securities Code is on terms no less exacting than the required standard set out in the Model Code. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code and CLP Securities Code throughout the period from 1 January to 30 June 2014.

We have voluntarily extended the ambit of the CLP Securities Code to cover Senior Management and other "Specified Individuals" such as other managers in the CLP Group.

All members of the Senior Management have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code and CLP Securities Code throughout the period from 1 January to 30 June 2014.

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

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the six months ended 30 June 2014.

**INTERIM DIVIDEND**

Directors today declared the second interim dividend of HK$0.54 per share (2013: HK$0.53 per share) which will be payable on 15 September 2014 to shareholders registered as at the close of business on 3 September 2014. The dividend of HK$0.54 per share is payable on the existing 2,526,450,570 shares in issue.

The Register of Shareholders will be closed on 4 September 2014. To rank for the second interim dividend of HK$0.54 per share, all transfers should be lodged with the Company's Registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 3 September 2014.

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

Hong Kong, 14 August 2014

*The Interim Report containing financial statements and notes to the financial statements will be published on the Company's website www.clpgroup.com and the website of the Stock Exchange of Hong Kong by 21 August 2014 and despatched to shareholders on 29 August 2014.*

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中電控股有限公司
**CLP Holdings Limited**
**(incorporated in Hong Kong with limited liability)**
(Stock Code: 00002)