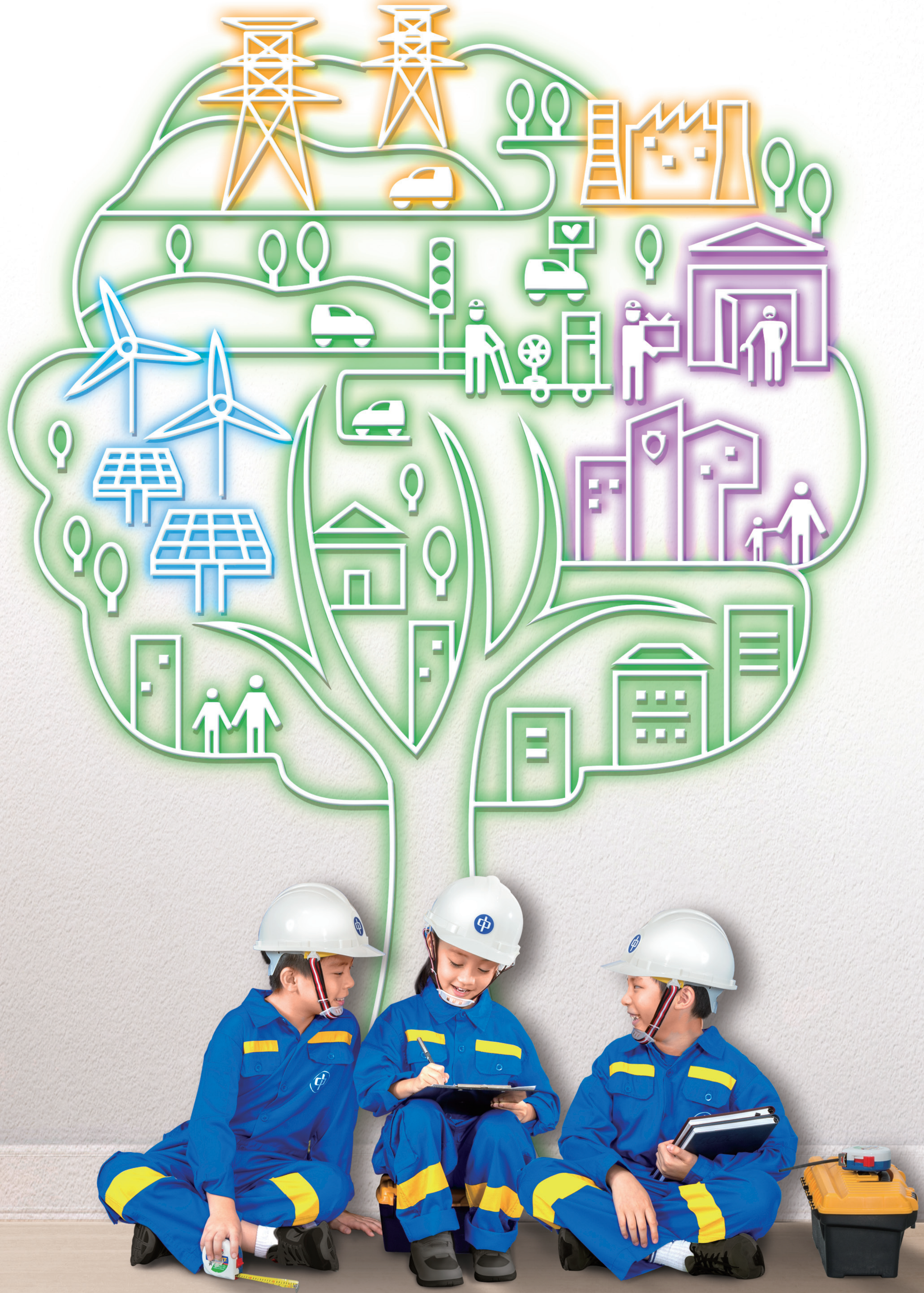
CLP 中電

# 2014 ANNUAL REPORT



Welcome to CLP's 2014 Annual Report. This year, for the fourth time, we are publishing an integrated Annual Report, which is linked to our Sustainability Report available online. Our integrated approach encapsulates a number of different reference guidelines, including the International Integrated Reporting Framework published by the International Integrated Reporting Council, the Stock Exchange of Hong Kong Limited's Environmental, Social and Governance Reporting Guide, the Hong Kong Institute of Certified Public Accountants' approach on corporate governance disclosure, and the Global Reporting Initiative G4 Sustainability Reporting Guidelines.

The objective of our approach is to provide a connected view of the different aspects of our performance. Together with our website and other CLP publications, the two reports enable our stakeholders to have a more informed assessment of our company. In addition, we have included an enhanced snapshot of our Annual Report online, offering an interactive overview of our business and the main highlights of 2014.

To facilitate readers' navigation through our Annual Report, we have highlighted those areas where further information is available on our website and in our Sustainability Report or through the symbols and . As always, we welcome your feedback. Please share your views with us by using the form that accompanies this Annual Report or our feedback form available online.

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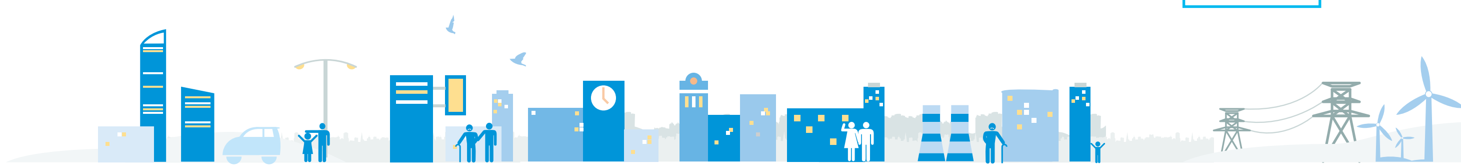
A Snapshot of 2014 Annual Report



# A SNAPSHOT OF CLP IN 2014

## About CLP Group

We are an investor and operator in the energy sector of the Asia-Pacific region. For over 100 years, we have powered Hong Kong's dynamic and spectacular growth and we continue to deliver a highly reliable supply of electricity to over 80% of the city's population. Today, our business spans across Mainland China, India, Southeast Asia, Taiwan and Australia. Where we operate, we become part of the social and economic fabric of the local communities we serve, working together with them to achieve sustainable growth.

## BUSINESS DESCRIPTION

### Hong Kong

CLP has a vertically-integrated regulated business in Hong Kong, which is the core of our operations. We generate, distribute and provide a world-class electricity supply with a reliability rate of over 99.999% to 2.46 million customers.

### Mainland China

CLP has been involved in Mainland China's power industry since 1979. We are one of the largest external independent power producers with a focus on clean and low-carbon energy, including nuclear and renewables.

### India

CLP has a diversified generation portfolio comprising coal, gas and renewable energy. We are amongst the largest of foreign power companies in India and have the biggest wind project portfolio.

### Southeast Asia and Taiwan

We established our presence in Southeast Asia since 1994. Currently, we have interests in Taiwan's Ho-Ping Power Station and Lopburi solar project in Thailand.

### Australia

EnergyAustralia operates an integrated energy business serving 2.62 million customers across southeast Australia. Our multi-billion dollar asset portfolio includes coal, gas and wind generation and gas storage facilities.

## MAJOR EVENTS IN 2014

**Hong Kong**

- The acquisitions of additional interests in Castle Peak Power Company Limited (CAPCO) and Hong Kong Pumped Storage Development Company, Limited (PSDC) were completed, taking our ownership to 70% and 100% respectively
- The level of tariff adjustment for 2015 was managed to below inflation
- Our response to the Government's public consultation on the Future Fuel Mix for Electricity Generation was submitted, in which we proposed a "phased and flexible" approach
- Temporary import of additional nuclear energy became effective in October to relieve tariff pressure
- A range of energy efficiency and demand side management initiatives such as the Advanced Metering Infrastructure pilot programme and the CLP Eco Building Fund were implemented

**Mainland China**

- Construction of Fangchenggang Power Station II commenced and is progressing on schedule
- Natural disasters affected Fangchenggang, Huaiji Hydro and Jiangbian Hydro power stations
- Two wholly-owned renewable projects – Laiwu I Wind and Xicun Solar – began commercial operation
- Four wholly-owned wind projects obtained Government approvals
- Guangdong Daya Bay Nuclear Power Station celebrated its 20th anniversary of commercial operation and CLP's partnership with China General Nuclear Power Corporation was extended for a further terms of 20 years from 2014

**India**

- Jhajjar's performance stabilised, achieving 80% availability due to improved coal supply
- Successful negotiation of a renewed power purchase agreement for Paguthan Power Station
- Over 100MW of wind power capacity commissioned
- CLP Wind Farms (India) and CLP India received investment grade ratings, reducing the cost of borrowing

**Southeast Asia and Taiwan**

- Good operational and financial performance was achieved in Ho-Ping
- Lopburi saw stable operation and earnings
- Negotiations with Vietnam government on tariffs and government agreement of Vung Ang II and Vinh Tan III projects underway

**Australia**

- Market conditions remained challenging with overcapacity in the National Electricity Market, suppressed wholesale prices, intense retail competition and regulatory uncertainty
- Migration of 1.2 million customer accounts onto our new customer care and billing system C1 was completed, ending the Transitional Services Agreement with the New South Wales Government
- Closure and decommissioning of the 1,000MW coal-fired Wallerawang power station announced
- Customer services, including MyAccount and Home Services programme, introduced
- Production expectations were reduced and delays in obtaining energy resource development approvals resulted in an impairment provision of HK$1,578 million (A$248 million) in the Narrabri Coal Seam Gas project of which EnergyAustralia has a 20% investment
- Termination prior to expiry of a long-term purchase contract inherited from Ausgrid, released EnergyAustralia from future financial liability

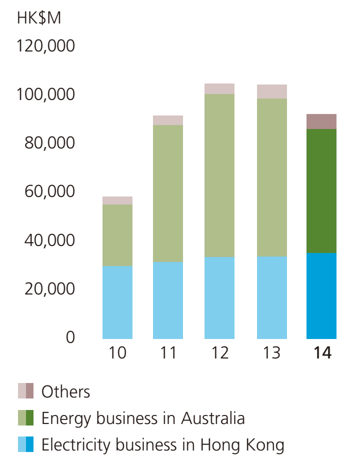
# Financial Highlights

**Operating earnings raised 8.1% to HK$10.1 billion; total earnings increased by 85.2% to HK$11.2 billion after the net gain on CAPCO and PSDC acquisitions and other one-off items.**

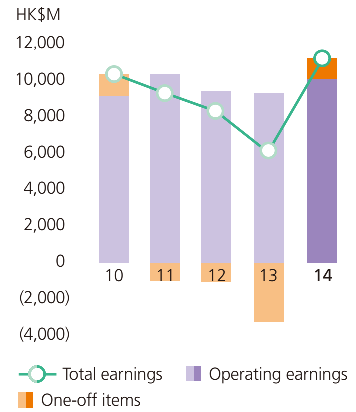
| | 2014 | 2013 | Increase/ (Decrease) % |
|---|---|---|---|
| **For the year** *(in HK$ million)* | | | |
| Revenue | | | |
| Electricity business in Hong Kong (HK) | 35,303 | 33,840 | 4.3 |
| Energy business outside HK | 56,633 | 70,352 | (19.5) |
| Others | 323 | 338 | |
| Total | 92,259 | 104,530 | (11.7) |
| Earnings | | | |
| Electricity business in HK | 7,777 | 6,966 | 11.6 |
| PSDC and sales to Guangdong from HK | 71 | 125 | |
| Power projects in Mainland China | 1,579 | 2,131 | (25.9) |
| Electricity business in India | 270 | 184 | 46.7 |
| Power projects in Southeast Asia and Taiwan | 297 | 241 | 23.2 |
| Energy business in Australia | 756 | 126 | 500.0 |
| Other earnings | (66) | (17) | |
| Unallocated net finance costs | (36) | (26) | |
| Unallocated Group expenses | (586) | (423) | |
| Operating earnings | 10,062 | 9,307 | 8.1 |
| Net gain on CAPCO and PSDC acquisitions | 1,953 | – | |
| Australian one-off items include impairment provision for Narrabri Coal Seam Gas Project in 2014 / impairment provisions for generation assets in 2013 | (881) | (2,582) | |
| Revaluation gain on Argyle Street site | 245 | – | |
| Impairment provisions for Dali Yang_er in 2014 / Paguthan, CSEC Guohua and Shenmu in 2013 | (158) | (590) | |
| Divestment from Boxing Biomass | – | (75) | |
| Total earnings | 11,221 | 6,060 | 85.2 |
| Net cash inflow from operating activities | 21,966 | 21,021 | 4.5 |
| **At 31 December** *(in HK$ million)* | | | |
| Total assets | 214,663 | 211,685 | 1.4 |
| Total borrowings | 67,435 | 56,051 | 20.3 |
| Shareholders' funds | 88,013 | 87,361 | 0.7 |
| **Per share** *(in HK$)* | | | |
| Earnings per share | 4.44 | 2.40 | 85.2 |
| Dividends per share | 2.62 | 2.57 | 1.9 |
| Shareholders' funds per share | 34.84 | 34.58 | 0.7 |
| **Ratios** | | | |
| Return on equity [1] (%) | 12.8 | 6.8 | |
| Total debt to total capital [2] (%) | 39.6 | 39.1 | |
| Net debt to total capital [3] (%) | 38.0 | 36.7 | |
| EBIT interest cover [4] (times) | 6 | 3 | |
| Price / Earnings [5] (times) | 15 | 26 | |
| Dividend yield [6] (%) | 3.9 | 4.2 | |

Notes:
1 Return on equity = Total earnings / Average shareholders' funds
2 Total debt to total capital = Debt / (Equity + advances from non-controlling interests + debt). Debt = Bank loans and other borrowings.
3 Net debt to total capital = Net debt / (Equity + advances from non-controlling interests + net debt). Net debt = Debt - bank balances, cash and other liquid funds.
4 Earnings before interest and taxes (EBIT) interest cover = Profit before income tax and interest / (Interest charges + capitalised interest)
5 Price / Earnings = Closing share price on the last trading day of the year / Earnings per share
6 Dividend yield = Dividends per share / Closing share price on the last trading day of the year

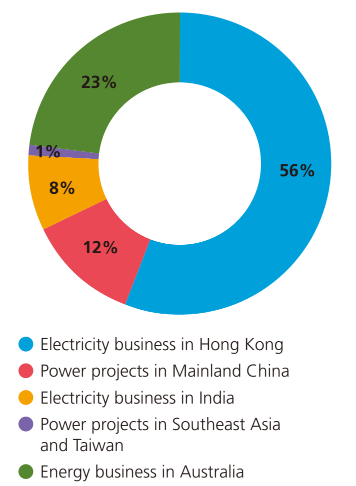
## Revenue




## Total Earnings




## Total Assets in 2014



# 2014 IN FIGURES

## FOCUSING on Our Value Creation

### EARNINGS

Operating Earnings increased to

**HK$10,062 million**

8.1% rise from 2013

### POWER GENERATION

**141,92**

were sent out from power stations in which CLP has invested

Taking into account the net gain on CAPCO and PSDC acquisitions, impairment provision for Narrabri Coal Seam Gas Project and other one-off items,

Total Earnings were

**HK$11,221 million**

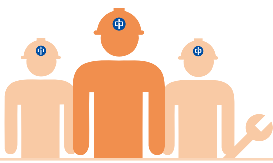
up 85.2% from 2013

### TOTAL DIVIDENDS

**HK$2.62**

per share, 1.9% increase from 2013

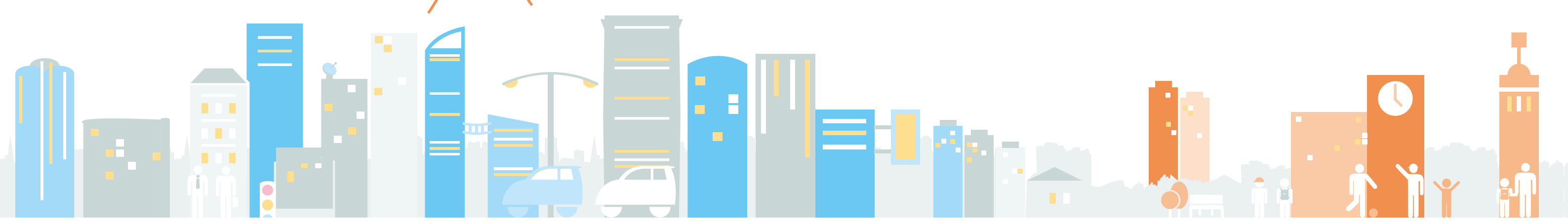
## GROWING with the Communities



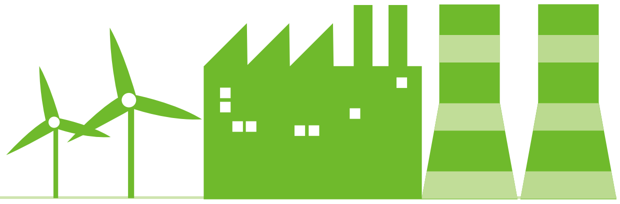
### CAREERS

**7,387 people**

were employed by CLP across the Asia-Pacific region



# DELIVERING a Sustainable Future



3 million kWh

## CUSTOMER SERVICE

5.08 million

customer accounts were serviced by CLP (2.46 million in Hong Kong and 2.62 million in Australia)

## COMMUNITY INITIATIVES

About 82,000 people

directly benefitted from CLP's community initiatives

Over 640 activities

were implemented

Staff volunteered

over 17,500 hours

## CLIMATE CHANGE

0.84 kg $CO_2$ / kWh

carbon emission intensity of CLP's electricity generation (2013: 0.82kg $CO_2$ / kWh) due mainly to an increased stake in our power generation assets in Hong Kong, and a general reduction in output from renewables projects

14.1%

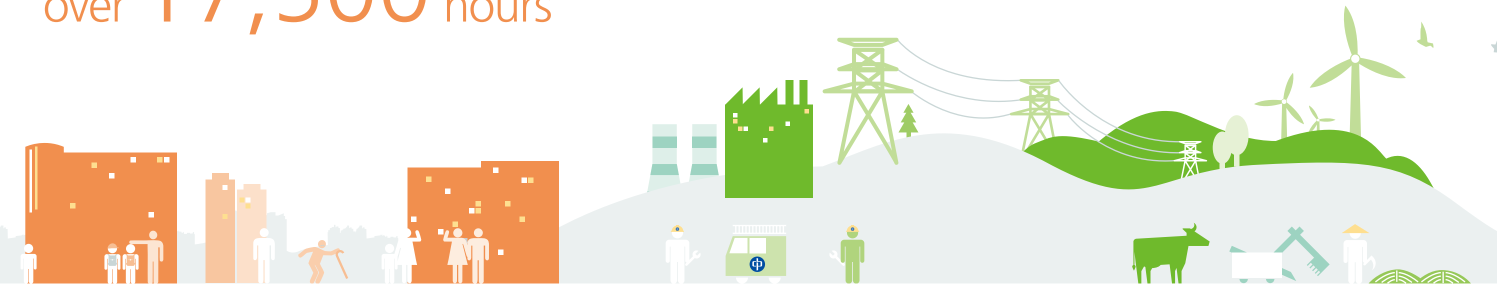
of CLP's generating capacity from renewable energy sources (2013: 16.3%), due mainly to an increased stake in our power generation assets in Hong Kong, and the addition of Fangchenggang Power Station II

## SAFETY

One fatality

0.11 LTIR 0.41 TRIR

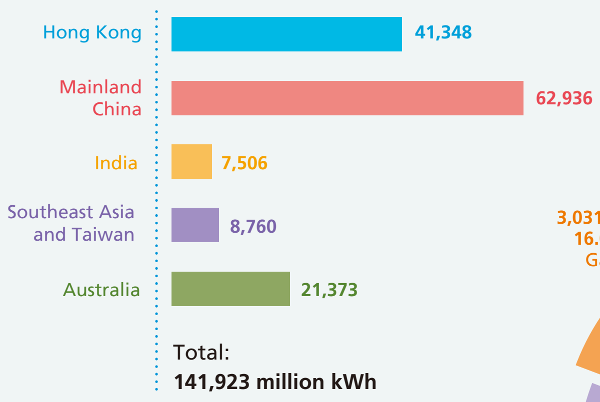
Lost Time Injury Rate (LTIR) and Total Recordable Injury Rate (TRIR) are industry standards for measuring safety performance. In 2014, TRIR increased slightly whilst LTIR improved



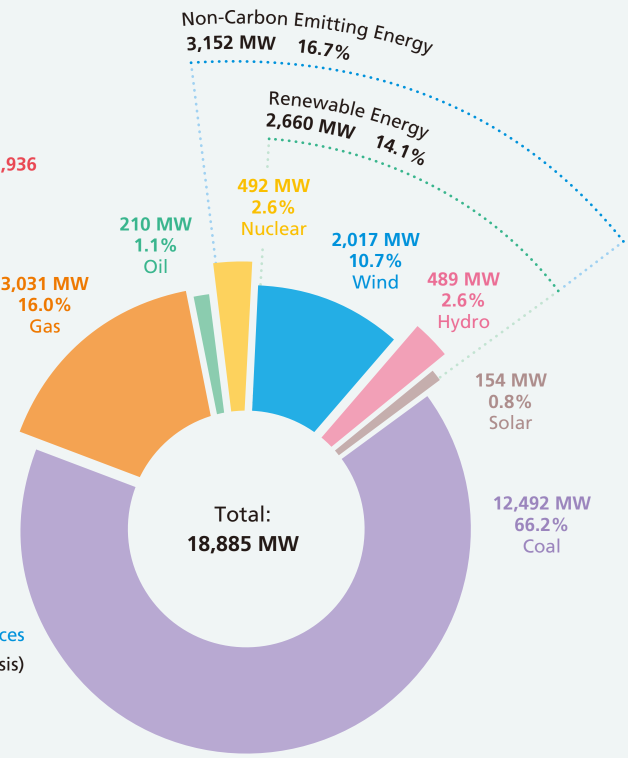
# Non-Financial Highlights

This section aims to give more details of some key performance indicators that affect the operational, social and environmental aspects of our businesses.

## OUR GENERATION

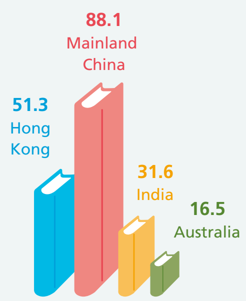



Our Sent Out from Power Stations in which CLP has Invested

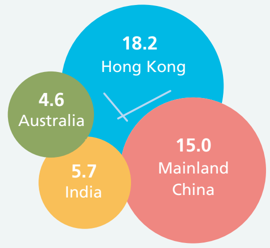



Our Energy Sources
(Equity Basis)

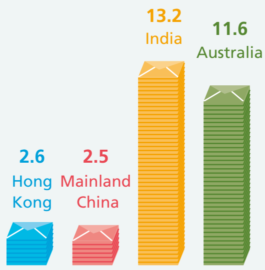
## OUR PEOPLE




Average Training per Head (hours)

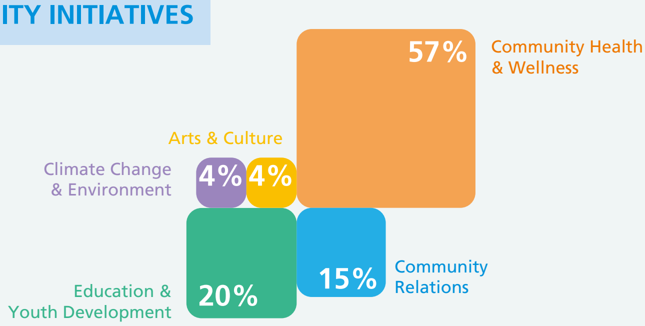



Average Length of Service (years)




Voluntary Turnover Rate (%)

## OUR COMMUNITY INITIATIVES

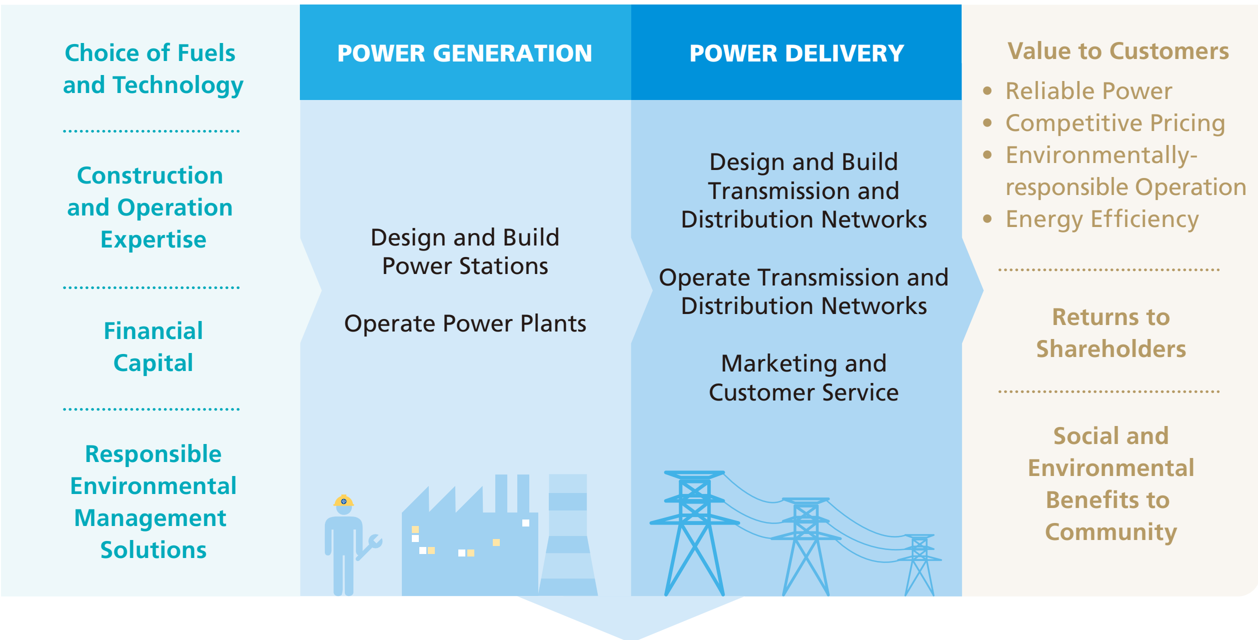



Spending by Themes

**Looking for data from previous years?**

# Our Business Model

CLP's core business is to provide electricity to customers safely and reliably, at a competitive price and with the least environmental impact. To do this, we act in different roles across the electricity value chain, depending on local constraints and characteristics that vary in the markets in which we operate. We draw on various "capitals", namely choice of fuels and technology, expertise in power plant construction and operation, financial capital and environmentally-responsible solutions as inputs to help deliver power responsibly.




## INVESTMENT STRATEGY

The electricity business requires a long-term view when it comes to investment. Given the profound changes in the regulatory and economic environment for our industry in recent years, we updated our investment strategy which was approved by the Board in 2014. The updated investment strategy, succinctly summarised as "Focus • Delivery • Growth", recognises the challenges in the current business climate and identifies future opportunities to position CLP Group in markets where it has scale, capability and competitive advantages. This will guide CLP in the coming decade.

### Hong Kong

**CLP's Core Market.** We are committed to building and growing here for the long term.

### Southern China

**Strategic Market in the long run.** We are well-positioned for growth with established partnership network.

### Mainland China & India

**Primary Growth Markets.** CLP will focus on renewables and high-efficiency coal generation.

### Southeast Asia & Taiwan

**Secondary Growth Market.** We will seek opportunities in selected countries.

### Australia

**Value Restoration.** We will focus on reducing costs and improving operational performance.

CEO Outlining the Investment Strategy – Video

# CHAIRMAN'S STATEMENT

*"Our starting point was to look to the future – positioning our business in markets where we have scale, capability and competitive advantages. We sought to match our strength with market factors, and identify what we do best."*

Dear Shareholders,

I am pleased to report strong financial results in 2014, which reflected a much improved operational performance in most of our businesses. The Group's operating earnings were HK$10,062 million, an 8.1% increase over 2013. One-off items for the year amounted to a net gain of HK$1,159 million predominantly associated with the acquisition of additional interests in Castle Peak Power Company Limited and Hong Kong Pumped Storage Development Company, Limited. Total earnings were up 85.2% to HK$11,221 million. These earnings have enabled the Board to approve a fourth interim dividend of HK$1.00 per share for 2014. Together with the three interim dividends already paid, our total dividend this year is HK$2.62 per share, an increase from HK$2.57 in the previous year.

In my Chairman's Statement this year, I wish to focus on the updated investment strategy for the Group which was approved by the Board recently. As I have always emphasised, given the scale and lifespan of our investments, and the array of stakeholders impacted by our operations, the nature of the power sector requires a long-term view. It also means charting a course and sticking to it – whilst ensuring that we can adapt to change along the way. Over the years, CLP has stayed faithful to this core principle in making our investments. We review our strategy from time to time to make sure it is keeping pace with the changing times, it continues to capture the right opportunities and that it tackles our different challenges.

Since we last refreshed our strategy in 2009 there has been significant change. We have seen unprecedented decreases in demand for electricity in mature economies, dramatic volatility in fuel markets, a structural shift in global economic growth towards Asia, tightening environmental regulation in our key markets and continued policy uncertainty on climate change.

Against this rapidly evolving background, we launched a thorough review of our investment strategy in early 2014. Our starting point was to look to the future – positioning our business in markets where we have scale, capability and competitive advantages. We sought to match our strength with market factors, and identify what we do best.

Our many strengths include the ability to effectively operate businesses across the energy value chain from electricity generation right through to the provision of energy services to our customers. We work well in complex environments where we take a long-term view, integrate our operations with the community and work cooperatively with regulatory authorities to get the best result for all stakeholders. We have built a strong reputation for trustworthiness and reliability and a network of long-term partnerships and relationships in the Asia-Pacific region. Looking back at our experience in growing our business outside Hong Kong, we can see that we have particular strengths in the fields of power plant technology and the development and operation of power projects. Our best performing investments are generally new development projects where we have been involved from the start and hold a controlling position or have a clear role in project management and operation.

Our updated Group strategy can be summarised with three words – "Focus · Delivery · Growth". By focusing on business activities and initiatives that best utilise our core competencies we will be able to deliver on the potential of our investments and generate growth for our shareholders.

Our new strategy will guide CLP in the coming decade. It includes four key components:

First, Hong Kong remains our core market and strategic focus. We are committed to building and growing here for the long term. Although Hong Kong is a mature market, we still see increasing demand. In order to best serve our customers, we will maintain our strong operational performance to provide a safe and reliable electricity supply, with continually improving environmental performance, excellent service and reasonable tariffs.

It should be clear to all of us that, in the wider context, closer integration between Hong Kong and southern China is inevitable. We are well positioned as we are confident that our long-term partnership with key industry players in southern China such as China Southern Power Grid and China General Nuclear Power Corporation will give us the competitive edge to further explore opportunities in southern China in the long run.

Second, we are well-positioned in two of the most dynamically growing markets in the world – Mainland China and India. They are home to the world's two largest populations where energy demand is growing rapidly. Both are in need of energy infrastructure to support their continuing development and they are both open to private investment. Although our ventures into Mainland China and India have not always been smooth sailing, our existing, diversified and well-established businesses in the two countries provide good platforms for future growth.

CLP was an early mover in the Mainland right after the Chinese Government's declaration of its open door policy in the late 1970s. We can and will capitalise on our historic presence and close relationships in the Mainland. We will continue to follow a niche investor approach focusing on renewable projects such as greenfield wind and solar projects as well as high-efficiency coal projects. At the same time, reform of the energy sector in Mainland China may open up new opportunities in other parts of the value chain.

Likewise, India has an insatiable demand for electricity, and we are encouraged by the new government's commitment to the development of critical infrastructure to support India's economic growth. Whilst India has challenges such as with fuel supply, currency volatility and the high cost of debt, we see this vibrant country as a land of great potential. We will continue to pursue high-efficiency coal-fired projects with access to imported coal, build our renewable energy portfolio and capitalise on our position as a leader in wind energy investments.

Third, to the extent that capital is available, we will explore secondary growth opportunities in selective Southeast Asian countries. We expect demand for new power generation in these markets will remain strong in the coming years. We will stay active in Taiwan and Vietnam while monitoring developments in other Southeast Asian countries for opportunistic investment.

Finally, we will focus on restoring value in our Australian business. Unfortunately, the Australian energy sector, like its counterparts in other mature economies in Western Europe and North America, is going through a period of significant change and faces formidable challenges ahead. This includes unprecedented decline in electricity demand,


Guangdong Party Secretary Hu Chunhua meets the Chairman overcapacity in the generation sector and falling wholesale prices. On top of that, regulatory changes have created uncertainty and increased market risks at a time when stiff market competition has put additional pressure on retail margins. These factors have combined to erode the value of our business in Australia over the past few years. We take a realistic approach to the management of these issues, and we expect such challenges to continue in Australia over the coming years. Our focus will be on realigning the business with the new market and political paradigms to restore value for our shareholders in the years to come.

Having focused on our revised strategy and some of the challenges and opportunities we see at the Group level, there is an important matter here at home that deserves our close attention. As we all know, our Hong Kong business is regulated by the Scheme of Control (SoC) Agreement, which has been serving Hong Kong well over the past five decades. Its terms have evolved over time to keep pace with Hong Kong's development and changing aspirations of the community. Most importantly, it has provided a stable environment that allows power companies to support Hong Kong's economic development and to serve consumers with electricity supply of world class reliability and at reasonable cost. The current SoC Agreement will continue until at least 2018. The Government is expected to consult the public on the subject in 2015 to help determine whether to extend the current SoC or whether changes are envisaged.

Changes to the regulatory regime will have far reaching consequences for the electricity industry as well as its customers and the community in Hong Kong. As Hong Kong's largest power supplier, CLP will actively engage with the community and the Government about the discussion of the post-2018 regulatory framework during the consultation. However, the objectives of any consultation must be clear for it to be effective. It must also be based upon thorough understanding of this complex and hugely capital intensive industry that has a consistent, proven and enviable track record in Hong Kong. Any future framework must not compromise on safety, reliability, environmental protection and affordability which have been the cornerstones of today's electricity industry.

We look forward to a consultation process which incorporates these principles and we will continue to strengthen our stakeholder engagement to address concerns and questions whenever necessary, similar to the fuel mix consultation which was conducted in an informed manner last year.

CLP has been serving Hong Kong for over 113 years and will continue to do so in the decades to come. Hong Kong is our home, and we will actively engage in constructive discussions with the Government and the community regarding changes to the regulatory framework for the long-term benefit and prosperity of Hong Kong.

CLP will move forward in the coming decade with a clear strategic vision that embraces "Focus · Delivery · Growth", enabling us to build on the success we have delivered to our stakeholders in the preceding 11 decades.

**The Honourable Sir Michael Kadoorie**
Hong Kong, 26 February 2015

# CEO'S STRATEGIC REVIEW

*"The management team wholeheartedly supports the new strategy. It is our job to make sure it works, and to this end, we have already taken steps to ensure that we are effectively organised, adequately resourced, and equipped with the necessary capabilities to implement our strategy."*

As outlined by the Chairman in his Statement, the Board approved an updated investment strategy for the CLP Group in October. It is an important development for the Company, as the new strategy, succinctly summarised as "Focus · Delivery · Growth", will bring changes that will grow our business, sharpen our competitive edge and set a clear direction for the Company in the decade ahead. I hasten to add that we are not initiating radical changes but carefully measured and deeply thought out improvements and refinements to our existing strategy. In short, it recognises the challenges we face in the current business climate and identifies future opportunities so that we can build on the success we have achieved.

Let me say that the management team wholeheartedly supports the new strategy. It is our job to make sure it works, and to this end, we have already taken steps to ensure that we are effectively organised, adequately resourced, and equipped with the necessary capabilities to implement our strategy. We have identified a number of key areas where we need to strengthen our organisation, including the rigour of our investment appraisal process, and our project management and asset management capabilities.

As we move to implementation of the new strategy, I think it would be helpful to see where we are coming from. In the following paragraphs, I would like to offer a review of our performance in 2014 and an outline of our key plans over the coming years.

## Hong Kong

In 2014, we continued to see steady growth of our business whilst maintaining a world-class reliability record. The growth in demand was primarily driven by a cool winter and a very hot summer, with a new peak demand for electricity recorded on 23 July. During the year, operating earnings increased 11.6% to HK$7,777 million.

Although the electricity sector in Hong Kong is mature, demand in our service area is still growing due to population expansion, infrastructure development and new businesses like data centres. These changes – together with other factors that I will outline below – mean that we need to continue to invest in new infrastructure in order to support the growing demand for electricity.

At the same time, under Hong Kong's increasingly stringent environment policy, the annual emission caps for our power plants have been reduced significantly by a range of 35% to 65% this year. In fact, our gas consumption volume in 2015 will need to almost double that of 2014 in order to comply with these new regulatory requirements. This is expected to lead to an approximate 50% increase in fuel costs since natural gas, while substantially cleaner, is much more expensive than coal. This is especially true for the gas supplied from the Second West-East Gas Pipeline (WEPII) upon which we are becoming more dependent as supplies from the Yacheng gas field deplete.

To optimise our fuel usage and reduce the impact of WEPII gas on tariffs, we have adopted the following measures:

- maximising the use of cheaper gas from Yacheng gas field
- procuring and using more low emission coal
- temporarily importing additional nuclear energy from Daya Bay
- enhancing the operational performance of generation plants and emission reduction equipment

We have also seen some sharp reductions in oil prices in recent months. If these lower prices are sustained then it will be of some assistance in limiting the impact of WEPII gas on tariffs as a portion of the natural gas price is linked with the oil price. However, the total contract gas price is materially affected by a basket of factors, in particular pipeline charges and other fixed costs, which are not affected by oil price movements.

Whilst we were able to maintain the Average Basic Tariff at a level lower than that of 1998 – which is no small achievement, the Average Total Tariff still needs to be adjusted by 3.1% in 2015 due to increased fuel costs. We are fully aware of the impact of tariff increase on people's

*"Since our founding in 1901, CLP has come a long way. We have grown from a company operating solely in Hong Kong to a leading energy provider in the Asia Pacific. I am confident that our updated investment strategy of **Focus · Delivery · Growth** will provide the platform for great achievements for the Group in the decade ahead."*

livelihood and business, and I can assure you that we will continue to do our best to mitigate the impact on customers.

During 2014, we continued our efforts in promoting energy efficiency to encourage our customers to use electricity wisely. For example, we completed an 18-month pilot for the Advanced Metering Infrastructure programme, which has given us insights into the best way forward to help our customers move towards an energy efficient lifestyle.

Our acquisition of a controlling interest in Castle Peak Power Company Limited has given us majority control over our core generating assets and strengthened our partnership with China Southern Power Grid. From our base in Hong Kong, with our long track record of excellence and our relationships in southern China, we are well positioned to participate in expanded opportunities in this region in the years to come.

Regulatory change is another immediate challenge we are facing. In the first half of 2015, the Government will launch a new round of public consultation on Hong Kong's electricity sector, this time on the regulatory structure of the sector. As with the 2014 fuel mix consultation, we will offer our expertise and experience to contribute to an informed discussion. We will actively and constructively engage with the Government and other stakeholders in that discussion process. Our aim is to find solutions for Hong Kong's energy policy that achieve the right balance covering safety, reliability, cost and environmental performance to enable us to better serve the community. We will focus on what works best for Hong Kong, for our customers and for our shareholders.

I would like to reiterate that the electricity industry is a long-term business. We deal with developments that typically require at least a decade or even longer to mature, so any regulatory changes need to be planned well ahead and implemented carefully over a sensible time frame. At the same time, we are determined to continue our strong operational performance so as to best serve the community and our customers here with the world-class quality and reliability that our community expects us to deliver.

## Mainland China

On the Mainland, we had a reasonably stable year despite operating earnings being down 25.9% to HK$1,579 million.

Our coal-fired projects continued to be profitable in 2014, at a time when coal prices continued to slide and remained at low levels. Expansion of Fangchenggang Power Station progressed steadily following the start of construction in June 2014 and commissioning of Fangchenggang II is on track for 2016. The performance of our renewable energy portfolio was, however, mixed. More details are discussed in the "Performance and Business Outlook" section of this report.

Shareholders will recall that we announced in January the lapse of an agreement regarding the sale of CLP Power China (Tianjin) Limited and CLP Power China (Shenmu) Limited. As explained at the time, the lapse will not result in any material adverse effect on our financial position and business operations. This development in no way indicates any change of strategy. We will continue to rationalise our portfolio with a focus on wholly– and majority–owned projects.

Despite recent slowdowns, Mainland China remains an exciting, high growth country where CLP is well positioned for the future. We will follow a niche investor approach to focus on greenfield wind and solar projects and selected coal projects using highly efficient and low emission technologies. Geographically, we will concentrate on three key areas – Shandong, southwest China and the cross-border area neighbouring Hong Kong.

As Mainland China continues to reform its electricity sector, investment opportunities in networks may arise. We are interested in greenfield distribution and transmission projects in the Mainland, provided the terms are appropriate and the opportunity aligns with our wider strategy. However, the business model for such investment must be viable and the land acquisition risks need to be minimised first. We will continue to monitor these developments.

We are aware that reform will bring uncertainty. Constraints such as regulated tariffs can impede the private sector's involvement, and the shortage of natural gas will limit the development of gas-fired power generation in Mainland China.

Nonetheless, the Mainland will remain a core growth driver for CLP that we are closely monitoring, whether for conventional or renewable projects. We are also exploring opportunities to further participate in the nuclear sector.

## India

Like Mainland China, we see India as another important growth market.

Thanks to much improved coal supply, CLP India was able to achieve operating earnings of HK$270 million in 2014, compared with HK$184 million in 2013. Our coal-fired power station at Jhajjar operated reliably through last year without any availability losses due to coal supply issues. This improved performance was the result of the hard work of our Indian team to diversify our coal supply and obtain approvals to increase our use of imported coal.

Availability also remained high at our gas plant in Gujarat. However, in common with other gas-fired generators in India, the high price of gas available for use in the power sector and the resultant high cost of electricity generation led to low levels of despatch from the plant. This is an industry wide issue that has arisen in recent years and is expected to continue for the foreseeable future. In these circumstances, we renegotiated our power purchase agreement (PPA) with Gujarat Urja Vikas Nigam Limited to take account of the changed market conditions. We believe the amended agreement will give us greater certainty for the rest of the PPA tenor until the end of 2018. We are currently looking at options for the future of the plant, including the possibility of adding some coal-fired units in our existing site.

In the meantime, we continued to expand our renewables business in India, especially in wind power. The performance of wind energy in large parts of India depends on the timing and intensity of the monsoon season. In 2014 there was a delay in the onset of the monsoon, which resulted in lower than expected levels of generation. Nevertheless, we are confident of the potential of the sector and commissioned more than 100MW of wind capacity during 2014, taking the total size of our wind portfolio to 1,081MW. We are also evaluating opportunities to invest in solar power, which is an area the new Government is keen to develop.

In the past few years, India's electricity sector has been challenging. Looking ahead, we are hopeful that things will continue to improve under the new Government that has a reform agenda with a focus on infrastructure development. At the same time, we will continue to monitor the fuel supply situation to ensure reliable operation of our power stations.


CEO explains our Investment Strategy to staff

## Southeast Asia and Taiwan

Our performance in Southeast Asia and Taiwan remained steady last year. Operating earnings increased 23.2% to HK$297 million.

Power sector reform initiatives in Southeast Asia have been slower in recent years, during which we have seen fewer energy projects. Competition is also significant in the region. However, Southeast Asia still offers opportunities as demand for electricity is growing and a number of these markets are still at an early stage of development.

In the coming years, we plan to continue to stay active in Taiwan and Vietnam, and monitor potential greenfield investment opportunities in countries such as Thailand, Indonesia, Laos and Myanmar.

## Australia

CLP's operation in Australia, through our wholly-owned subsidiary EnergyAustralia, continues to be affected by the challenging market conditions. In the wholesale market, declining demand from energy efficiency programmes, solar photovoltaic systems, and industrial closures continued to put pressure on electricity prices, whilst in retail we continued to experience intense competition. In this challenging external environment, EnergyAustralia has focused on improving its operational performance, capability and cost structure in 2014, during which operating earnings increased from HK$126 million in 2013 to HK$756 million.

After stabilising our integrated billing and customer care system in 2013, EnergyAustralia made a number of technical improvements to the system. These improvements underpinned the successful migration of 1.2 million EnergyAustralia customers from the old system onto the new one in November 2014.

This development allowed us to terminate the Transitional Services Agreement (TSA) with the New South Wales (NSW) Government. This will lead to further retail cost, process and operational efficiencies improvements in 2015 and beyond, which is expected to result in savings in retail costs in the range of A$100 million per annum from 2016 compared with 2013. However, expenditure on IT systems to improve business performance and the launch of new retail product offerings may offset some of the savings.

As promised by the Federal Government, the Clean Energy Future legislation and all related liabilities, including the carbon tax regime, were repealed in July 2014. Removal of the scheme led to a reduction of earnings in the second half of 2014, as EnergyAustralia no longer receives any transitional support for Yallourn Power Station.

In November 2014, EnergyAustralia announced the permanent closure and decommissioning of Wallerawang Power Station in NSW. The closure was in response to ongoing weak wholesale prices and the lack of availability of competitively priced coal supply. We also negotiated the early termination of an onerous contract inherited from Ausgrid in 2011, and both these actions will reduce our costs going forward.

Other power station owners have lowered generation output or announced the mothballing of power plants in response to weak market conditions. This is a clear supply-side market reaction, as is to be expected. Such steps must be taken for the market to respond to overcapacity, falling demand and suppressed wholesale prices. Should oversupply in the wholesale market continue unabated, the value of generation assets may be at risk.

Additional exploratory drilling and analysis made available in 2014 have showed a significant reduction in the Coal Seam Gas project reserves at Narrabri, in which EnergyAustralia has a 20% interest through a joint arrangement with Santos. This has challenged the commercial viability of the project. As such, EnergyAustralia has made an impairment provision for its interest in the project of HK$1,578 million after tax.

As the Chairman has pointed out, we expect the challenging market conditions in Australia to continue. As such, our strategy will focus on reducing costs, improving operational performance, managing exposure to generation, realigning the business to the new market paradigm and streamlining retail processes. We now have in place a refreshed management team under the leadership of Ms Catherine Tanna, who joined us in the middle of the year. Ms Tanna brings a wealth of experience and knowledge along with a fresh approach to the business. The strong, new management team at EnergyAustralia will make it a priority to optimise operations and portfolio position to restore value for shareholders.

## Managing Climate Change

The announcement by PRC President Xi Jinping and US President Barack Obama in 2014 that they will commit to targets for cuts in their respective nations' carbon emissions has given a fresh dose of optimism to negotiations aimed at reaching a new international climate treaty in the United Nations Climate Change Conference in Paris at the end of this year. At the same time, it put into sharp focus the slow pace of national and international policy support for carbon abatement since we published our Climate Vision in 2007 and the continuing regulatory uncertainty that we must contend with in running our business.

It is clear that, absent a material price on carbon, coal will continue to play a large role in meeting the growing need for affordable electricity in Asia for the foreseeable future. As a result, some of the most attractive investments in our growth markets will continue to be coal-based projects. We believe renewable energy will continue to play a role in Asia but its higher cost along with practical limitations such as grid restrictions and dependence on large areas of land, limit the pace and scale of its development in our region.

These factors significantly increase the challenge of achieving the interim targets outlined in our Climate Vision 2050. Our long-term goal is to reduce the carbon intensity of our generating portfolio by 75% by 2050. To that end, renewable energy plays an increasing role in our future growth plans. In fact, under our investment strategy over the next 10 years we have allocated 50% of our investment capital outside Hong Kong to renewable energy development. However, increasing renewable energy alone is not sufficient to achieve these steep reduction targets. We will also need to maximise the efficiency of our thermal projects, reduce our exposure to older coal-fired generation over time – such as the closure of Wallerawang in Australia – and continue to look for nuclear project opportunities. As for the interim targets in our Climate Vision, we recognise the very difficult challenge we have set ourselves and we acknowledge that Government policies will play a key role in the timing of when we achieve our targets. Nevertheless, we remain committed to working towards our goals.

## Funding Our Business

Investment goes hand in hand with financing. In terms of funding, our goal is to maintain our existing good investment grade credit rating and dividend practice. Our investment over the next decade will mainly be funded by retained earnings and judicious borrowings. We expect to invest 50% of our investment funds in Hong Kong and 50% in our other markets. The same split applies to thermal and renewable projects. Some important strategic investments may arise that would require us to take special measures to fund. These will be considered on their merits if and when they arise.

CEO discusses our development plan with shareholders

## Our Team

Any company is only as good as the people who work in it, and CLP is no exception. Our greatest assets are our employees. We have an extraordinarily talented multi-disciplinary employee base whose team work and collegiality is a source of great pride to the Company. We will continue to grow and develop our employees' skills and strengths through leveraging our capabilities across the Group so that they will continue to be instrumental in delivering the promise of our new strategy in the coming decade. As Chief Executive Officer of the Group, I have no greater priority or commitment to our team.

## Conclusion

In 2014, our focus on the business delivered improvement in earnings and established sound platforms for growth. Our Hong Kong business continued to perform well, whilst the aggregate performance from overseas improved.

In the coming year, we recognise there are specific issues we need to address in each of our markets. In Australia, where market conditions are expected to remain extremely challenging, we are addressing those issues in our control by reducing costs, improving efficiencies and working to optimise our operations and portfolio position. However, there are no quick fixes to the issues the industry faces and should oversupply in the wholesale market continue unabated, the value of generation assets may be hard to sustain. Our focus in India will be to improve operational efficiency and ensure continuing access to imported coal, whilst growing our wind portfolio. In the Mainland, we will progress construction of Fangchenggang II and continue to develop renewables projects. In Hong Kong, we will continue to focus on our excellent operational and environmental performances and cost management, and will actively engage in the public consultation on the regulatory structure of Hong Kong's electricity sector.

We have a long and proud record of service to the communities in Hong Kong and in other locations where we operate. Since our founding in 1901, CLP has come a long way. We have grown from a company operating solely in Hong Kong to a leading energy provider in the Asia Pacific. I am confident that our updated investment strategy of "Focus · Delivery · Growth" will provide the platform for great achievements for the Group in the decade ahead.

**Richard Lancaster**
Hong Kong, 26 February 2015

# OUR ASSETS AND INVESTMENTS

As at 31 December 2014, CLP comprised over **70** assets with more than **22,000MW** of capacity (generation and purchase), **6** different energy sources and about **5.1** million customer accounts.

## CLP HOLDINGS

### HONG KONG

**Transmission, Distribution and Customer Service**
- CLP 100% – CLP Power Hong Kong

**Generation – CAPCO**
- CLP 70% – China Southern Power Grid International (HK) Co., Limited 30%

**Gas Pipeline – SNGPC**
- CLP 40% – PetroChina Company Limited 60%

### MAINLAND CHINA

**WHOLLY-OWNED**

Wind
- CLP 100% – Laiwu Wind
- CLP 100% – Penglai Wind
- CLP 100% – Qian'an Wind

Hydro
- CLP 100% – Jiangbian Hydro
- CLP 100% – Dali Yang_er Hydro
- CLP 100% – PSDC

Solar
- CLP 100% – Xicun Solar

**MAJORITY-OWNED**

Coal – Fangchenggang
- CLP 70% – 30%[1]

Hydro – Huaiji Hydro
- CLP 84.9% – 15.1%[2]

Solar – Jinchang Solar
- CLP 51% – 49%[3]

Solar – Sihong Solar
- CLP 51% – 49%[4]

Notes:
1 Guangxi Water & Power Engineering (Group) Co., Ltd.
2 Huaiji County Huilian Hydro-electric (Group) Co., Ltd.
3 Jiangsu Zhenfa New Energy Science & Technology Development Co., Ltd.
4 Zhenfa New Energy Science & Technology Co., Ltd.

**MINORITY-OWNED**

Coal – CSEC Guohua
- CLP 30% – China Shenhua Energy Company Limited 70%

Coal – SZPC
- CLP 29.4% – China Guodian Corporation & EDF International S.A.S. 70.6%

Coal – Shenmu
- CLP 49% – China Shenhua Energy Company Limited 51%

Nuclear – GNPJVC
- CLP 25% – Guangdong Nuclear Investment Company, Limited 75%

Wind – CGN Wind
- CLP 15.75% – CGN Wind Energy Ltd. 84.25%

Minority-owned Wind Joint Ventures
(Refer to page 19 for details)

### INDIA

Coal
- CLP 100% – JPL

Gas, Wind
- CLP 100% – CLP India

Wind
- CLP 100% – CLP Wind Farms India

Wind
- CLP 100% – Khandke Wind

Wind
- CLP 100% – Theni Project II

### SOUTHEAST ASIA AND TAIWAN

Coal – Ho-Ping
- CLP 20% – Mitsubishi Corporation & Taiwan Cement Corporation 80%

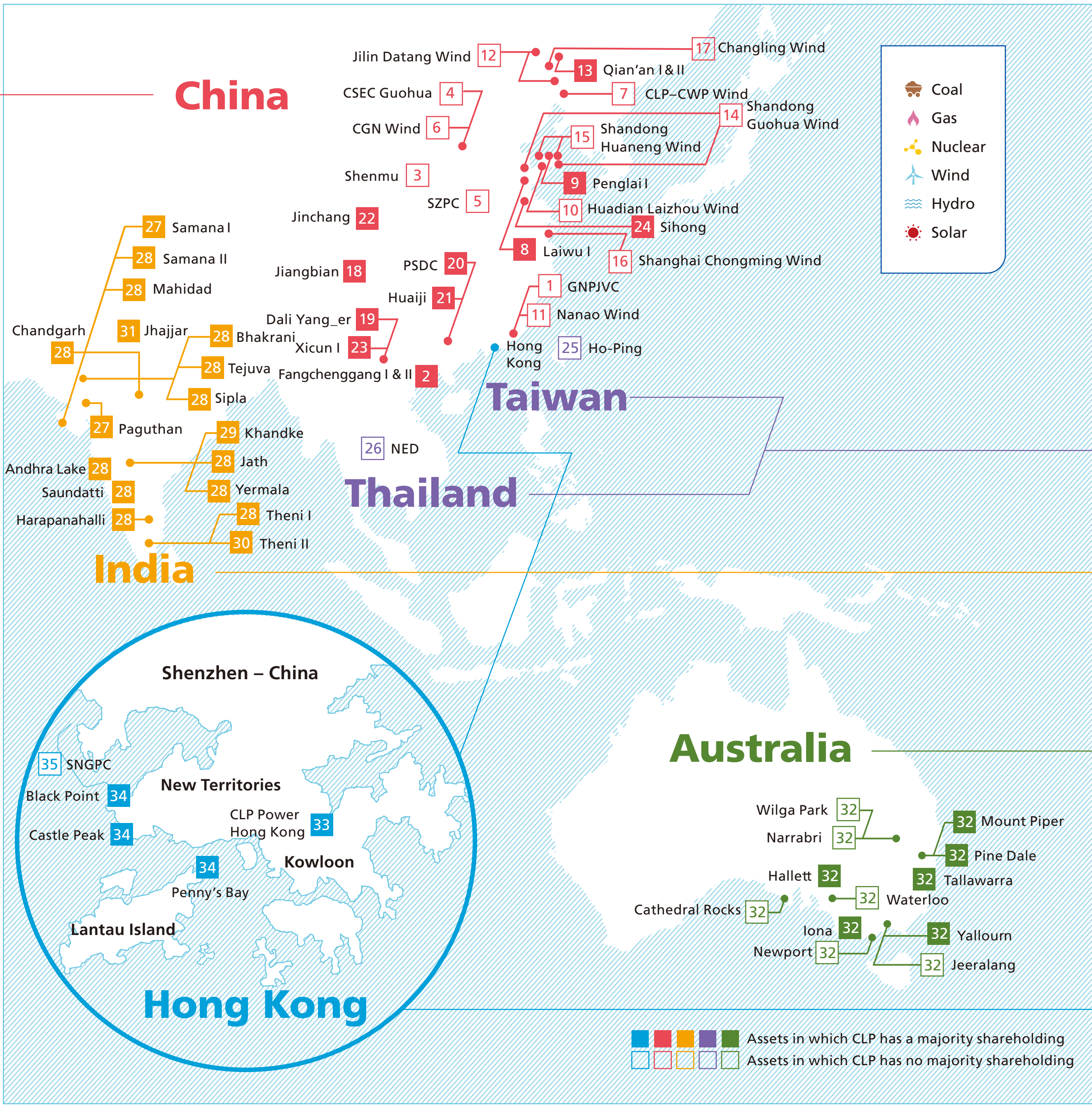
Solar – NED
- CLP 33.3% – Electricity Generating Public Company Limited (as of 4 February 2015) 66.7%

### AUSTRALIA

**Generation, Electricity and Gas Retail, Gas Storage**
- CLP 100% – EnergyAustralia

## Mainland China Investments Gross / Equity MW

| No. | Equity Interest | Investment |
|---|---|---|
| 1 | 25% | **Guangdong Nuclear Power Joint Venture Company, Limited (GNPJVC) 1,968 / 492MW**<br>GNPJVC constructed the **Guangdong Daya Bay Nuclear Power Station** (GNPS) at Daya Bay. GNPS is equipped with two 984MW Pressurised Water Reactors incorporating equipment from France and the United Kingdom. 70%[1] of electricity generated is supplied to Hong Kong, with the remaining 30% sold to Guangdong |
| 2 | 70% | **CLP Guangxi Fangchenggang Power Company Limited (Fangchenggang) 2,580 / 1,806MW**<br>Owns and operates a two-phase project at Fangchenggang in Guangxi with Guangxi Water & Power Engineering (Group) Co., Ltd. Phase I includes two 630 MW supercritical coal-fired units. Phase II, which is under construction, includes two 660MW ultra-supercritical coal-fired units that are expected to commence operation in 2016 |
| 3 | 49% | **CLP Guohua Shenmu Power Company Limited (Shenmu) 220 / 108MW**<br>Owns and operates **Shenmu Power Station** in Shaanxi (220MW) in joint venture with China Shenhua Energy Company Limited |
| 4 | 30% | **CSEC Guohua International Power Company Limited (CSEC Guohua) 7,680 / 1,339MW[2]**<br>Owns interests in five coal-fired power stations with China Shenhua Energy Company Limited:<br>• 100% of **Beijing Yire** (400MW)<br>• 65% of **Panshan** in Tianjin (1,060MW), a 30MW retrofit expansion was completed in 2014<br>• 55% of **Sanhe I and II** in Hebei (1,300MW)<br>• 50% of **Suizhong I and II** in Liaoning (3,600MW)<br>• 65% of **Zhungeer II and III** in Inner Mongolia (1,320MW) |
| 5 | 29.4% | **Shandong Zhonghua Power Company, Ltd. (SZPC) 3,060 / 900MW**<br>Owns four coal-fired power stations in Shandong with China Guodian Corporation and EDF International S.A.S.:<br>• **Heze II** (600MW) • **Liaocheng I** (1,200MW) • **Shiheng I and II** (1,260MW) |
| 6 | 15.75% | **CGN Wind Power Company Limited (CGN Wind) 1,794 / 251MW[3]**<br>Owns and operates 1,794MW of wind projects in various parts of China |
| 7 | 50% | **CLP-CWP Wind Power Investment Limited (CLP-CWP Wind) 99 / 24MW[4]**<br>Owns two wind farms in Liaoning: 49% of **Qujiagou** (49.5MW) and 49% of **Mazongshan** (49.5MW) |
| 8 | 100% | **CLP (Laiwu) Renewable Energy Limited (Laiwu Wind) 50 / 50MW**<br>Owns and operates **Laiwu I Wind Farm** (49.5MW) in Shandong |
| 9 | 100% | **CLP (Penglai) Wind Power Ltd. (Penglai Wind) 48 / 48MW**<br>Owns and operates **Penglai I Wind Farm** (48MW) in Shandong |
| 10 | 45% | **Huadian Laizhou Wind Power Company Limited (Huadian Laizhou Wind) 41 / 18MW**<br>Owns **Huadian Laizhou I Wind Farm** (40.5MW) in Shandong |
| 11 | 25% | **Huaneng Shantou Wind Power Company Limited (Nanao Wind) 60 / 15MW**<br>Owns two wind farms in Guangdong: **Nanao II** (45MW) and **Nanao III** (15MW) |
| 12 | 49% | **Jilin Datang Wind Joint Ventures (Jilin Datang Wind) 148 / 73MW**<br>Owns three wind farms in Jilin:<br>• **Datong** (49.5MW) • **Shuangliao I** (49.3MW) • **Shuangliao II** (49.5MW) |
| 13 | 100% | **Qian'an IW Power Company Limited (Qian'an Wind) 99 / 99MW**<br>Owns and operates two wind farms in Jilin: **Qian'an I** (49.5MW) and **Qian'an II** (49.5MW) |
| 14 | 49% | **Shandong Guohua Wind Joint Ventures (Shandong Guohua Wind) 445 / 218MW**<br>Owns nine wind farms in Shandong:<br>• **Dongying Hekou** (49.5MW) • **Haifang** (49.5MW) (suspended due to land issues) • **Lijin I** (49.5MW)<br>• **Lijin II** (49.5MW) • **Rongcheng I** (48.8MW) • **Rongcheng II** (49.5MW)<br>• **Rongcheng III** (49.5MW) • **Zhanhua I** (49.5MW) • **Zhanhua II** (49.5MW) |
| 15 | 45% | **Shandong Huaneng Wind Joint Ventures (Shandong Huaneng Wind) 96 / 43MW**<br>Owns three wind farms in Shandong:<br>• **Changdao** (27.2MW) • **Weihai I** (19.5MW) • **Weihai II** (49.5MW) |
| 16 | 29% | **Shanghai Chongming Beiyan Wind Power Generation Company Limited (Shanghai Chongming Wind) 48 / 14MW**<br>Owns **Chongming Wind Farm** (48MW) in Shanghai |
| 17 | 45% | **Sinohydro CLP Wind Power Company Limited (Changling Wind) 50 / 22MW**<br>Owns **Changling II Wind Farm** (49.5MW) in Jilin |
| 18 | 100% | **CLP Sichuan (Jiangbian) Power Company Limited (Jiangbian Hydro) 330 / 330MW**<br>Owns and operates **Jiangbian Hydropower Station** (330MW) in Sichuan |
| 19 | 100% | **Dali Yang_er Hydropower Development Co., Ltd. (Dali Yang_er Hydro) 50 / 50MW**<br>Owns and operates **Dali Yang_er Hydropower Station** (50MW) in Yunnan |
| 20 | 100% | **Hong Kong Pumped Storage Development Company, Limited (PSDC) 1,200 / 600MW**<br>PSDC holds the right to use half of the 1,200MW pumped storage capacity of Phase I of the **Guangzhou Pumped Storage Power Station** until 2034 but it owns no stake in the power station |
| 21 | 84.9% | **Huaiji Hydropower Joint Ventures (Huaiji Hydro) 128 / 109MW**<br>Owns and operates 12 small hydropower stations in Guangdong; a 3MW expansion of one of the hydropower stations was completed in 2014 |




| | | | |
|---|---|---|---|
| 22 | 51% | Solar | **Jinchang Zhenxin PV Power Company Limited (Jinchang Solar) 85 / 43MW**<br>Owns and operates **Jinchang Solar Power Station** (85MW) in Gansu |
| 23 | 100% | Solar | **CLP Dali (Xicun) Solar Power Co., Ltd (Xicun Solar) 42 / 42MW**<br>Owns and operates **Xicun I Solar Power Station** (42MW) in Yunnan, which commenced commercial operation in December 2014 |
| 24 | 51% | Solar | **Sihong Tianganghu PV Power Company Limited (Sihong Solar) 93 / 48MW**<br>Owns and operates **Sihong Solar Power Station** (93MW) in Jiangsu, which commenced operation on 1 February 2015 |

Notes:
1 Agreement has been reached to increase the proportion of supply to Hong Kong to slightly above 70% in 2014 and to about 80% from 2015 to 2018, with the remainder continues to be sold to Guangdong.
2 The 1,339 equity MW attributed to CLP, through its 30% equity interest in CSEC Guohua, takes into account that CSEC Guohua holds varying equity interests in the generating assets included in the 7,680 gross MW.
3 The 251 equity MW attributed to CLP, through its 15.75% equity interest in CGN Wind, takes into account that CGN Wind holds varying equity interests in the generating assets included in the 1,794 gross MW.
4 The 24 equity MW attributed to CLP, through its 50% equity interest in CLP-CWP Wind, takes into account that CLP-CWP Wind holds varying equity interests in the generating assets included in the 99 gross MW.
5 EnergyAustralia has another power station – Wallerawang – near Mount Piper in NSW. However, Wallerawang's Unit 7 (500MW) was deregistered with the Australian Energy Market Operator on 20 June 2014, while Unit 8 (500MW) was deregistered on 30 December 2014.
6 CLP Power Hong Kong purchases its power from CAPCO, PSDC and GNPS. These sources of power amount to a total capacity of 8,888 MW (CAPCO: 6,908MW, PSDC: 600MW, GNPS: about 1,380MW) available to serve the Hong Kong electricity business.

## Southeast Asia and Taiwan Investments Gross / Equity MW

Equity Interest

25 — 20%

**Ho-Ping Power Company (Ho-Ping) 1,320 / 264MW**
Owns the 1,320MW coal-fired **Ho-Ping Power Station** in Taiwan. CLP's 20% interest is held through OneEnergy Taiwan Ltd, a 50:50 project vehicle with Mitsubishi Corporation. Taiwan Cement Corporation owns the other 60% interest in Ho-Ping

26 — 33.3%

**Natural Energy Development Co., Ltd. (NED) 63 / 21MW**
Owns a 63MW solar farm in Lopburi Province in Central Thailand. NED is a joint venture company in which CLP has 33.3% shareholding. Electricity Generating Public Company Limited has the remaining 66.7%, including a 33.3% shareholding it acquired from Mitsubishi Corporation on 4 February 2015

## India Investments Gross / Equity MW

Equity Interest

27 — 100%

**CLP India Private Limited (CLP India) 705 / 705MW**
Owns and operates two projects in Gujarat:
- **Paguthan Power Station (Paguthan),** a 655MW combined-cycle gas-fired power plant. It is designed to run on natural gas with naphtha as alternate fuel
- **Samana I** (50.4MW)

28 — 100%

**CLP Wind Farms (India) Private Limited (CLP Wind Farms India) 931 / 931MW**
Owns and operates the following wind projects:
- **Andhra Lake** (106.4MW) in Maharashtra
- **Bhakrani** (102.4MW) with 101.6MW commissioned and remainder under construction in Rajasthan
- **Chandgarh** (100MW) under construction in Madhya Pradesh
- **Harapanahalli** (39.6MW) in Karnataka
- **Jath** (60MW) in Maharashtra
- **Mahidad** (50.4MW) in Gujarat
- **Samana II** (50.4MW) in Gujarat
- **Saundatti** (72MW) in Karnataka
- **Sipla** (50.4MW) in Rajasthan
- **Tejuva** (100.8MW) under construction in Rajasthan
- **Theni I** (49.5MW) in Tamil Nadu
- **Yermala** (148.8MW) under construction in Maharashtra

29 — 100%

**CLP Wind Farms (Khandke) Private Limited (Khandke Wind) 50 / 50MW**
Owns and operates **Khandke** (50.4MW) in Maharashtra

30 — 100%

**CLP Wind Farms (Theni – Project II) Private Limited (Theni Project II) 50 / 50MW**
Owns and operates **Theni II** (49.5MW) in Tamil Nadu

31 — 100%

**Jhajjar Power Limited (JPL) 1,320 / 1,320MW**
Owns and operates **Jhajjar Power Station (Jhajjar)** (1,320MW), which comprises two 660MW supercritical coal-fired units in Haryana.

## Australia Investments Gross / Equity MW

Equity Interest

32 — 100%

**EnergyAustralia 4,662 / 3,567MW (4,594MW including capacity purchase)**
EnergyAustralia is an integrated generation and retail electricity and gas business in Victoria, South Australia, NSW, Queensland and the Australian Capital Territory, comprising:
- **Cathedral Rocks** wind farm (50% equity / 100% off-take) (66MW)
- **Ecogen** (Newport and Jeeralang) off-take from gas-fired power stations (966MW)
- **Hallett** gas-fired power station (203MW)
- **Iona** gas storage facility and processing plant (22PJ storage capacity)
- **Mount Piper**[5] coal-fired power station (1,400MW)
- **Narrabri** (20%) (230PJ of equity coal seam gas 3P reserves)
- **Pine Dale** black coal mine
- **Tallawarra** gas-fired power station (420MW)
- **Waterloo** wind farm (25% equity / 50% off-take) (111MW)
- **Wilga Park** gas-fired power station (20%) (16MW)
- **Yallourn** coal-fired power station and brown coal open-cut mine (1,480MW)

## Hong Kong Investments Gross / Equity MW

Equity Interest

33 — 100%

**CLP Power Hong Kong Limited (CLP Power Hong Kong)**[6]
CLP Power Hong Kong owns and operates a transmission and distribution system which includes:
- 555 km of 400kV lines, 1,643 km of 132kV lines, 27 km of 33kV lines and 12,475 km of 11kV lines
- 61,450MVA transformers and 224 primary and 13,845 secondary substations in operation

and provides electricity and customer service

34 — 70%

**Castle Peak Power Company Limited (CAPCO) 6,908 / 4,836MW**
CAPCO owns and CLP Power Hong Kong operates:
- **Black Point Power Station (2,500MW)**
  One of the world's largest gas-fired power stations comprising eight combined-cycle turbines of 312.5MW each
- **Castle Peak Power Station (4,108MW)**
  Comprising four coal-fired units of 350MW each and another four units of 677MW each. Two of the 677MW units can use gas as a backup fuel. All units can use oil as a backup fuel
- **Penny's Bay Power Station (300MW)**
  Three diesel-fired gas turbine units of 100MW each mainly for backup purpose

35 — 40%

**ShenGang Natural Gas Pipeline Company Limited (SNGPC)**
SNGPC (CLP 40% / PetroChina Company Limited 60%) owns and operates the Hong Kong Branch Line (comprising a 20-km pipeline and the associated gas launching and end stations) which transports natural gas from PetroChina's Second West-East Gas Pipeline in Shenzhen Dachan Island to Black Point Power Station

# SHAREHOLDER VALUE AND ENGAGEMENT

Our goal is to create long-term and sustainable value for shareholders who are the ultimate owners of the Company. To do that, we seek to invest in businesses and projects which leverage our core capabilities and provide long-term returns. We strive to maintain a healthy balance sheet, uphold our values in managing our businesses, and frequently communicate with our shareholders openly and honestly. We recognise that we are the stewards of our shareholders' investments in the Company and we value their trust and confidence.

## Delivering Value to Shareholders

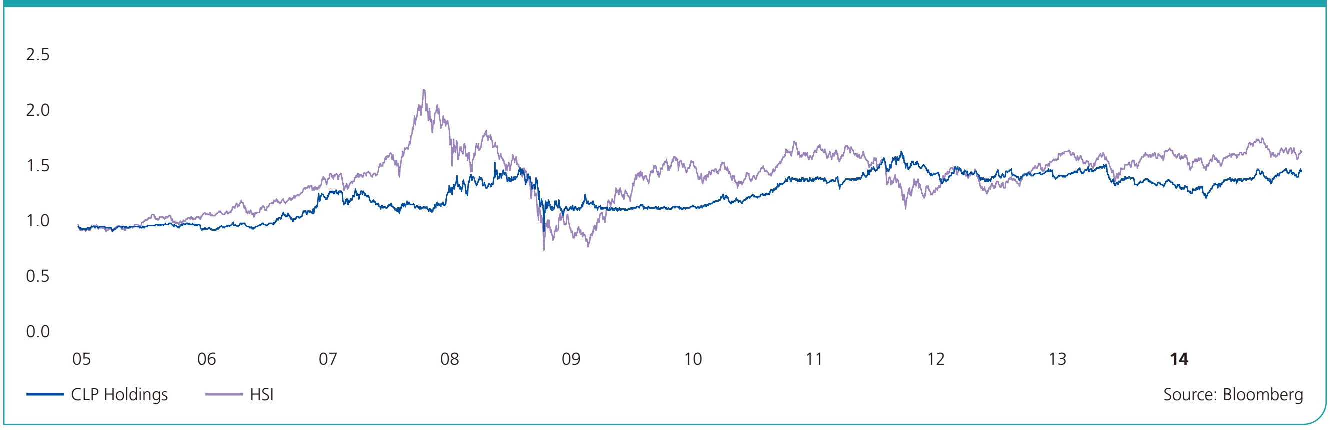
### Through Share Price Performance

CLP's share price appreciation outperformed the Hang Seng Index (HSI) during 2014 with 10% increase in share price over the year. In 2014, the average closing price of CLP's shares was HK$63.20, with the highest closing price of HK$68.00 recorded on 13 November and the lowest closing price of HK$56.30 recorded on 20 March and 21 March. Over the past 10 years, CLP has enjoyed gradual share price appreciation, reflecting CLP's characteristics as a defensive stock. In comparison the HSI had been more volatile as an index affected by numerous market factors.

**1-year Relative Performance – CLP vs HSI (1 Jan 2014 – 31 Dec 2014)** (Base: 31 December 2013 = 1.0)

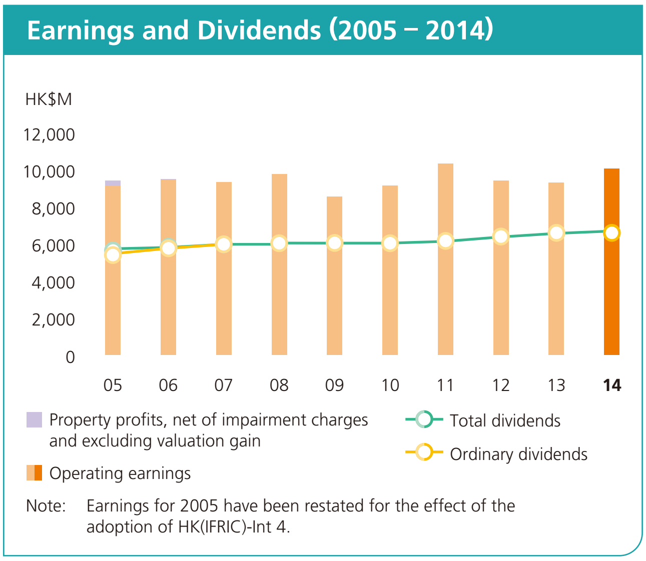

The trend shown in the 10-year Relative Performance chart below represents the share price changes compared with the closing price 10 years ago.

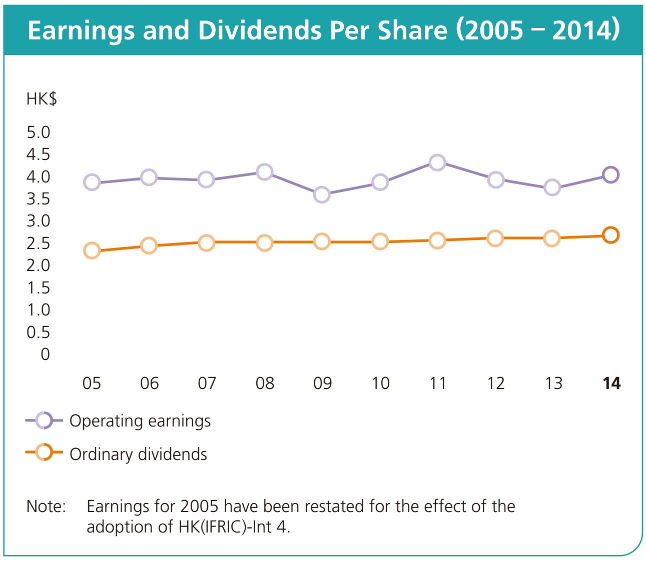
**10-year Relative Performance – CLP vs HSI (1 Jan 2005 – 31 Dec 2014)** (Base: 31 December 2004 = 1.0)




### Through Dividend Payments

Our longstanding practice is to provide consistent increases in ordinary dividends, linked to the underlying earnings performance of the business. Our shareholders, whether institutional or retail investors, have repeatedly emphasised to us the importance they attach to a consistent and substantial dividend stream from their investment in CLP shares. The following charts demonstrate that we have maintained a stable dividend stream, despite fluctuations in earnings in recent years. In fact, our annual dividends have not decreased since 1960 – a solid record maintained over the past 54 years.



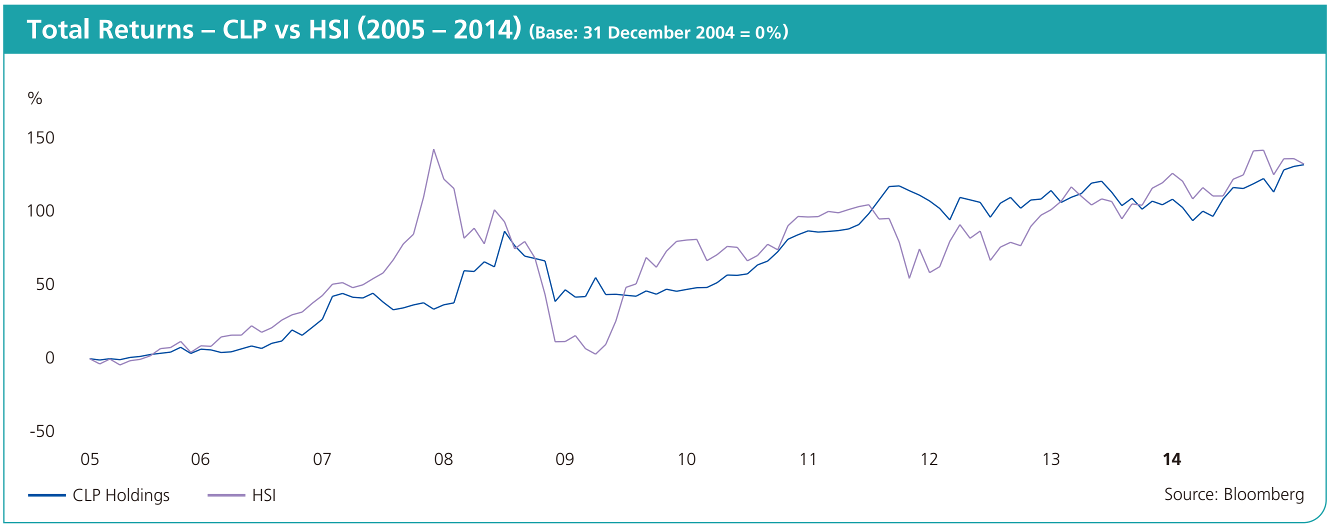




From 2005 to 2013, CLP's ordinary dividend payments were between 60% and 66% of operating earnings, except for 2009 and 2013 when our payout ratio rose to 70% of operating earnings, due to a significant decline in earnings caused by the reduction in the permitted rate of return under the SoC in 2009 and the difficult market conditions in Australia in 2013. Earnings from the property development at Hok Un and the other property disposals were generally paid out as special dividends.

This year, the Board declared a fourth interim dividend of HK$1.00 per share, an increase of HK$0.02 over the fourth interim dividend paid in 2013. Together with three interim dividends per share of HK$0.54 each paid during 2014, the total ordinary dividend for the year will be HK$2.62 per share, compared to HK$2.57 per share in respect of the previous year. This represents a dividend payout ratio for the year of 66% of operating earnings.

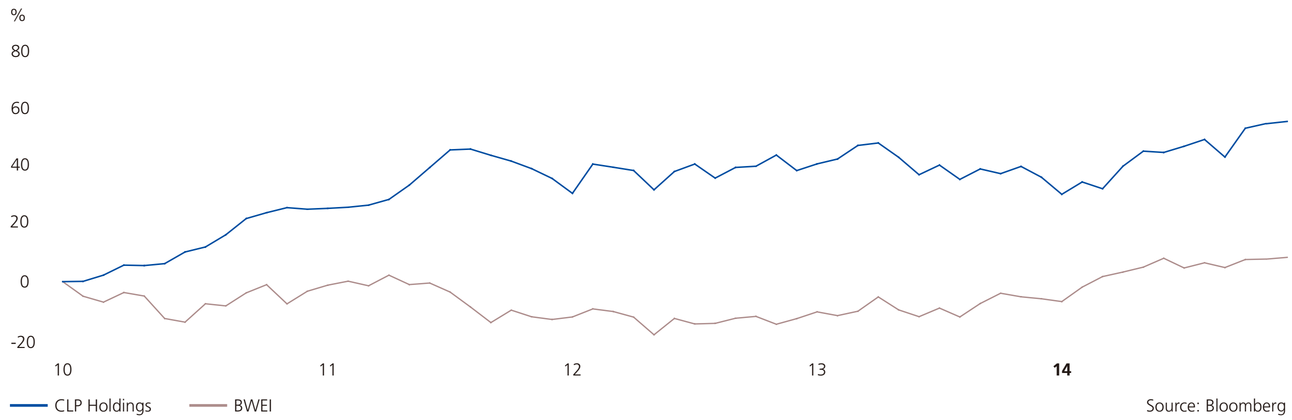
## Through Total Returns

Total returns to shareholders come from the combination of share price appreciation and dividend payments over time. During the past ten years CLP has provided considerable total returns to shareholders. During the 10-year period from 2005 to 2014, CLP provided an annualised rate of return of 8.78%, as compared to 8.80% for the HSI.



CLP is included in a number of global utilities / electricity indices. For instance, CLP represents 1.51% of the Bloomberg World Electric Index (BWEI), which comprises 119 worldwide electricity stocks. In recent years CLP has outperformed the BWEI in terms of price and total returns.

**Total Returns – CLP vs BWEI (2010 – 2014)** (Base: 31 December 2009 = 0%)



Source: Bloomberg

### Total Investment Worth of Different Types of Investment

As a publicly listed company, we recognise that our shareholders have many investment choices available to them, including other listed shares to bank deposits. We cannot offer a comparison of the total returns from holding CLP shares with every other investment choice available to our shareholders. However, the majority of our registered shareholders have a Hong Kong presence of some sort (98% have their registered address in Hong Kong), and will tend to hold CLP shares as a conservative component within their investment portfolio. In this year's Annual Report, as in previous years, we look at the performance of some comparable investments which our shareholders might make. We have assumed that during the period of 1, 5 and 10 years prior to 31 December 2014, an investor has put HK$1,000 into each of these investments every year. We have then compared the total worth of these investments (including bonus shares and with dividends or interest reinvested) at the end of each of the three periods.

**Investment Returns**

| | Total Investment Worth at 31 December 2014 | | |
|---|---|---|---|
| | 1-Year Period HK$ | 5-Year Period HK$ | 10-Year Period HK$ |
| CLP | 1,144 | 6,227 | 15,685 |
| Tracker Fund of Hong Kong | 1,055 | 6,021 | 14,939 |
| Hong Kong and China Gas | 1,120 | 6,743 | 18,495 |
| Power Assets Holdings | 1,267 | 7,912 | 21,358 |
| HK$ 1-Year Fixed Deposits | 1,008 | 5,110 | 10,782 |

Adapted from Bloomberg / Reuters

## Communicating Effectively with Shareholders

Shareholders will expect that the quality of the information they receive and CLP's commitment to the ongoing delivery of shareholder value are supported by strong and comprehensive systems and processes. Our Corporate Governance Report, from pages 110 to 131, explains how we fulfil this duty.

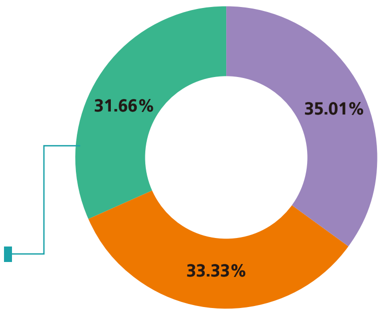
At the end of 2014, CLP had over 21,000 registered shareholders. The actual number of investors in CLP shares will be much greater, taking into account those people and organisations who have an indirect interest in our shares through intermediaries such as nominees, investment funds and the Central Clearing and Settlement System (CCASS) of Hong Kong. Our largest single shareholder is the Kadoorie Family (and interests associated with the Family) who have a combined shareholding of 35.01%. Even so, CLP is not a family-controlled company. The remaining 64.99% of our shares are held by a wide range of institutional investors, including those based in North America, Europe and Asia, as well as a considerable number of retail investors, who are mostly resident in Hong Kong.

## Shareholdings as at 31 December 2014

| Size of Registered Shareholdings | No. of Shareholders | % of Shareholders | No. of Shares | % of Issued Share Capital |
|---|---|---|---|---|
| 500 or below | 2,360 | 11.20 | 731,042 | 0.03 |
| 501 – 1,000 | 3,753 | 17.82 | 2,978,068 | 0.12 |
| 1,001 – 10,000 | 10,002 | 47.48 | 42,892,153 | 1.70 |
| 10,001 – 100,000 | 4,409 | 20.93 | 127,843,026 | 5.06 |
| 100,001 – 500,000 | 444 | 2.11 | 92,418,537 | 3.66 |
| Above 500,000 | 97[1] | 0.46 | 2,259,587,744 | 89.43 |
| **Total** | **21,065** | **100.00** | **2,526,450,570[2]** | **100.00** |

Notes:
1 Information on the ten largest registered shareholders in the Company is set out on our website.
2 51.32% of all our issued shares were held through CCASS.

**Shareholding by Category**




- Interests associated with the Kadoorie Family
- Institutional investors
- Retail investors

The scale of our shareholders' investment is reflected in a market capitalisation of CLP Holdings of HK$170 billion as at 31 December 2014. Our shares represent 1.63% by weighting of the HSI – Hong Kong's leading listed companies index.

The importance to CLP of an effective dialogue with shareholders and investors has been recognised by the establishment by the Board of a Shareholders' Communication Policy, which is published on our website. This Policy forms the basis for extensive and ongoing engagement with our shareholders and the investment community. The Audit Committee is responsible for the regular review of the effectiveness of this Policy. The most recent review was undertaken in October 2014 and the Audit Committee concurred Management's view that CLP's communication with shareholders was effective.

We believe that communication with our shareholders is a two-way process. We listen carefully to the views and feedback we receive from all of our shareholders. In the past year, issues which have been the main subjects of shareholders' queries and concerns have been:

- CAPCO and PSDC Acquisitions, growth opportunities, tariff increases, fuel mix consultation and post-2018 regulatory regime in Hong Kong;
- the impact of tariff cuts for coal-fired generation and the future investment strategy in Mainland China;
- fuel supply issues for Jhajjar and Paguthan in India and the likely impact on business of the election of Narendra Modi as Prime Minister;
- continuing challenges in the Australian market, including the strength and sustainability of earnings, retail competition, wholesale electricity supply and demand balance, and the impact from the repeal of the carbon regime; and
- ongoing delivery of shareholder value, in particular our dividend policy, capital allocation, investment return and balance sheet management.

In this Annual Report we have made a particular effort to address each of these areas. For example, the Chairman's Statement focuses on the recent review of the Group's investment strategy and the post-2018 regulatory review of the Scheme of Control Agreement for our Hong Kong electricity business, whilst the CEO's Strategic Review addresses the delivery of the investment strategy by giving an overview of CLP's performance in 2014 and an outline of our key plans over the coming years. Together with the review of our investments in the five markets where we operate, the Annual Report offers an extensive description of the performance and outlook for these businesses. In order to provide shareholders with more interactive information, we have also enhanced the online snapshot of our Annual Report by including videos, a questions and answers section as well as animations. The Financial Review and Financial Capital from pages 28 to 41 and pages 80 to 89 respectively have provided a comprehensive illustration of our capital allocation and balance sheet management. Further progress in the evolution of our corporate governance practices is disclosed in the Corporate Governance Report. In this section of the Annual Report, we have discussed the remaining area of primary investor interest – ongoing delivery of shareholder value.

Set out below are our major channels of communication to our shareholders and the investment community:

### Providing information to our shareholders and the investment community through means such as

- Our Annual Report, Sustainability Report online and Quarterly Statements – all of which provide information far in excess of legal and regulatory requirements.
- Our AGM – in the past five years, the attendance of shareholders at our AGMs has averaged about 956 (1,059 in 2014). This is an unusually high number for a Hong Kong company, including by comparison with other companies having a much larger number of registered shareholders.
- Management attended about 180 investor meetings, including participation in nine investor conferences, and 12 non-deal roadshows to Asia, Europe and North America.
- Analyst briefings on the Company's interim and annual results, as well as on Hong Kong business updates. Presentation materials are available on our website.
- The Company Secretary has constant communications with institutional investors on corporate governance practices.
- The second webcast on the environmental, social and governance (ESG) aspects of the business was held in April 2014. The webcast is available on our website.
- Financial statistics for the recent years, latest investor information (such as share price, dividend information, calendar of important dates, etc.) are posted on our website and regularly updated.
- The CLP website, which includes information on the Company's corporate governance principles and practices, updates on the Group's affairs and other information for shareholders.

### Encouraging feedback from our shareholders and latest industry development update from the investment community through means such as

- Face to face dialogue, including the "Shareholders' Corner" at our AGM.
- Feedback forms sent out with our Annual Report to obtain shareholders' views on the Report and on additional information that they would like to receive in the following year's Annual Report, together with questions that they would like to have answered in the "Frequently Asked Questions" section of our website. We consider the feedback received and post answers on our website. We also send direct replies to shareholders in response to the specific questions that they raise.
- Comments, queries and research reports from equity analysts.
- Shareholders' hotline and investor relations' email contacts.
- Shareholder correspondence – our aim is to provide a substantive reply within seven days to written shareholder queries. If those queries raise a matter of more general interest to shareholders, we will seek to address this in subsequent corporate communications to all our shareholders.
- Shareholders' visits to our facilities. We believe that our Shareholders' Visit Programme, initiated in 2003, is unique amongst Hong Kong companies. Between November 2014 to April 2015, we expect to welcome about 3,000 shareholders and their guests, during 72 tours to visit our facilities at CLP Centenary Building and Black Point Power Station. About 70 CLP colleagues, including our Chairman, Vice Chairman, Directors and Senior Management, have volunteered to participate as lunch hosts and ambassadors of the programme.

# Shareholders' Dates 2015

**26 FEB**
2014 Annual Results and Fourth Interim Dividend announced

**12 MAR**
2014 Annual Report uploaded on website

**13 MAR**
2014 Fourth Interim Dividend Book Close Day

**24 MAR**
2014 Fourth Interim Dividend payable

**5-7 MAY**
Voting at AGM Book Close Days

**7 MAY**
2015 AGM

**8 MAY**
2015 First Interim Dividend announced

**4 JUN**
2015 First Interim Dividend Book Close Day

**15 JUN**
2015 First Interim Dividend payable

**13 AUG**
2015 Interim Results and Second Interim Dividend announced

**7 SEP**
2015 Second Interim Dividend Book Close Day

**15 SEP**
2015 Second Interim Dividend payable

**19 OCT**
2015 Third Interim Dividend announced

**4 DEC**
2015 Third Interim Dividend Book Close Day

**15 DEC**
2015 Third Interim Dividend payable

Any changes to these dates will be published on our website.

# FINANCIAL REVIEW

## HOW DID OUR BUSINESS PERFORMANCE CREATE ECONOMIC VALUE FOR OUR CAPITAL PROVIDERS?

Here we explain how the management and operation of our assets deliver economic value to our shareholders and lenders

# FINANCIAL REVIEW

## CLP GROUP'S FINANCIAL RESULTS AND POSITION AT A GLANCE

Financial statements are the scorecard of a business and the window to a company's operations. The Group's strategy drives investment decisions and business performance, the results of which then translate into a set of numbers in the financial statements. This chart summarises how we delivered economic value in 2014.

### Strategy to Diversify Electricity Business

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

#### Outcome

- Group revenue[(1)] decreased to HK$92,259 million because revenue from Australia was adversely affected by lower exchange rate, lower customer accounts and usage and reduced generation revenue, partly offset by the uplifts of electricity and gas retail prices. Revenue from operations in Hong Kong increased as a result of more units sold and higher fuel clause revenue.
- Operating earnings[(2)] from Hong Kong increased as a result of the share of additional 30% earnings from CAPCO after its acquisition in May 2014. Earnings from India, Southeast Asia and Taiwan and Australia also improved. Earnings from Mainland China were negatively affected by the depreciation of Renminbi, no profit sharing from CSEC Guohua and Shenmu under the Share Transfer Agreement, and lower contribution from Fangchenggang as a result of fewer units sold and the expiry of an income tax credit.
- In May, the Group completed the acquisition of additional 30% interest in CAPCO and 51% interest in PSDC. As a result of these acquisitions, a net gain of HK$1,953 million was recorded which represented 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[(3)].
- Additional drilling data and analysis on Narrabri Coal Seam Gas Project in Australia indicated that total gas reserves were less than original estimates. Together with other production considerations, a provision of HK$1,578 million has been made against the project[(4)].
- The translation loss resulting from the depreciation of Australian dollar (-8.1%) and Indian rupee (-2.3%) closing rates accounted for the movement in other comprehensive income[(5)] for the year.
- In this year's Consolidated Statement of Financial Position, increase in tangible and intangible assets mainly came from the acquisitions of CAPCO and PSDC. Out of the fixed assets, leasehold land and land use rights under operating leases and investment property[(6)] of HK$136,383 million, 74.4% relates to our electricity business in Hong Kong. On the other hand, 64.5% (99.7% in 2013) of the goodwill and other intangible assets[(7)] of HK$31,129 million are attributed to our energy business in Australia.

**Last Year's Consolidated Statement of Financial Position**

| | HK$M |
|---|---|
| **Assets** | |
| Fixed assets, leasehold land and land use rights under operating leases | 130,903 |
| Goodwill and other intangible assets | 23,847 |
| Interests in joint ventures | 19,940 |
| Interest in an associate | 1,675 |
| Derivative financial instruments | 4,123 |
| Trade and other receivables | 17,953 |
| Cash and cash equivalents | 4,784 |
| Restricted cash | 449 |
| Bank balances, cash and other liquid funds | 5,233 |
| Other assets | 8,011 |
| | 211,685 |
| **Equity and Liabilities** | |
| Share capital, premium and reserves | 28,136 |
| Retained profits | 59,225 |
| Shareholders' funds | 87,361 |
| Other non-controlling interests | 120 |
| Derivative financial instruments | 4,719 |
| Trade and other payables | 19,325 |
| Borrowings | 56,051 |
| Obligations under finance leases | 27,976 |
| SoC reserve accounts | 28 |
| Other liabilities | 16,105 |
| | 211,685 |
| **Closing exchange rate** | |
| Australian dollar / Hong Kong dollar | 6.9154 |
| Indian rupee / Hong Kong dollar | 0.1256 |

**Beyond Last Year's Statement of Financial Position**

| | HK$M |
|---|---|
| Charges on assets | 19,611 |
| Contingent liabilities | 1,637 |
| Operating lease commitments | 9,984 |
| Capital commitments | 15,646 |

## Consolidated Statement of Profit or Loss and Other Comprehensive Income for Two Years

| | | 2013 HK$M | 2014 HK$M | Increase/ (Decrease) % |
|---|---|---|---|---|
| Revenue | (1) | 104,530 | 92,259 | (11.7) |
| Expenses | | (96,375) | (79,389) | |
| Other gain | | 751 | 2,025 | |
| Operating profit | | 8,906 | 14,895 | 67.2 |
| Share of results of joint ventures and associate, net of tax | | 3,283 | 2,358 | (28.2) |
| Net finance costs | | (6,349) | (4,049) | |
| Income tax credit / (expense) | | 232 | (1,268) | |
| Earnings attributable to perpetual capital securities holders | | – | (152) | |
| Earnings attributable to other non-controlling interests | | (12) | (563) | |
| Earnings attributable to shareholders | | 6,060 | 11,221 | 85.2 |
| Analysed into: | | | | |
| Electricity business in Hong Kong | | 6,966 | 7,777 | 11.6 |
| Other investments / operations | | 2,790 | 2,907 | 4.2 |
| Unallocated net finance costs | | (26) | (36) | |
| Unallocated Group expenses | | (423) | (586) | |
| Operating earnings | (2) | 9,307 | 10,062 | 8.1 |
| Net gain on CAPCO and PSDC acquisitions | (3) | – | 1,953 | |
| Australian one-off items include impairment provision for Narrabri Coal Seam Gas Project in 2014 / impairment provisions for generation assets in 2013 | (4) | (2,582) | (881) | |
| Other one-off items | | (665) | 87 | |
| Earnings attributable to shareholders | | 6,060 | 11,221 | 85.2 |
| Other comprehensive income | (5) | (3,333) | (4,000) | |
| Total comprehensive income | | 2,727 | 7,221 | |
| **Average exchange rate** | | | | |
| Australian dollar / Hong Kong dollar | | 7.4429 | 6.9735 | |
| Indian rupee / Hong Kong dollar | | 0.1323 | 0.1272 | |

## Consolidated Profits Retained for This Year

| | HK$M |
|---|---|
| Retained profits at 31.12.2013 | 59,225 |
| Earnings attributable to shareholders | 11,221 |
| Dividends paid for the year | |
| 2013 fourth interim (HK$0.98 per share) | (2,476) |
| 2014 first to third interim (HK$1.62 per share) | (4,093) |
| Other movements within equity | 117 |
| Retained profits at 31.12.2014 | 63,994 |
| Fourth interim dividend declared for 2014, HK$ per share | 1.00 |

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

| | | HK$M |
|---|---|---|
| Operating profit | | 14,895 |
| Depreciation and amortisation | | 6,791 |
| Impairment charge | | 3,264 |
| Net gain on CAPCO and PSDC acquisitions | | (2,025) |
| SoC items | | 2,621 |
| Changes in working capital | | (1,591) |
| Income tax paid | | (1,595) |
| Others | | (394) |
| Cash inflow from operating activities | (8) | 21,966 |

## Consolidated Statement of Cash Flows for This Year

| | HK$M |
|---|---|
| **Operating activities** | |
| Cash inflow from operating activities | 21,966 |
| **Investing activities** | |
| Dividends received | 2,069 |
| Capital expenditure | (9,192) |
| Acquisition of subsidiaries | (8,172) |
| Investments in and advances to joint ventures | (1,835) |
| Additions of other intangible assets | (1,287) |
| Other net outflow | (266) |
| **Financing activities** | |
| Net increase in borrowings | 7,893 |
| Issue of perpetual capital securities | 5,791 |
| Settlement of finance lease obligation | (5,338) |
| Interest and other finance costs paid | (3,723) |
| Dividends paid | (6,569) |
| Others | (1,958) |
| Net decrease in cash and cash equivalents | (621) |
| Cash and cash equivalents at 31.12.2013 | 4,784 |
| Effect of exchange rate changes | (127) |
| Cash and cash equivalents at 31.12.2014 | 4,036 |

## Breakdown of Capital Investments

| | | HK$M |
|---|---|---|
| Capital expenditure | | 9,192 |
| Acquisition of subsidiaries | | 8,172 |
| Settlement of finance lease obligation | | 5,338 |
| Investments in and advances to joint ventures | | 1,835 |
| Additions of other intangible assets | | 1,287 |
| Acquisition of leased assets | | 587 |
| Accrual adjustments | | (333) |
| | | 26,078 |
| By business activity: | | |
| Coal and gas assets | | 15,960 |
| Renewables | (15) | 3,072 |
| Transmission, distribution and retail | | 6,893 |
| Others | | 153 |
| | | 26,078 |
| By region: | | |
| Hong Kong | (9) | 19,747 |
| Mainland China | (10) | 4,284 |
| India | (10) | 461 |
| Southeast Asia and Taiwan | | (178) |
| Australia | (11) | 1,764 |
| | | 26,078 |

### This Year's Consolidated Statement of Financial Position

| | | HK$M |
|---|---|---|
| **Assets** | | |
| Fixed assets, leasehold land and land use rights under operating leases and investment property | (6) | 136,383 |
| Goodwill and other intangible assets | (7) | 31,129 |
| Interests in joint ventures | | 11,176 |
| Interest in an associate | | 786 |
| Derivative financial instruments | (12) | 3,779 |
| Trade and other receivables | | 15,719 |
| Cash and cash equivalents | | 4,036 |
| Restricted cash and others | | 357 |
| Bank balances, cash and other liquid funds | | 4,393 |
| Other assets | | 11,298 |
| | | 214,663 |
| **Equity and Liabilities** | | |
| Share capital and reserves | | 24,019 |
| Retained profits | | 63,994 |
| Shareholders' funds | | 88,013 |
| Perpetual capital securities | (13) | 5,791 |
| Other non-controlling interests | | 2,155 |
| Derivative financial instruments | (14) | 3,771 |
| Trade and other payables | | 21,619 |
| Borrowings | | 67,435 |
| Obligations under finance leases | | 27 |
| SoC reserve accounts | | 1,131 |
| Other liabilities | | 24,721 |
| | | 214,663 |
| **Closing exchange rate** | | |
| Australian dollar / Hong Kong dollar | | 6.3540 |
| Indian rupee / Hong Kong dollar | | 0.1227 |

### Beyond This Year's Statement of Financial Position

| | HK$M |
|---|---|
| Charges on assets | 18,984 |
| Contingent liabilities | 1,362 |
| Operating lease commitments | 4,019 |
| Capital commitments | 13,605 |

## Strategy to Optimise Financial and Capital Structure

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

### Outcome

- Operating activities: Our cash flows from operating activities[8] remained strong and continued to be the main source for dividend payments and future business growth.
- Investing activities: In Hong Kong[9], our commitments to the territory was demonstrated by our investment of HK$19,747 million mainly related to acquisition of CAPCO as well as the development and enhancement projects of our generation, transmission and distribution and customer services facilities. In Australia[11], capital investments mainly related to improvement works at generation plants and EnergyAustralia Integration Project. We also continued the construction of wind and solar projects in India[10] and Mainland China[10].
- Financing activities: During the year, the Group issued a total of US$750 million (HK$5,791 million) perpetual capital securities[13] to strengthen the balance sheet and credit profile. Our total debt to total capital ratio increased from 39.1% to 39.6% at 2014 year end. Moody's affirmed the credit rating of CLPH (A2) with negative outlook in April. Standard & Poor's also removed the credit rating of CLPH (A-) from credit watch in May with negative outlook.

## Strategy to Manage Risks

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

### Outcome

The derivative assets[12] and liabilities[14] refer to the fair value gains and losses of the financial instruments respectively at year end. At 31 December 2014, the Group had net derivative assets of HK$8 million which represented the net amount we would receive if these contracts were closed out at year end. The net derivative assets, changed from net derivative liabilities in 2013, was mainly due to the early close-out of energy derivative contract liabilities in Australia.

## Strategy to Reduce Carbon Intensity

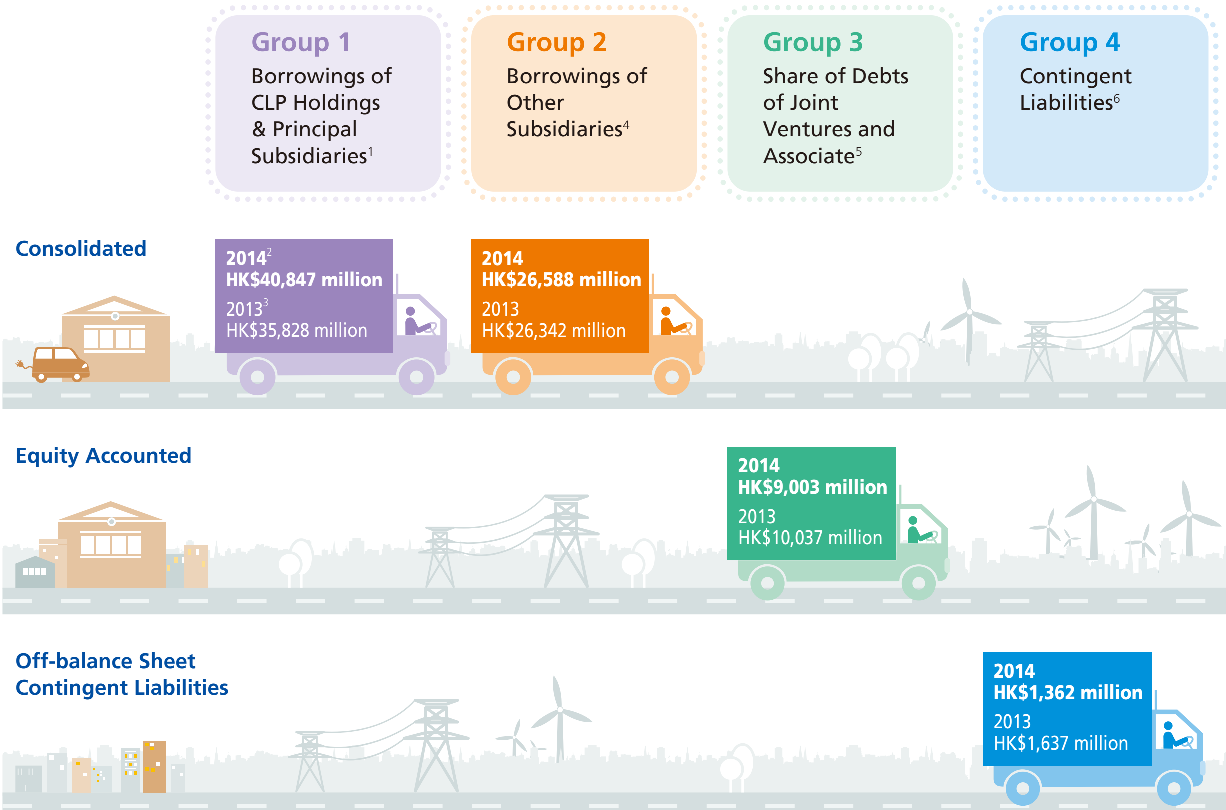
CLP continues to invest in renewable energy to reduce the carbon intensity of its generating portfolio and exploit the opportunities of low carbon emissions generation.

### Outcome

- Operating earnings from renewable energy decreased from HK$617 million to HK$384 million in 2014 mainly due to lower wind resources for wind projects, low utilisation hours of hydro projects, and grid curtailment at Jinchang Solar project in Mainland China.
- Investment of HK$3,072 million[15] during the year mostly in wind farms across India and Mainland China, and a solar project in Mainland China.
- Renewable energy sources represent over 14% of our total generating capacity.

## CLP GROUP'S FINANCIAL OBLIGATIONS AT A GLANCE

Consolidated financial statements are prepared to show the effect as if the parent and all of its subsidiaries were one entity by combining their financial statements on a line by line basis. In contrast, under the equity method of accounting, interests in joint ventures and interests in associates are accounted for on the basis of proportionate sharing of net assets (i.e. assets minus liabilities). As a result, the borrowings of our joint ventures and associate are not included as part of the debts shown in our consolidated statement of financial position. The financial risks associated with unconsolidated financial obligations and borrowings of these equity accounted entities are not transparent to the readers. Consistent with our practice of enhanced disclosure, the diagram below illustrates the financial obligations of the CLP Group, as well as those of our joint ventures and associate. These financial obligations are classified into four categories according to their degree of recourse to CLP Holdings. Obligations under finance leases have not been included in the diagram.




Total debt to total capital at CLP consolidated level (i.e. Group 1 and Group 2 together) in 2014 was 39.6% (2013: 39.1%). If the attributable portion of debts of Group 3 were also included, total debt to total capital would rise to 42.7% (2013: 41.6%).

Notes:

1 Principal subsidiaries include CLP Power Hong Kong, CAPCO and PSDC.

2 2014 figure includes 100% of the debts of CAPCO though CAPCO is only a 70% owned subsidiary of the Group. Therefore, for the calculation of total debt to total capital, the 30% non-controlling interest and shareholder's advances from China Southern Power Grid (CSG) are included in the denominator to ensure consistency.

3 In 2013, CAPCO and PSDC were a 40% and a 49% owned joint venture of the Group respectively. The comparative figure in 2013 includes 100% of the debts of CAPCO and PSDC as CLP Power Hong Kong has commitments to these companies through power purchase and service agreements. Therefore, total capital also includes 60% and 51% of the equity of CAPCO and PSDC respectively to ensure consistency.

4 These debts are non-recourse to CLP Holdings. These debts mainly comprise debts of EnergyAustralia and CLP India.

5 These debts are non-recourse to CLP Holdings or its subsidiaries. The share of debts is calculated by reference to the Group's shareholdings in the relevant joint ventures and associate.

6 Details of the contingent liabilities of CLP Holdings and its subsidiaries are set out in Note 34 to the Financial Statements.

# FINANCIAL ANALYSIS

## Group's Financial Results

| Financial results | *Notes to the Financial Statements* | 2014 HK$M | 2013 HK$M | Increase / (Decrease) HK$M | % |
|---|---|---|---|---|---|
| Revenue | 3 | **92,259** | 104,530 | (12,271) | (11.7) |
| Expenses | | **(79,389)** | (96,375) | (16,986) | (17.6) |
| Finance costs | *7* | **(4,180)** | (6,522) | (2,342) | (35.9) |
| Share of results of joint ventures | *15* | **1,562** | 2,671 | (1,109) | (41.5) |
| Income tax (expense) / credit | *8* | **(1,268)** | 232 | (1,500) | N/A |
| Earnings attributable to shareholders | | **11,221** | 6,060 | 5,161 | 85.2 |
| Adjusted current operating income (ACOI) | | **17,232** | 16,935 | 297 | 1.8 |

### Earnings Attributable to Shareholders

| | 2014 HK$M | 2014 HK$M | 2013 HK$M | 2013 HK$M | Increase HK$M | % |
|---|---|---|---|---|---|---|
| Electricity business in Hong Kong (HK) | | **7,777** | | 6,966 | 811 | 11.6 |
| PSDC and sales to Guangdong from HK | **71** | | 125 | | | |
| Power projects in Mainland China | **1,579** | | 2,131 | | | |
| Electricity business in India | **270** | | 184 | | | |
| Power projects in Southeast Asia and Taiwan | **297** | | 241 | | | |
| Energy business in Australia | **756** | | 126 | | | |
| Other earnings | **(66)** | | (17) | | | |
| Earnings from other investments / operations | | **2,907** | | 2,790 | 117 | 4.2 |
| Unallocated net finance costs | | **(36)** | | (26) | | |
| Unallocated Group expenses | | **(586)** | | (423) | | |
| **Operating earnings** | | **10,062** | | 9,307 | 755 | 8.1 |
| Net gain on CAPCO and PSDC acquisitions* | | **1,953** | | – | | |
| Australian one-off items include impairment provision for Narrabri Coal Seam Gas Project in 2014 (note) / impairment provisions for generation assets in 2013* | | **(881)** | | (2,582) | | |
| Revaluation gain on Argyle Street site* | | **245** | | – | | |
| Impairment provisions for Dali Yang_er in 2014 / Paguthan, CSEC Guohua and Shenmu in 2013* | | **(158)** | | (590) | | |
| Divestment from Boxing Biomass* | | **–** | | (75) | | |
| **Total earnings** | | **11,221** | | 6,060 | 5,161 | 85.2 |

* One-off items audited by the Company's Auditor

Note: Including an impairment provision for Narrabri Coal Seam Gas Project of HK$1,578 million, net of a gain on termination of an energy agreement of HK$152 million and a net tax credit of HK$545 million.

Earnings from Hong Kong increased by 11.6% as a result of the share of additional 30% of CAPCO's earnings after the acquisition in May 2014 and higher return on higher average net fixed assets. Lower earnings from Mainland China were mainly due to lower contribution from Fangchenggang and no profit sharing under the Share Transfer Agreement of CSEC Guohua and Shenmu disposal (notwithstanding the Agreement subsequently lapsed in December). Earnings from India increased with the improved coal supply in Jhajjar. Earnings from Southeast Asia and Taiwan were also higher due to the one-off penalty imposed on Ho-Ping by Fair Trade Commission of Taiwan in 2013. Contribution from Australia improved from HK$126 million to HK$756 million. This was mainly attributable to lower depreciation and amortisation on reduced asset bases after the 2013 impairment, and lower finance costs and bad debt provision. Taking into account of the one-off items, including the net gain on CAPCO and PSDC acquisitions, the impairment provision for Narrabri Coal Seam Gas Project and other one-off items, total earnings up 85.2% to HK$11,221 million. The performance of individual businesses is analysed on pages 44 to 77.

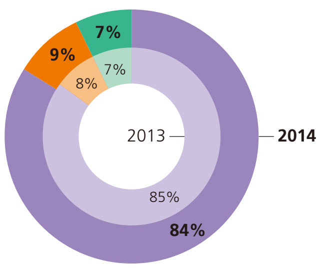
## Revenue and Expenses

| | Revenue | | | | Expenses | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 HK$M | 2013 HK$M | Increase / (Decrease) HK$M | % | 2014 HK$M | 2013 HK$M | Increase / (Decrease) HK$M | % |
| Hong Kong | 35,623 | 34,172 | 1,451 | 4.2 | 23,663 | 23,733 | (70) | (0.3) |
| India | 4,821 | 4,371 | 450 | 10.3 | 3,454 | 3,681 | (227) | (6.2) |
| Australia | 50,895 | 64,976 | (14,081) | (21.7) | 50,828 | 67,908 | (17,080) | (25.2) |
| Others | 920 | 1,011 | (91) | (9.0) | 1,444 | 1,053 | 391 | 37.1 |
| | 92,259 | 104,530 | (12,271) | | 79,389 | 96,375 | (16,986) | |

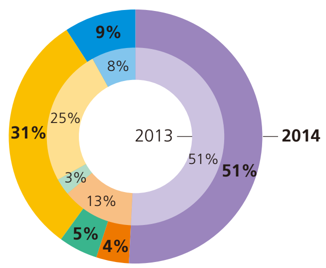
Excluding the effect of Australian dollar depreciation, revenue from Australia decreased by 16.4%. Despite the uplifts of retail tariffs, lower revenue in Australia was mainly attributable to lower customer accounts and usage and lower generation revenue after the withdrawal of Wallerawang Power Station from the portfolio in early 2014. In India, higher revenue was mainly attributable to Jhajjar with higher availability as a result of improved coal supply, partly offset by lower revenue from Paguthan due to the revised power purchase agreement terms. Revenue from Hong Kong grew with more units sold and higher fuel clause revenue.

Lower expenses in Australia were mainly attributable to decrease in "Purchases of electricity, gas and distribution services expenses" as a result of lower purchase volume. The depreciation of Australian dollar also contributed to the decrease.

### Analysis of Revenue




### Analysis of Expenses




## Finance Costs

The decrease in finance costs was attributable to the cessation of finance lease charges paid to CAPCO when the finance lease was settled upon the CAPCO acquisition in May 2014, and lower interest for Australia on lower interest rates from facilities refinanced in late 2013.

## Share of Results of Joint Ventures

The decrease in share of results of joint ventures was mainly due to reclassification of CAPCO and PSDC from joint ventures to subsidiaries after their acquisitions in May 2014, and lower contribution from Fangchenggang as a result of fewer units sold and the expiry of an income tax credit.

## Income Tax (Expense) / Credit

The increase in income tax expense was in line with the increase in operating profit (excluding the non-taxable net gain on CAPCO and PSDC acquisitions) during the year.

## Adjusted Current Operating Income (ACOI)

ACOI is a performance measurement which represents operating earnings before net finance costs, income tax, other non-controlling interests, distribution to perpetual capital securities holders and net fair value gain / loss on derivatives relating to transactions not qualified as hedges and ineffectiveness of cash flow hedges. For its analysis, please refer to our website.

# Group's Financial Position

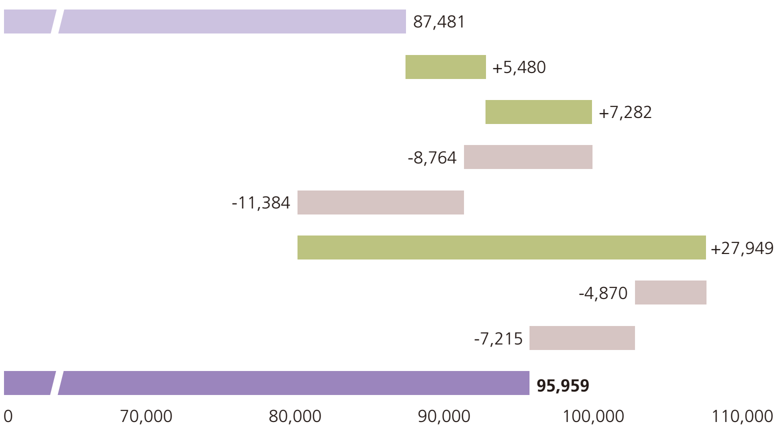
Non-current assets are assets which are held for the long-term, either for use in operations, or for investment (such as fixed assets and investments in joint ventures). They are not expected to be consumed or sold within the normal operating cycle (usually 12 months).

| Non-current assets | *Notes to the Financial Statements* | 2014 HK$M | 2013 HK$M | Increase / (Decrease) HK$M | % |
|---|---|---|---|---|---|
| Fixed assets | *12(A)* | **128,133** | 126,876 | 1,257 | 1.0 |
| Leasehold land and land use rights under operating leases | *12(B)* | **5,696** | 1,806 | 3,890 | 215.4 |
| Investment property | *12(C)* | **2,554** | 2,221 | 333 | 15.0 |
| Goodwill and other intangible assets | *13* | **31,129** | 23,847 | 7,282 | 30.5 |
| Interests in joint ventures | *15* | **11,176** | 19,940 | (8,764) | (44.0) |
| Available-for-sale investments | *19* | **1,707** | 1,263 | 444 | 35.2 |
| Total assets | | **214,663** | 211,685 | 2,978 | 1.4 |
| Net assets (total assets less total liabilities) | | **95,959** | 87,481 | 8,478 | 9.7 |

## Total Assets and Net Assets

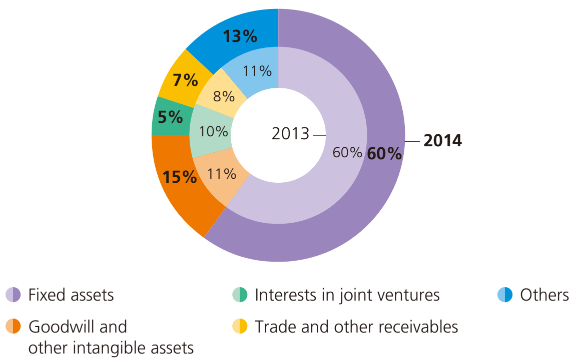
Total assets and net assets are analysed as follows:

### Net Assets (HK$M)




Fixed assets represented 60% of total assets. Attributable to the CAPCO and PSDC acquisitions in May 2014, goodwill and other intangible assets increased to account for 15% of the Group's total assets. Movements in the Group's net assets are illustrated in the chart above.

### Total Assets



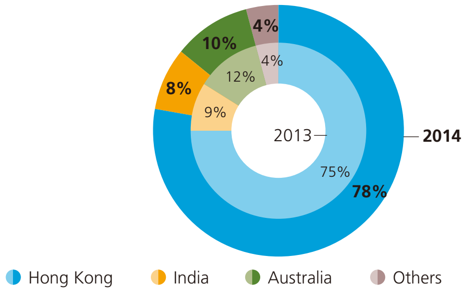
## Fixed Assets, Leasehold Land and Land Use Rights under Operating Leases and Investment Property

By nature of the power industry, continuous investment in capital assets is necessary in order to maintain the reliability of electricity supply across all our operating regions.

In 2014, fixed asset additions amounted to HK$9,144 million. These mainly related to enhancement in our generating plants, transmission and distribution network and customer services facilities in Hong Kong (HK$7,807 million). Other additions included the construction of wind projects in India (HK$461 million) and regular capital works on the power stations in Australia (HK$498 million). CAPCO's acquisition also brought in leasehold land of HK$3,811 million.

Capital commitments at 31 December 2014 stood at HK$13,605 million, representing mainly capital works in Hong Kong and Australia, and the ongoing construction of wind farms in India and Mainland China.

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



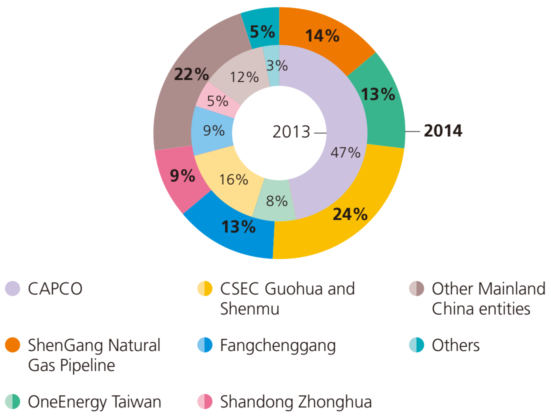

## Goodwill and Other Intangible Assets

The increase was mainly due to the goodwill of HK$5,545 million and the right to use the pumped storage capacity in Conghua, Guangzhou of HK$5,607 million arising from the acquisition of CAPCO and PSDC respectively, partly offset by the impairment of Narrabri Coal Seam Gas Project licences of HK$2,223 million.

## Interests in Joint Ventures

The significant decrease was mainly due to the reclassifications of CAPCO and PSDC to subsidiaries after their acquisitions. The decrease was partly offset by the new investments in ShenGang Natural Gas Pipeline and Sihong Solar projects.

### The Group's Major Joint Ventures




## Available-for-sale Investments

The Group participated as a cornerstone investor in CGN Power's initial public offering in December 2014. The increase in the amount invested was mainly due to the subscription of 142,434,000 shares in CGN Power at a consideration of HK$400 million and the subsequent HK$80 million fair value gain.

# Group's Financial Position

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

| Working capital, Debts and other non-current liabilities and Equity | *Notes to the Financial Statements* | 2014 HK$M | 2013 HK$M | Increase / (Decrease) HK$M | % |
|---|---|---|---|---|---|
| Derivative financial instruments assets* | *18* | **3,779** | 4,123 | (344) | (8.3) |
| Derivative financial instruments liabilities* | *18* | **(3,771)** | (4,719) | (948) | (20.1) |
| Trade and other receivables | *20* | **15,719** | 17,953 | (2,234) | (12.4) |
| Trade and other payables | *22* | **(21,619)** | (19,325) | 2,294 | 11.9 |
| Bank loans and other borrowings* | *23* | **(67,435)** | (56,051) | 11,384 | 20.3 |
| Deferred tax liabilities | *25* | **(13,418)** | (8,548) | 4,870 | 57.0 |
| Shareholders' funds | | **88,013** | 87,361 | 652 | 0.7 |
| Perpetual capital securities | *30* | **5,791** | – | 5,791 | N/A |
| Other non-controlling interests | | **2,155** | 120 | 2,035 | 1,695.8 |

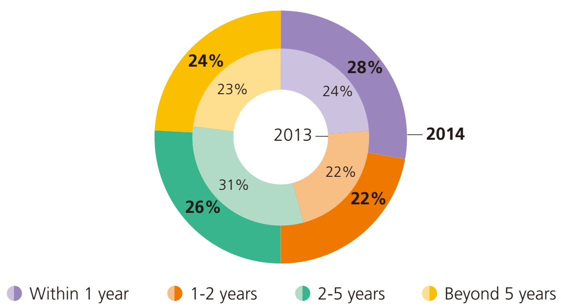
* Including current and non-current portions

## Derivative Financial Instruments and Hedging

Other than very limited price discovery trading activities by EnergyAustralia, CLP only uses derivative financial instruments for hedging purposes. The type and maturity profile of the derivative financial instruments are set out below:

| | Notional Amount | | Fair Value Gain / (Loss) | |
|---|---|---|---|---|
| | **2014 HK$M** | 2013 HK$M | **2014 HK$M** | 2013 HK$M |
| **CLP Group** | | | | |
| Forward foreign exchange contracts and foreign exchange options | **100,926** | 105,833 | **891** | 1,482 |
| Interest rate swaps / cross currency interest rate swaps | **46,820** | 49,289 | **(402)** | (555) |
| Energy contracts | **12,196** | 18,003 | **(481)** | (1,523) |
| | **159,942** | 173,125 | **8** | (596) |
| **CAPCO** | | | | |
| Forward foreign exchange contracts | **N/A** | 144 | **N/A** | 3 |
| **Total** | | 173,269 | | (593) |

### Maturity Profile




Note: The 2014 figures include CAPCO as a subsidiary of the Group after its acquisition. For comparative purpose, we have included CLP Group and CAPCO in the 2013 figures.

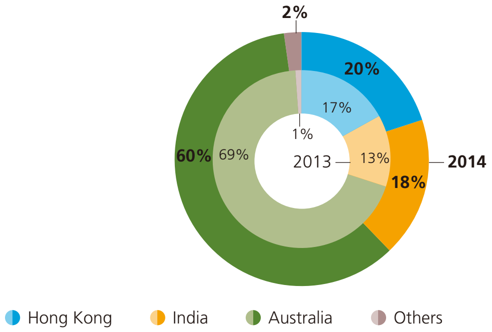
## Other Non-controlling Interests

The other non-controlling interests predominantly represented the 30% interest of CAPCO owned by CSG.

## Trade and Other Receivables

The decrease in trade and other receivables was mainly attributable to EnergyAustralia due to lower electricity sales debtors as a result of lower sales, refund of prepayment for a take-or-pay contract and the depreciation of Australian dollar.

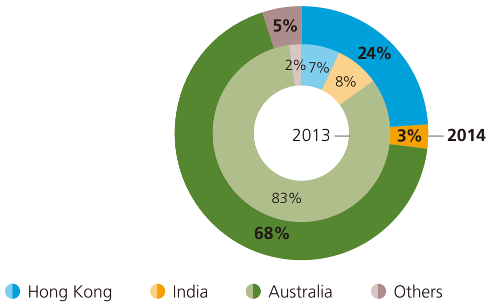
### Trade Receivables by Segment




## Trade and Other Payables

Trade and other payables increased mainly due to the shareholders' advances (HK$6,703 million) from CSG to CAPCO. Trade and other payables in Australia decreased as a result of lower fuel purchases and accrued pool purchases which was in line with lower sales volume, and no more carbon tax liabilities and deferred revenue related to carbon compensation (HK$924 million) after the carbon tax repeal.

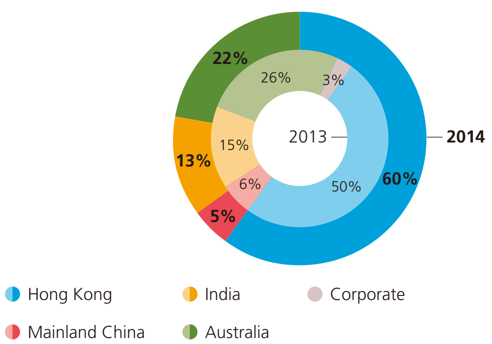
### Trade Payables by Segment




## Bank Loans and Other Borrowings

Bank loans and other borrowings increased as a result of higher loan drawdown to finance the acquisitions of CAPCO and PSDC. In addition, there were HK$5.9 billion borrowings brought in from CAPCO at year end.

### Bank Loans and Other Borrowings by Segment




## Deferred Tax Liabilities

The increase was mainly attributable to the deferred tax liabilities brought in from CAPCO and PSDC as part of the net assets acquired.

## Shareholders' Funds

Shareholders' funds remained at the similar level as 2013 mainly due to retained earnings for the year offset by the translation losses (HK$3.0 billion) on our Mainland China, India and Australia businesses as a result of falls in their exchange rates.

## Perpetual Capital Securities

In May and June 2014, CLP Power Hong Kong issued a total of US$750 million perpetual capital securities. Since the securities are perpetual and there is no contractual obligation to pay, they were classified as equity.

# A BROADER PERSPECTIVE

An Annual Report necessarily concentrates on only one year's financial performance, with a comparison against the previous year. A broader perspective on CLP's financial performance can be helpful.

| | **2014** | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Performance Indicators | | | | | |
| EBITDAF[1], HK$M | **23,442** | 19,689 | 23,602 | 23,392 | 20,889 |
| ACOI, HK$M | **17,232** | 16,935 | 18,179 | 18,891 | 15,544 |
| Operating earnings, HK$M | **10,062** | 9,307 | 9,406 | 10,312 | 9,148 |
| Total earnings, HK$M | **11,221** | 6,060 | 8,312 | 9,288 | 10,332 |
| Return on equity, % | **12.8** | 6.8 | 10.1 | 11.5 | 13.7 |
| Financial Health Indicators | | | | | |
| Undrawn facilities, HK$M | **32,533** | 33,218 | 33,073 | 24,377 | 33,502 |
| Total borrowings, HK$M | **67,435** | 56,051 | 66,198 | 65,521 | 44,623 |
| Fixed rate borrowings to total borrowings, % | **58** | 67 | 57 | 64 | 61 |
| FFO interest cover[2], times | **9.1** | 8.1 | 7.3 | 6.0 | 6.6 |
| Net debt to total capital, % | **38.0** | 36.7 | 36.8 | 43.1 | 33.3 |
| Shareholders' Return Indicators | | | | | |
| Dividends per share, HK$ | **2.62** | 2.57 | 2.57 | 2.52 | 2.48 |
| Dividend yield, % | **3.9** | 4.2 | 4.0 | 3.8 | 3.9 |
| Total returns to shareholders[3], % | **8.8** | 9.9 | 12.6 | 13.7 | 12.4 |
| Cash Flows and Capital Expenditure | | | | | |
| FFO[2], HK$M | **23,431** | 21,798 | 24,438 | 18,717 | 16,810 |
| Free cash flow[4], HK$M | **19,027** | 16,664 | 18,215 | 13,533 | 12,750 |
| Capital expenditure (on cash basis), HK$M | | | | | |
| Hong Kong[5] | **7,001** | 5,697 | 5,609 | 5,005 | 5,992 |
| Non-Hong Kong (growth)[6] | **1,747** | 1,755 | 2,176 | 5,740 | 4,591 |
| Non-Hong Kong (maintenance)[7] | **650** | 1,126 | 1,480 | 1,521 | 1,200 |
| Non-Hong Kong (others)[8] | **2,916** | 1,213 | 1,048 | 439 | 458 |

Notes:

1 EBITDAF = Earnings before interest, taxes, depreciation and amortisation, and fair value adjustments. For this purpose, fair value adjustments include fair value gains or losses on derivative financial instruments relating to transactions not qualifying as hedges and ineffectiveness of cash flow hedges.

2 FFO (Fund from operations) = Cash inflow from operations. FFO interest cover = FFO / (Interest charges + capitalised interest).

3 Total returns to shareholders represents the 10-year annualised rate of return from the combination of share price appreciation and dividend payments.

4 Free cash flow = FFO - income tax paid + interest received - interest and other finance costs paid - maintenance capital expenditure + dividend received from joint ventures and associate

5 Capital expenditure in Hong Kong on fixed assets, leasehold land and land use rights under operating leases, investment property and intangible assets, and investments in and advances to joint ventures

6 Capital expenditure outside Hong Kong on fixed assets, leasehold land and land use rights under operating leases before project commissioning

7 Capital expenditure outside Hong Kong on fixed assets, leasehold land and land use rights under operating leases after project commissioning

8 Capital expenditure outside Hong Kong on intangible assets and investments in and advances to joint ventures

# Allocation of Economic Value Created


While CLP creates economic value for delivering financial returns to the shareholders, CLP also creates value to other stakeholders, both financial and others, and society at large through a wide range of activities, interactions and relationships. A visual representation of the flows of economic value and other non-financial metrics can be found in our Sustainability Report SR. Here we would like to demonstrate how CLP creates economic value and benefits to our stakeholders over time.

From an accounting perspective, economic value created and allocated are reflected in our statement of profit or loss. On the one hand, revenue can be viewed as the economic value CLP created for the provision of electricity and gas supply to our customers. On the other hand, the payment of expenses is considered as the allocation of economic value to our various stakeholders – suppliers, employees, governments and the community. Economic value retained in CLP represents the reinvestment made to preserve operating capacity and to fund new investments. The table below illustrates how this "economic value" perspective of a traditional statement of profit or loss looks like:

| An "Economic Value" Perspective | | A Financial Perspective | 2014 HK$M | 2013 HK$M | Remarks |
|---|---|---|---|---|---|
| **Economic value generated for** | Customers | Revenue | 92,259 | 104,530 | Serving 5.1 million customer accounts in Hong Kong and Australia, as well as our off-takers in Mainland China and India. |
| **Economic value distributed to** | Suppliers and Business partners | Operating costs[1] | 64,655 | 81,563 | About 81% (2013: 67%) related to purchases of electricity, gas and distribution services and fuels. Included share of results from joint ventures and associate of HK$2,358 million (2013: HK$3,283 million), which represented our share of economic value created together with our business partners. |
| | Employees | Staff expenses | 3,980 | 3,017 | Another HK$973 million (2013: HK$835 million) of staff costs incurred were capitalised. There were 7,387 (2013: 6,968) people employed by CLP at year end. |
| | Capital providers: Lenders and Perpetual capital securities holders | Finance costs and Distributions to perpetual capital securities holders | 4,332 | 6,522 | In addition, finance costs of HK$296 million (2013: HK$271 million) were capitalised. |
| | Capital providers: Shareholders | Dividends | 6,569 | 6,493 | There were over 21,000 registered shareholders at the end of 2013 and 2014. |
| | Governments | Income tax[2] | 1,571 | 839 | Apart from this, rent and rates of HK$536 million (2013: HK$450 million) was included under operating costs above. |
| | Community | Donations | 12 | 8 | Sponsorship of HK$23 million (2013: HK$26 million) was included under operating costs above. Staff volunteered over 17,500 hours (2013: over 11,900 hours) during the year. |
| | | | 81,119 | 98,442 | |
| **Economic value retained**[3] | | | 11,140 | 6,088 | |

Notes:

1 For simplicity sake, operating costs included earnings attributable to other non-controlling interests and netted with other gain, finance income and share of results (net of income tax) from joint ventures and associate.

2 Represents current income tax but excluding deferred tax for the year.

3 Represents earnings attributable to shareholders (before depreciation and amortisation and deferred tax) for the year retained.

Realising the relationships between our operations and the capitals that CLP uses or affects, our mission is to produce and supply energy with minimal environmental impact to create value for shareholders, employees, and the wider community.

# PERFORMANCE AND BUSINESS OUTLOOK

## HOW HAVE WE PERFORMED AGAINST OUR STRATEGY? WHAT OPPORTUNITIES AND CHALLENGES WILL INFLUENCE OUR FUTURE PERFORMANCE?

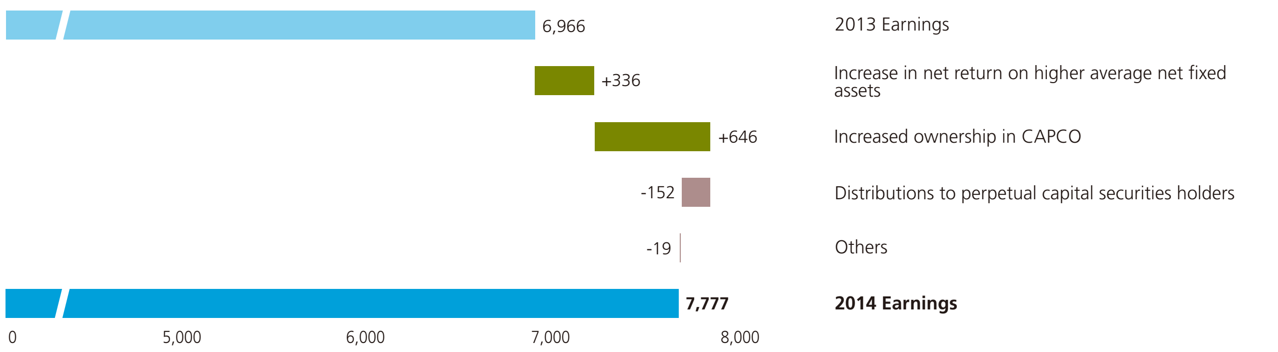
Here we offer an integrated and wide-ranging view of CLP's financial, operational, environmental and social performances in our five markets

# HONG KONG

CLP is a vertically-integrated regulated electricity provider serving over 80% of the population

# Financial Performance

## Hong Kong Earnings before One-off Item (HK$M)

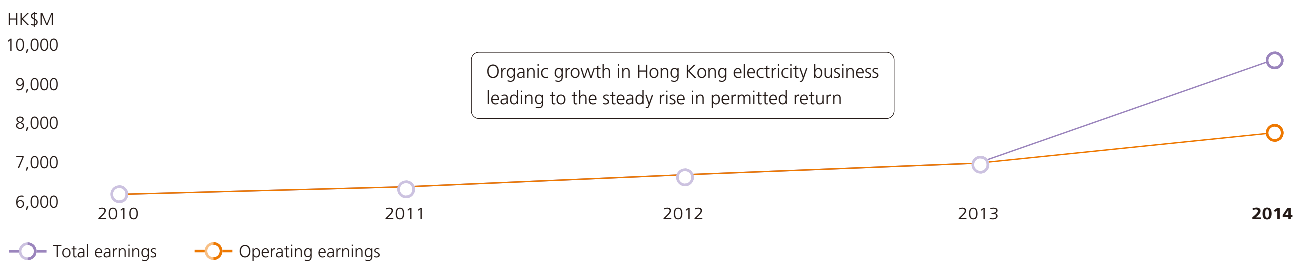



Earnings from our Hong Kong electricity business were HK$7,777 million, an 11.6% increase from HK$6,966 million in 2013. This was mainly attributable to the share of additional 30% of CAPCO's earnings following the completion of the acquisition of CAPCO in May 2014, and the increase in permitted return from a higher level of average net fixed assets.

In 2014, we recognised a one-off gain of HK$1,953 million, which represented the deemed disposal gain on previously held interests in CAPCO (40%) and PSDC (49%), net of the loss on settlement of a pre-existing finance lease arrangement with CAPCO.

A five-year earnings analysis is set out below:

## Hong Kong Earnings over the Past Five Years




# Operational Performance

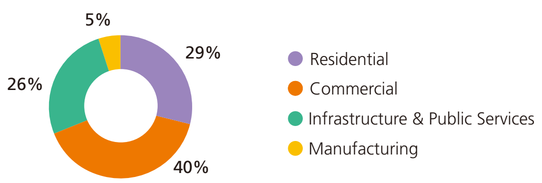
One of the key cornerstones by which we measure our performance is our ability to meet demand for electricity in Hong Kong, every day and every year. This was again achieved last year.

In 2014, local sales of electricity reached a record high, increasing 3.6% year-on-year to 32,925 gigawatt hours (GWh). A breakdown of the changes during the period by sector is as follows:

## Local Sales

| | Increase / (Decrease) | | |
|---|---|---|---|
| Residential | 792GWh | ↑ | 9.1% |
| Commercial | 164GWh | ↑ | 1.3% |
| Infrastructure & Public Services | 227GWh | ↑ | 2.7% |
| Manufacturing | (41GWh) | ↓ | (2.2%) |

As Percentage of Total Local Sales



Compared with 2013, sales to the Residential sector recorded a significant increase of 9.1% due to a higher heating and dehumidifying load in the first quarter and an increase in the cooling load in the summer. This was illustrated by a new maximum demand record of 7,030MW on 23 July 2014. The new record is 3.9% above the previous peak of 6,769MW recorded in 2012. At the new peak, our generation reserve margin, a measure of installed capacity in excess of peak demand, was reduced to just 26.4%, against the range of 20% to 35% recommended by the International Energy Agency.

Sales to the Mainland amounted to 1,226GWh, a decrease of 25.7% from 2013, because of lower committed sales to Guangdong Power Grid Co., Ltd. in 2014.

Total electricity sales, including local sales and sales to the Mainland, increased by 2.1% to 34,151GWh.

During 2014, we invested HK$7.8 billion in generation, transmission and distribution networks, as well as customer services and supporting facilities, to enhance the reliability and security of our supply system. These investments safeguarded the timely provision of electricity supply for our customers and new infrastructure projects, including new data centres, the developments in Kai Tak and West Kowloon, Hong Kong-Zhuhai-Macau Bridge and the rapid expansion of Hong Kong's railway network.

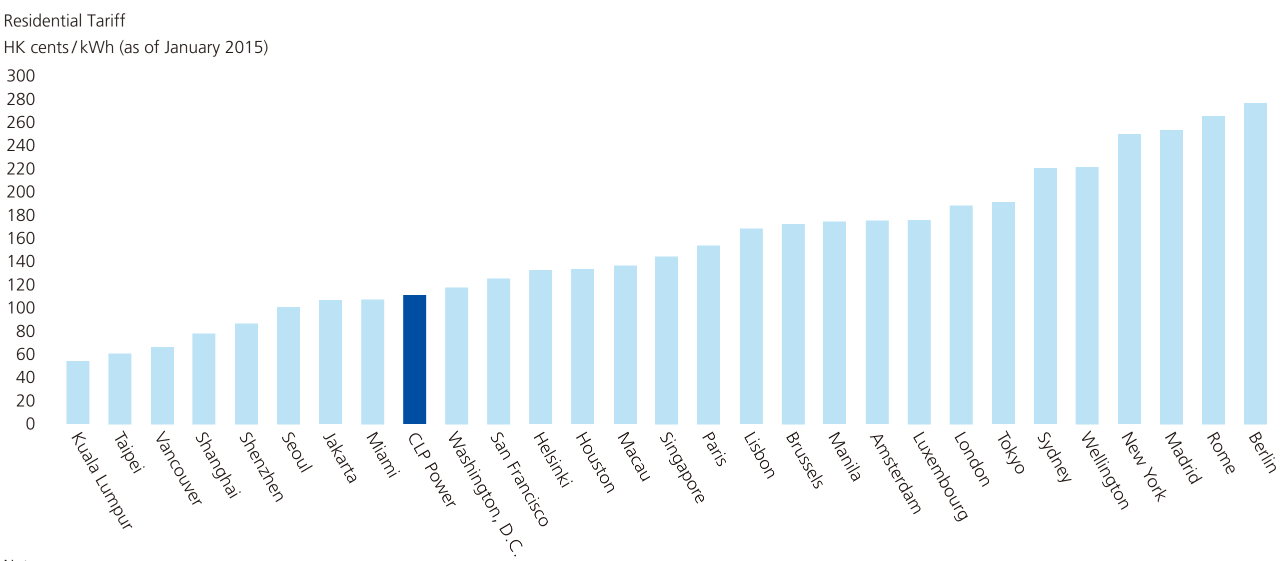
We are aware of the impact of tariff adjustment on people's livelihood and business. Therefore, continuous efforts are being made to manage our costs carefully in order to mitigate the pressure on tariffs so that we can service our customers with reasonably-priced electricity. In 2014, we continued to exercise prudent cost management, as discussed in the CEO's Strategic Review on page 12.

As we have foreshadowed in previous public statements, we will need to use more expensive natural gas to generate electricity in order to fulfil our emissions obligations. Consequently, our generation costs will rise as our fuel costs increase. In 2015, the annual emission caps of our power plants are reduced by a range of 35% to 65%. To meet these new requirements, our gas consumption volume this year will almost double that of 2014, leading to around 50% increase in our projected fuel costs.

During 2014, we undertook active measures to reduce our costs and to optimise the use of coal, whilst still meeting our emissions targets. As a result, our Fuel Clause Account recorded a positive balance. This has helped us mitigate the impact of higher gas price and limited the increase in Fuel Cost Adjustment for 2015 to 4.6 cents per unit of electricity. Due to our operational efficiency and cost containment measures, we were also able to reduce the Average Basic Tariff by 1.2 cents per unit of electricity to a level lower than that of 1998. As a result, our Average Total Tariff increased by 3.1%, significantly lower than the original projection in our Five Year Development Plan.

Another factor that contributed to the reduction in 2015 Average Basic Tariff is the Tariff Stabilisation Fund (TSF) mechanism, the main purpose of which is to smooth out tariff fluctuations and facilitate tariff reduction where appropriate. The positive TSF balance maintained in the end of 2014 contributed to the reduction in Average Basic Tariff in 2015.

## Residential Tariff Comparison with Other Cities




Notes:
1 Comparison based on average monthly domestic consumption of 275kWh.
2 Tariff and exchange rate at January 2015.

Source: Web search

This shows that in order to serve its purpose to provide tariff stability, the TSF needs to be maintained at a sustainable level.

Apart from cost-control measures, CLP is committed to investing in new energy efficiency and demand side management initiatives and to help our customers identify energy saving opportunities and better control their electricity usage, especially during times of peak demand. Examples of our initiatives are shown in the diagram below.

On the policy front, we submitted our response to the HKSAR Government's public consultation on the future fuel mix for electricity generation in May 2014. The consultation looked ahead to the need for new generation and electricity transmission infrastructure in the next decade and proposed two options: the first assuming that approximately 30% of Hong Kong's future electricity needs are met through imports of grid power from the Mainland and the second by building additional gas units for local generation.

We believe that both options have opportunities and challenges and that the community does not have to make a definitive choice between the options now, nor do we believe both should be implemented at once. As such, we believe a phased and flexible approach in a long-term plan that seeks to maximise the advantages of each proposal at the minimum cost to customers would be preferable. 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. In our response, we also called for work to begin planning for a small number of additional gas units in Hong Kong and a detailed study on how the Mainland could provide highly reliable supplies of low-carbon energy at a reasonable cost.

## Promoting Energy Efficiency and Conservation

### Energy Efficiency Education

- More than 6,400 primary school students and teachers of Tung Wah Group of Hospitals practised green living using the educational kits provided by Green Elites Campus Accreditation Pilot Programme.
- More than 5,500 primary school students have enrolled as Green Elites at the Green Elites Portal to put their green knowledge into practice.

### Demand Side Management

- myEnergy, an Advanced Metering Infrastructure (AMI) programme for residential and small-to-medium commercial customers, completed an 18-month pilot. It obtained valuable information to work with customers on energy efficiency measures and to encourage behavioural changes.
- Almost all larger-scale commercial and industrial customers who participated in the Automated Demand Response programme achieved and exceeded their pre-agreed load reduction targets and saved on their energy bills.
- Our Home Energy Report pilot scheme is available to all of our 2.1 million residential customers. The individually tailored web-based report enables customers to analyse their electricity usage by comparing to other similar households and provides useful energy saving tips.

### Awareness Building Campaigns

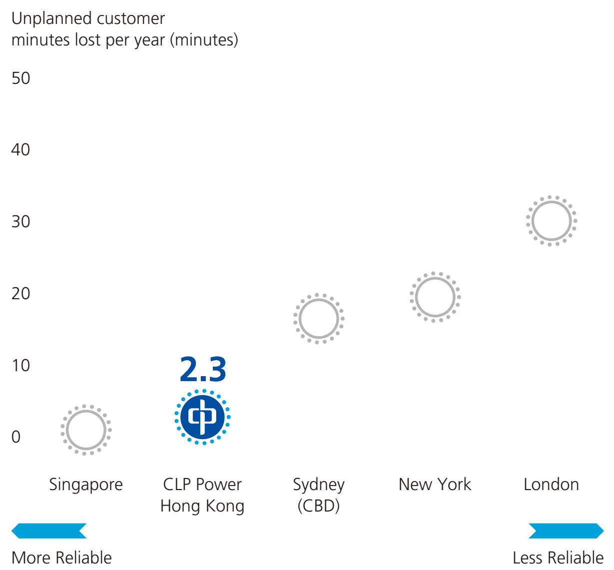
- About HK$830,000 has been approved since the CLP Eco Building Fund was launched in June. Another 21 applications were under assessment by the end of 2014.
- The "Save Now for a Better Living" TV infomercial was launched in mid-2014. The programme used entertaining presentation methods to bring home the message of saving energy.
- The GREEN^PLUS Experience Centre in Sham Shui Po was officially launched in May to assist small businesses to save energy and costs. It was followed by the GREEN^PLUS Recognition Award, recognising a total of 63 businesses and organisations for their achievements in saving energy.

To facilitate an informed discussion in the society, we provided information to the Government and our key stakeholders and participated in a number of events organised by third parties. We also supported research, projects and conferences conducted by academia to gain insights into various aspects of energy issues.

During the consultation period, over 86,000 public responses were submitted to the Government. The enthusiastic response reflected on the importance of the topic, as policy decisions taken by the Government will affect not only our future environmental performance, but also the reliability of our electricity supply and our tariffs for decades to come. Whilst we are awaiting the publication of the results of the consultation and the way forward suggested by the Government, in order to meet our electricity needs in 2020, we have commenced an initial feasibility study of the development and construction of new gas-fired generation facilities at our existing power station sites.

In a move that reaffirmed our commitment to continue to serve Hong Kong and gave us more control over our core generation assets, we successfully increased our interest in CAPCO from 40% to 70% in 2014. As a majority shareholder of CAPCO, CLP is now able to implement more operational and strategic initiatives that are aligned with the long-term interests of Hong Kong. Our cooperation with China Southern Power Grid Co., Limited (CSG) in the transaction has also fostered a strategic relationship that may bring to us new business opportunities over time. In parallel, we have also raised our shareholding in Hong Kong Pumped Storage Development Company, Limited from 49% to 100%.

## Reliability Levels in Hong Kong, New York, Sydney, London and Singapore




Notes:
1 2012 – 2014 average for CLP Power Hong Kong.
2 2011 – 2013 average for all other cities (the latest available data).
3 Singapore's power supply network is mostly underground, and is less exposed to the influence of weather and other external interferences than overhead lines.

China Southern Power Grid executives visit Black Point Power Station

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

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

In 2014, we once again met all 12 performance pledges which are described on our website. Our performance pledges set out our targeted performance in areas of particular importance to our customers, including reliable electricity supply and prompt responses to emergency service hotlines. In October 2014, we launched a new electricity bill that is easier to read and offers more value-added information to our customers such as energy saving tips. We will continue to focus and improve our customer services including billing and payment services, customer communications, account management services, energy efficiency and conservation services.

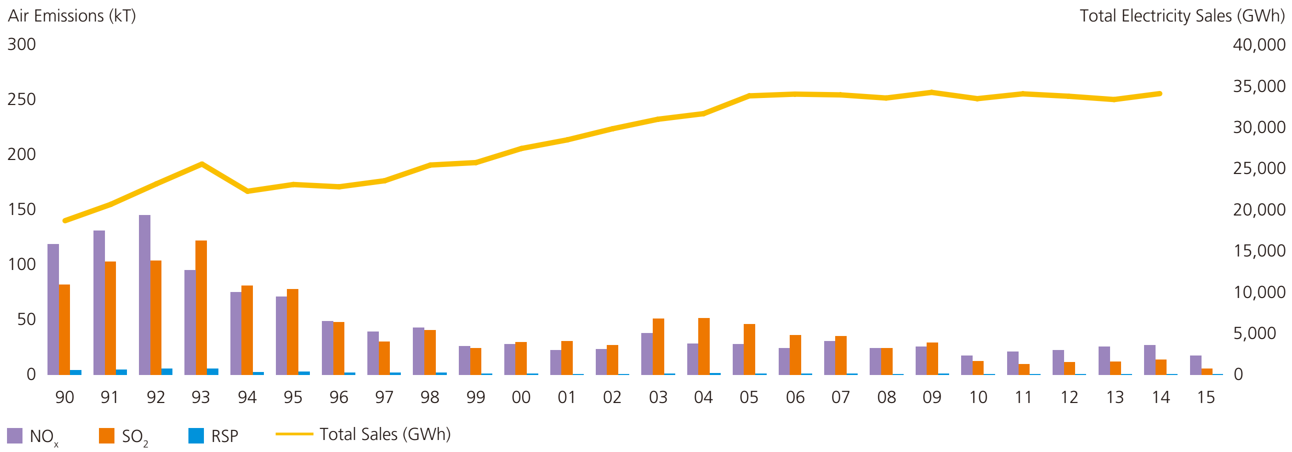
## Environmental Performance

### Air Emissions

Air emissions remain the most material environmental issue associated with CLP's operations in Hong Kong. Over the last two decades, we have concentrated our efforts on reducing emissions and, in spite of an approximate 80% increase in electricity demand, we have managed to reduce our emissions of sulphur dioxide ($SO_2$), nitrogen oxides ($NO_x$) and respirable suspended particulates (RSP) by about 80%.

Emissions levels from our power stations are dependent mainly on fuel quality, emissions control technology, and how much electricity is generated. In 2014, we continued to optimise our diversified fuel mix strategy, increase the use of more low emissions coal, enhance the effectiveness of the emissions control facilities and make the best use of natural gas. As we have mentioned on various occasions previously, natural gas supplies from Yacheng gas field continued to shrink, and the new gas available through the Second West-East Gas Pipeline is much more costly. We will continue to adjust our fuel mix to strike a balance between cost and emissions requirements. As identified in the chart below, our air emissions performance in 2014 remained steady within the range of typical operational fluctuations and complied with all regulatory requirements.

**CLP Power Hong Kong Air Emissions and Total Electricity Sales since 1990**




Notes:
1 The 2015 emissions projection is based on the HKSAR Government applicable emissions caps for the three power stations under CAPCO in 2015.
2 The electricity sales data from 1990 – 1998 is on a financial year basis ending 30 September. The 1998 data covers the period 1 October 1997 – 30 September 1998 and the 1999 data covers the period 1 January 1999 – 31 December 1999.

CLP met the stringent emissions caps set out by the HKSAR Government in 2014. Again, we are set to meet the caps for 2015, which require CLP to reduce its $SO_2$ emissions by more than 60%, and $NO_x$ and RSP emissions by more than 30% respectively from 2010's levels, while maintaining a reliable electricity supply and a reasonable tariff level.

### Environmental Regulatory Compliance

In 2014, there were no fines or prosecutions arising from environmental-related regulatory non-compliances for any of our Hong Kong assets in which we had operational control.

## Social Performance

### Stakeholder Engagement

As a responsible public utility serving over 80% of Hong Kong's population, CLP is mindful of our customers' expectation. We are also well aware of the uniqueness and complexity of the energy industry. Therefore, throughout 2014, we continued to engage a wide range of stakeholders through the organisation of seminars, workshops and visit programmes. We produced fact sheets, an information kit and corporate video to assist our stakeholders in having a better understanding of our business. We also participated actively during the Government's fuel mix consultation by attending forums, providing information to the Government and key stakeholders as well as explaining CLP's response through comprehensive media briefings.

The efforts of CLP in stakeholder engagement have enabled us to gain a broader insight into the needs of our customers and to respond to their needs more promptly. Looking ahead, we will continue our stakeholder engagement efforts in order to meet the increasingly high public expectation and challenges ahead.

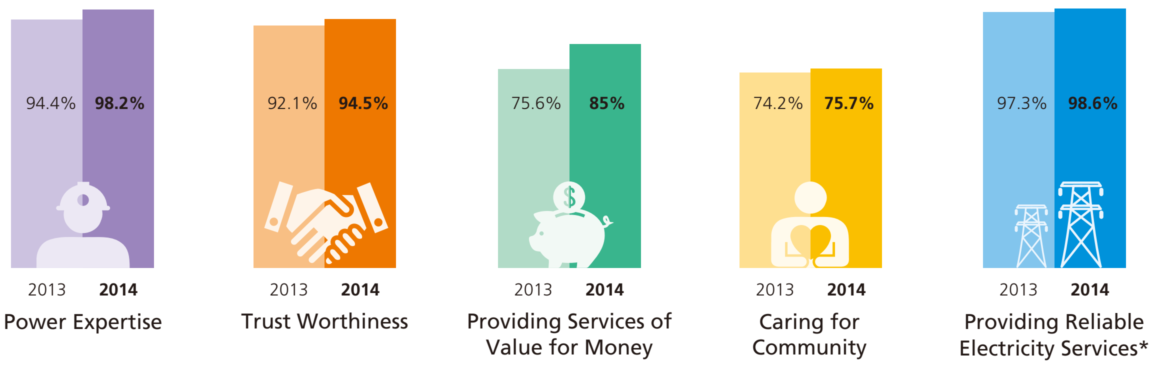
### Community Initiatives

Our success as a business is closely aligned with the well-being of the community we serve. In Hong Kong, our community initiatives focus on three areas: the environment, youth and education, and community well-being. We work closely with local non-governmental organisations and community groups to identify evolving societal needs and to devise programmes that will have the best and longest lasting impact. Collective efforts of the company have brought fruitful outcomes. In a public opinion survey on electricity supply conducted by The Hong Kong Polytechnic University between October and November 2014, the majority of the respondents found CLP a company of power expertise and trustworthiness and agreed that electricity services in Hong Kong are very reliable.

During the year, we initiated and supported more than 300 community projects in Hong Kong. Some of the key projects are highlighted on page 51.

### Public Perception Survey on Electricity Supply in Hong Kong Conducted between October and November 2014 – Overall Perception on CLP

People who "agree" or "strongly agree" with the following descriptions about CLP




* The results for Providing Reliable Electricity Services include the respondents' opinion of the two power companies in Hong Kong.

## Devising Sustainable Programmes for the Community

### COMMUNITY

#### CLP SUBSIDY PROGRAMME FOR ENERGY EFFICIENT ELECTRICAL APPLIANCES

**4,000** sets of four energy efficient electrical appliances – an induction cooking set with a Chinese pan and a kettle, an electric fan, a rice cooker and an LED light bulb – were distributed to needy households including low-income families, residents of subdivided flats, single elderly people, single-parent families and people classified as multiple have-nots in CLP's supply area

#### CLP HOTMEAL CANTEENS

Launched the second and third Hotmeal Canteens in September 2014, serving about **10,000** hot meals in Sham Shui Po, Kwai Tsing and Kwun Tong every month

#### SHARING THE FESTIVE JOY

CLP volunteers served more than **1,000** elderly people at four festive luncheons

### EDUCATION

#### YOUNG POWER PROGRAMME

**80** students from 20 secondary schools participated in the programme and were taken on a series of visits to CLP's power generation facilities and energy education centres to promote their understanding of energy and environmental issues

### VOLUNTEERING

#### 20 YEARS OF VOLUNTEERING

Celebrating its 20th Anniversary, CLP volunteers contributed more than **16,130** hours of services in 2014. The continued efforts and contribution to the community was recognised by the Champion award in the General Corporate Group category of Social Welfare Department's "2013-14 Best Corporate Volunteer Service Project Competition" with its "Rewiring and Home Electricity Safety Service Programme" and an Outstanding Award for the "CLP Green Volunteers for Seniors Programme"


**Mr Chris K. M. Leung**
Residential Customer

### How does CLP help small residential customers like me to use less electricity?

CLP is committed to investing in new energy efficiency initiatives to help customers identify energy saving opportunities and better control their electricity usage. We have continued our efforts in developing numerous EE&C services for our customers. The enhanced Eco Optimizer 2.0 was unveiled in 2014, using behavioural science methods to help customers save energy. It also provides a unique analysis of household's electricity consumption, how it compares to other similar households and a series of detailed energy saving tips for customers to reduce power consumption and save money on bills.

Besides, the CLP Eco Building Fund was launched in 2014. It aims to help eligible residential building owners to implement energy efficiency improvement works for facilities in the common areas of their buildings. Approved applications will be granted with a special subsidy for the energy efficiency improvement works on a 50/50 matching basis.

Customers are also welcome to visit Eco Home, which showcases the concept of green living from living room, kitchen to bathroom. In there, customers will find the latest energy saving technologies and products with hands-on energy saving advice and appliance selection suggestions from our professional customer representatives.


**Paul Poon**
Managing Director
CLP Power Hong Kong

More Q&As

## Outlook

Looking ahead, we will continue to implement operational measures to better align our long-term strategies with the needs and development of Hong Kong.

The Government has acknowledged that the current regulatory framework has served Hong Kong well in striking a balance between its policy objectives of a safe, reliable and efficient supply of energy at reasonable prices, while minimising the environmental impact of electricity generation. It has also noted that tariffs in Hong Kong compare favourably with those in other metropolitan cities. Meanwhile, our supply reliability exceeds 99.999%, and our emissions have been reduced significantly over the years. During the past decades, improvements have been made to the SoC Agreement to improve its operations, promote transparency and ensure that consumers' interests are addressed.

Notwithstanding the above, because the current SoC Agreement will expire in 2018 unless extended, the Government has announced it will launch a public consultation on the future development of the electricity market and its regulatory framework. We will actively participate in and contribute to an informed discussion.

In the coming years, natural gas will clearly play a more important role in power generation in Hong Kong. We continue to prepare for all feasible options to enable us to source new gas supplies once Hong Kong's future fuel mix is determined. Having access to liquefied natural gas (LNG) import infrastructure will be vital for us in obtaining competitively-priced gas. One option is an LNG Terminal in Shenzhen which is one of the three new gas sources stipulated by the Memorandum of Understanding (MOU) on energy cooperation signed between the HKSAR Government and the Central People's Government in 2008. A variation of this option is a floating LNG storage regasification unit in Hong Kong, a feasibility study of which is currently underway. Apart from these, we are exploring alternative offshore gas supply from the South China Sea, which is also one of the future new gas sources under the MOU. In addition, we will continue our feasibility study of new gas-fired generation facilities in Hong Kong.

## Recognitions

**Hong Kong Green Awards 2014**
Corporate Green Governance – Grand Award

## Awards

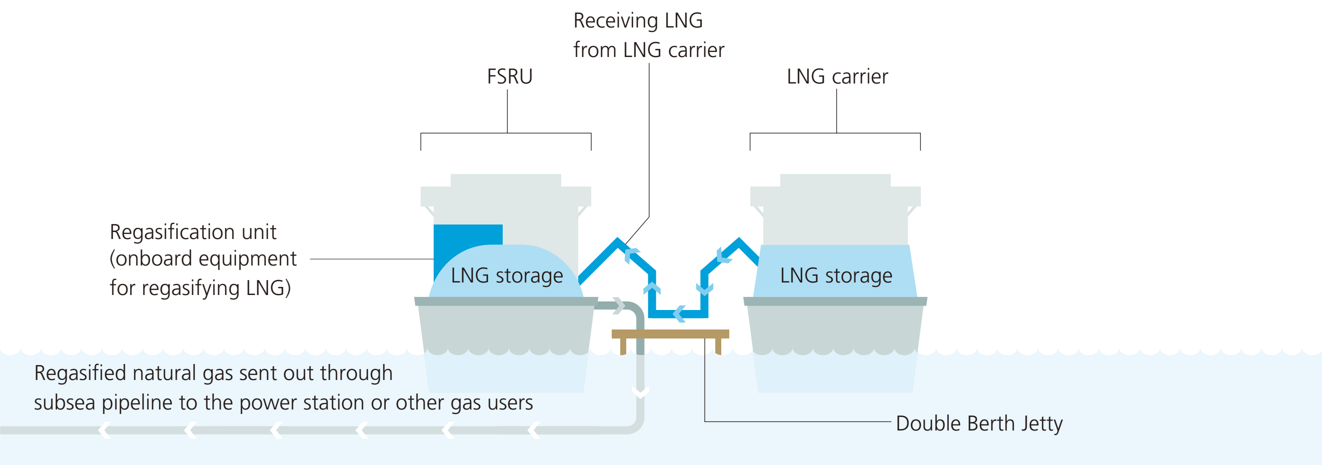

**Hong Kong ICT Awards 2014**
Silver Award,
Best Green ICT (Adoption – Large-scale Enterprises)

**Project Management Institute (PMI)**
2014 PMI Award for Project Excellence (Asia Pacific Region)

In Hong Kong, we note that there are growing demands for clean air, thus a strong drive for businesses to reduce emissions and for the Government to step up monitoring and controls over emissions performance of businesses. Whilst we will continue our endeavour to power Hong Kong responsibly, we will introduce more energy efficiency services and tools to help our customers save energy and reduce their electricity expenditure.

CLP has been serving Hong Kong for more than 113 years, providing a highly reliable and cost-effective power supply. As a member of the Hong Kong community, we always bear in mind the long-term interests of Hong Kong's people and look to create long-term value for our city.

## An Illustration of a Typical Floating Storage Regasification Unit (FSRU)




Note: Liquefied natural gas (LNG) is natural gas that is pressurised and cooled to liquid form for ease of storage and transportation.

**Prestigious Corporate Brand Awards 2014**
Gold Award

**The Hong Kong General Chamber of Small & Medium Business**
Best SME's Partner Award

**Asian Power Awards 2014 Conference**
Gold Award, Transmission and Distribution Project

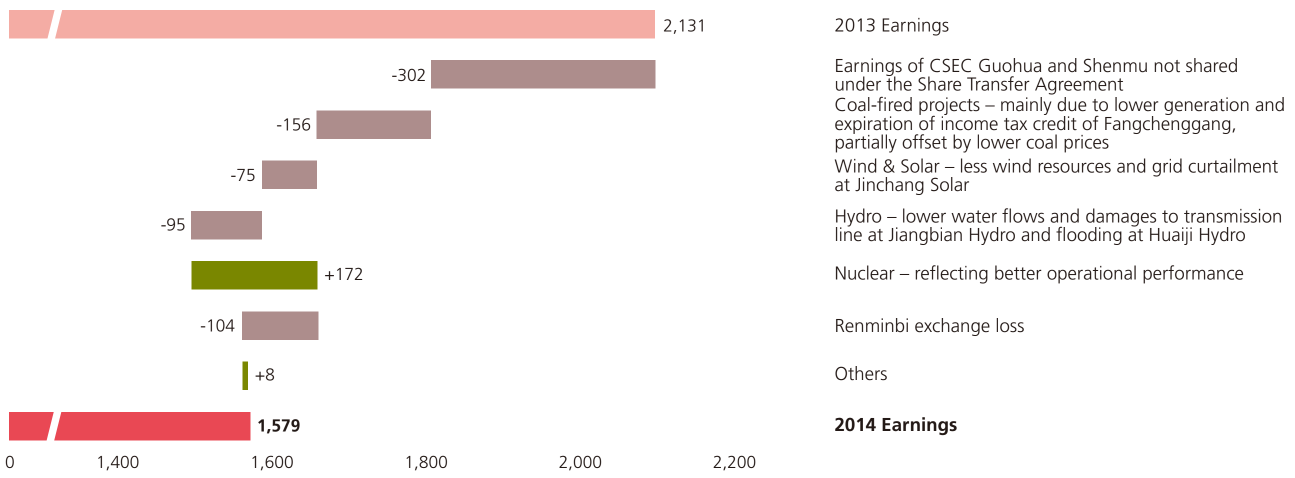

**BCS, The Chartered Institute for IT**
Enterprise Gold Certification in Certified Energy Efficiency Datacentre Award

# MAINLAND CHINA

We are one of the largest external independent power producers, focusing on clean energy generation

# Financial Performance

## Mainland China Earnings before One-off Item (HK$M)




Operating earnings from Mainland China totalled HK$1,579 million in 2014, a drop from HK$2,131 million in 2013.

Earnings from our 25% stake in the Guangdong Daya Bay Nuclear Power Station (GNPS) rose by 30.1% as a result of better performance in safety, operation and cost management.

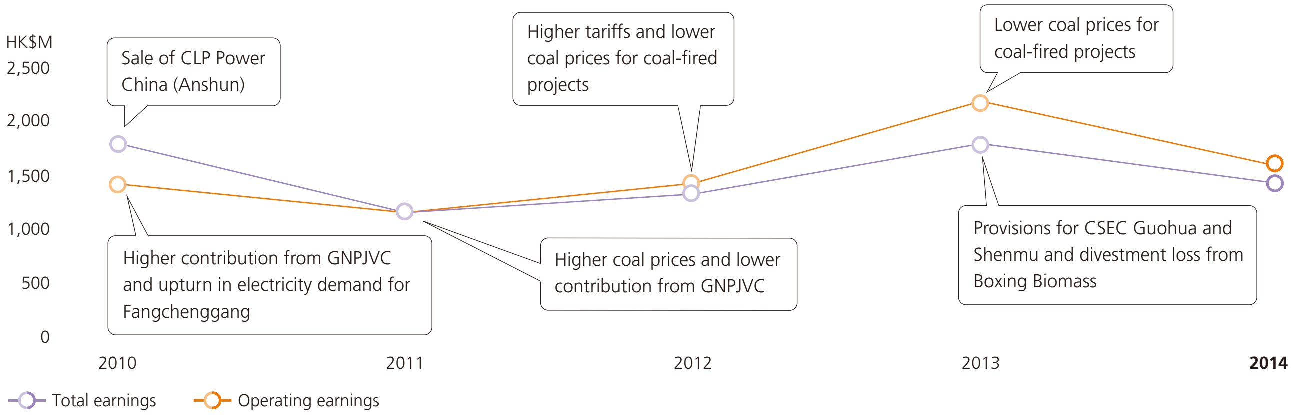
Earnings from coal-fired projects decreased from HK$1,177 million in 2013 to HK$719 million in 2014, partly because earnings from the CSEC Guohua and Shenmu power projects were not shared under the Share Transfer Agreement signed in April 2014 (notwithstanding the Agreement subsequently lapsed on 31 December 2014). Earnings contribution from Fangchenggang Power Station (Fangchenggang) decreased due to fewer units sold and expiry of an income tax credit, partly offset by lower coal prices.

Earnings from renewable projects also dropped due to lower water flows and poor wind resources. In addition, Jiangbian Hydro and Huaiji Hydro were affected by damages caused by heavy rains during the year. Performance of Jinchang Solar was negatively affected by grid curtailment.

In view of lower utilisation hours as a result of poor water flows and the lack of revenues from Clean Development Mechanism (CDM), an impairment provision of HK$158 million for Dali Yang_er Hydro was made.

A five-year earnings analysis is set out below:

## Mainland China Earnings over the Past Five Years



## Operational Performance

Mainland China's energy sector experienced slow growth in 2014 as the decelerating global and domestic economies translated into tepid demand for electricity. However, performance of our operations remained steady and CLP continued to implement its selective investment strategy and expand its portfolio in renewable energy and high-efficiency coal-fired generation.

Throughout the year, our coal-fired projects continued to perform reliably. Although the on-grid tariffs for our coal-fired projects were reduced from 1 September 2014, this reduction was more than compensated by the fall in coal prices. Earnings of Fangchenggang were affected by lower electricity despatch, due to competition from increased hydro generation in Guangxi Zhuang Autonomous Region. Construction of Fangchenggang II commenced in 2014 and continues to progress on schedule for planned commissioning in 2016.

In 2014, our wind projects on the Mainland were affected by low wind speeds, which were below the average of the previous two to three decades. However, grid curtailment in Jilin has slightly improved during the year.

On the project development front, we continued to expand our presence in the wind sector. In Shandong, our new 49.5MW, wholly-owned wind power project Laiwu I, has been operating smoothly since commercial operation began in January 2014. We have also obtained approvals from the relevant provincial governments for four additional wholly-owned wind projects (Xundian I in Yunnan, CLP Laizhou I and Laiwu II in Shandong, and Sandu I in Guizhou) with a total generation capacity of around 250MW. Sandu I started preparatory construction work in December.

Our solar project in Jinchang in Gansu Province (85MW, 51% owned by CLP) has been affected by grid curtailment because of the commissioning of other thermal and solar power plants in the region and flat local demand. We expect resolution of the situation in 2016 when the inter-provincial transmission network, currently under construction, comes online. Our 42MW, wholly-owned Xicun Solar Power Station in Yunnan achieved commercial operation in December 2014. Sihong Solar Power Station in Jiangsu (93MW, 51% owned by CLP) commenced commercial operation on 1 February 2015.

Natural disasters affected some of our assets throughout 2014. Serious flooding in May forced us to shut down half of Huaiji Hydro's 12 power stations. In July, the impact of typhoon Rammasun damaged the boiler structure of one of Fangchenggang's two generating units, which subsequently was taken out of service for repair. Two months later in neighbouring Sichuan Province, a landslide damaged a section of a 220kV transmission line of the Jiangbian Hydro Power Station. No casualties were reported in any of these

### Coal-fired Power Stations – Performance

| Station | Installed Capacity (MW) | Generation (GWh) | | Utilisation (%) | | Availability (%) | | Operating Hours (Hours) | |
|---|---|---|---|---|---|---|---|---|---|
| | | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| **Majority-owned** | | | | | | | | | |
| Fangchenggang | 1,260 | **4,812** | 6,142 | **44** | 56 | **82** | 87 | **3,819** | 4,875 |
| **Minority-owned** | | | | | | | | | |
| Shiheng I & II | 1,260 | **6,577** | 6,629 | **60** | 60 | **95** | 90 | **5,220** | 5,261 |
| Heze II | 600 | **3,318** | 3,376 | **63** | 64 | **90** | 92 | **5,530** | 5,626 |
| Liaocheng I | 1,200 | **6,643** | 6,656 | **63** | 63 | **92** | 88 | **5,536** | 5,547 |
| Panshan[1] | 1,060 | **6,263** | 6,024 | **69** | 67 | **92** | 91 | **6,050** | 5,849 |
| Sanhe I and II | 1,300 | **7,183** | 7,693 | **63** | 68 | **95** | 93 | **5,525** | 5,918 |
| Suizhong I and II | 3,600 | **14,455** | 15,421 | **46** | 49 | **96** | 98 | **4,015** | 4,283 |
| Yire | 400 | **2,183** | 2,238 | **62** | 64 | **94** | 93 | **5,458** | 5,596 |
| Zhungeer II and III | 1,320 | **7,660** | 6,978 | **66** | 60 | **95** | 94 | **5,803** | 5,287 |
| Shenmu | 220 | **1,237** | 1,311 | **64** | 68 | **95** | 97 | **5,623** | 5,961 |

Note:

1 Retrofit of Panshan Unit 1 completed in 2014, which increased total installed capacity from 1,030MW to 1,060MW.

incidents. All repair works had been completed, with most equipment damage covered by insurance.

In line with our strategy to pursue majority-owned projects in the Mainland, an agreement was signed in April 2014 to divest our interest in CLP Power China (Tianjin) Limited and CLP Power China (Shenmu) Limited, which hold minority interests in the CSEC Guohua and Shenmu coal-fired power projects respectively. Completion of the transaction was subject to a restructuring of internal shareholdings which in turn required obtaining certain corporate and regulatory approvals by

## Wind Energy Portfolio – Performance

| | Installed Capacity (MW) | Generation (GWh) | | Utilisation (%) | |
|---|---|---|---|---|---|
| | | 2014 | 2013 | 2014 | 2013 |
| **Wholly-owned** | | | | | |
| Qian'an I | 49.5 | **79.4** | 87.0 | **18.3** | 20.1 |
| Qian'an II | 49.5 | **93.2** | 100.3 | **21.5** | 23.1 |
| Penglai I | 48.0 | **89.3** | 100.8 | **21.2** | 24.4 |
| Laiwu I | 49.5 | **68.3** | n/a[1] | **n/a[1]** | n/a[1] |
| **Minority-owned** | | | | | |
| 21 projects | 936.9 | **1,647.5** | 1,790.6 | **20.1** | 21.8 |
| **CGN Wind JV** | | | | | |
| CGN Wind Portfolio[2] | 1,794.0 | **3,138.3** | 3,419.0 | **20.0** | 21.8 |

Notes:
1 n/a (not applicable) is for projects which had not yet commissioned for a full year's operation.
2 Utilisation applies to projects with full-year operation in the JV.

## Solar Energy Project – Performance

| | Installed Capacity (MW) | Generation (GWh) | | Utilisation (%) | | Availability (%) | | Operating Hours (Hours) | |
|---|---|---|---|---|---|---|---|---|---|
| | | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Jinchang Solar | 85 | **101** | 100[1] | **14** | 27[1,3] | **100** | 100[1] | **1,182** | 1,176[1,3] |
| Xicun Solar | 42 | **7.9** | n/a[2] | **n/a[2]** | n/a[2] | **n/a[2]** | n/a[2] | **n/a[2]** | n/a[2] |

Notes:
1 Reflects data since commissioning in July 2013
2 The project entered commercial operation in December 2014
3 In 2013 Annual Report, Direct Current (DC) capacity was adopted in calculating the Utilisation and Operating Hours, which was a common calculation method for the PRC solar industry. In 2014, Alternate Current (AC) capacity was used to align with the calculation method for other power plants under CLP portfolio.

## Hydro Portfolio – Performance

| | Installed Capacity (MW) | Generation (GWh) | | Utilisation (%) | | Availability (%) | | Operating Hours (Hours) | |
|---|---|---|---|---|---|---|---|---|---|
| | | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Dali Yang_er Hydro | 50 | **140** | 141 | **32** | 32 | **84** | 87 | **2,816** | 2,826 |
| Huaiji Hydro[1] | 128 | **439** | 485 | **39** | 44 | **88** | 92 | **3,462** | 3,874 |
| Jiangbian Hydro | 330 | **1,151** | 1,539 | **40** | 53 | **87** | 89 | **3,487** | 4,663 |

Note:
1 A 3MW expansion to one of the hydropower stations was completed in 2014, bringing total installed capacity from 125MW to 128MW.

31 December 2014. However, as of 31 December 2014, the internal restructuring was not completed because certain regulatory registration procedures remained outstanding. As no extension of the completion date was agreed, the agreement lapsed on 31 December 2014. The deposit of 10% of the total consideration was refunded in January 2015. CLP has no additional liability in this transaction.

GNPS continued to operate smoothly in 2014. The plant achieved an utilisation rate of 88% in 2014, compared to 86% in 2013, despite one of its two units undergoing a more extensive planned maintenance outage as required by the National Nuclear Safety Administration every 10 years, which took 3 months. GNPS also maintained its excellent safety record and received favourable assessments from the World Association of Nuclear Operators for its performance. A "Below Scale" Licensing Operational Event (also known as a Level 0 event under the International Nuclear and Radiological Event Scale) occurred in December. This event had no safety implications and caused no reduction to the supply of electricity to the customers. In May 2014, GNPS celebrated its 20th anniversary of commercial operation. Our partnership with China General Nuclear Power Corporation (CGNPC) has been extended to 2034.

CGN Power Co., Ltd. (CGN Power), a subsidiary of CGNPC, was listed on the Hong Kong Stock Exchange in December 2014. Being CGNPC's long-term strategic partner, CLP participated in CGN Power's initial public offering and became one of its cornerstone investors.

## Environmental Performance

### Air Emissions

The overall emissions levels of Fangchenggang were low in 2014 compared to 2013's mainly due to lower despatch. Fangchenggang was retrofitted with a selective catalytic reduction unit which was commissioned in 2014. This substantially reduced $NO_x$ emissions. The upgrade means that Fangchenggang now meets the tighter emissions requirement on $NO_x$ that takes effect in 2015.

### Environmental Regulatory Compliance

In 2014, there were no fines or prosecutions arising from environmental-related regulatory non-compliances for our assets in Mainland China in which we had operational control.

An on-site environmental examination was conducted by Gansu Provincial Environmental Bureau on our Jinchang solar project in December 2014. The inspection formed part of the plant's overall final acceptance procedure to ensure that all environmental requirements stipulated in the environmental impact assessment have been satisfactorily implemented. We have already obtained final approval in early 2015.

Guangxi Zhuang Autonomous Region Party Secretary Peng Qinghua leads a delegation to visit Fangchenggang Power Station

### Increasing Environmental Requirements

The Mainland Chinese Government has issued emissions control enhancement requirements for coal-fired power stations in certain provinces for 2014-2020. Although Fangchenggang is located in Guangxi and is not subject to these requirements, we are studying the requirements in case they may become applicable in the future. Fangchenggang will monitor the development and work closely with the local government.

## Social Performance

### Stakeholder Engagement

As one of the largest external investors in the Mainland's power industry, we maintain close contacts with the Mainland Chinese Government and local authorities to facilitate their understanding of our operations. Our engagement activities are especially important during the development of key projects. Stakeholders we engaged in 2014 through meetings and visits to our assets included the National Energy Administration, China Southern Power Grid, State Grid, Guangdong Party Secretary Hu Chunhua and Guangxi Party Secretary Peng Qinghua.

### Community Initiatives

As a good corporate citizen, we care for the local communities through initiatives which are designed to assist and build on the effects of local communities, non-governmental organisations and the services provided by local, provincial and central governments. This platform reinforces our relationships with not only the local communities, but also the local governments. Youth education is a key focus area of our community initiatives in Mainland China. In 2014, we launched a range of initiatives to support underprivileged students in communities where our assets are located. Some of our activities in 2014 included:

## Engaging the Communities We Serve through Employee Volunteerism

### COMMUNITY

**CLP VOLUNTEERS**

Contributed over **1,150** hours in charity events and caring visits to schools and elderly homes

**CLEAN WATER WELL CONSTRUCTION**

Sponsored the construction of clean water well in Xicun village which will be benefitting **1,300** residents

**CARING STORES**

Supported the Caring Stores in Nanning benefitting **200** low-income families

**DISASTER RELIEF**

- Staff and company donated **HK$300,000** in response to the Yunnan earthquake
- CLP Huaiji donated **RMB140,000** to the local communities that were affected by flooding

### EDUCATION

**BUILDING A BETTER LEARNING ENVIRONMENT**

- Funded the upgrade of teaching facilities of Qiashui Middle School in Huaiji benefitting over **2,000** students
- Funded the building of a reading room at Hongsha Village School in Fangchenggang benefitting **100** students
- Donated about **200** school bags to students of Niulu Hope School in Fangchenggang

**SUPPORT-A-STUDENT PROGRAMME**

Provided financial assistance to **470** students of 11 schools in 4 provinces

## Outlook

As part of its sustainable energy policy, the Mainland Government has made it clear that it will continue to support the development of clean energy including renewable, nuclear power and high-efficiency coal-fired power generation. Looking ahead, we will continue our strategy of selective investments in these areas.

On top of our already strong wind and hydro portfolio, our plan to construct Fangchenggang II and our two solar projects are good examples of our strategy at work. In the coming year, during which we expect coal price to stabilise, we will continue to strengthen the operational performance of Fangchenggang I and press ahead with the construction of Fangchenggang II. Fangchenggang is situated in a strategic location with an industrial park in its proximity, which represents significant potential demand for both electricity and heat. As such, we are retrofitting the power station to include steam supply capability and are currently exploring plans to supply steam to the nearby factories. If contracts are reached, this will bring additional revenues. As we will need to provide a continuous supply of heat to our customers, the arrangement helps Fangchenggang to secure more electricity generation hours.

In 2015, we expect GNPS to continue its steady performance. Following the completion of the major planned maintenance outage for Unit 2 in January 2015, we plan to carry out the same maintenance programme for Unit 1 in the first half of 2015.

In wind, full-scale construction of the Sandu I wind project is on track to commence in the first quarter of 2015. For the other three wind projects that have already obtained provincial government approvals, we aim to start construction in the later part of the year. We are keeping a close eye on the grid curtailment issues throughout the Mainland that may adversely affect our renewable projects.

China is expected to reform the power sector in the 13th Five-Year Plan Period (2016-2020) to improve efficiency of the industry. We will closely monitor the development and explore growth opportunities in areas where we currently enjoy competitive advantages.

Q

**The national wind tariff in China was cut recently. Has CLP been affected? How does the trend of tariff reduction affect CLP's investment decision in new wind projects going forward?**

In the latest wind tariff policy announced by the Mainland Chinese Government in January 2015, tariffs in three of four regions (Tier I – III) were reduced. However, the impact to CLP's existing wind project portfolio is relatively mild for two reasons. First, under the new policy, operating projects will not be affected. They will be entitled to the prevailing tariff. At the same time, all of our new projects pending construction are situated in the region (Tier IV) that is unaffected by the latest tariff policy. For future projects, CLP will assess, on a project-by-project basis, the viability of each opportunity by taking into account the prevailing tariff level at the time of investment.

A

**Mr Cui Dayong**
President, Yunnan Electric Power Design Institute,
China Energy Engineering Group

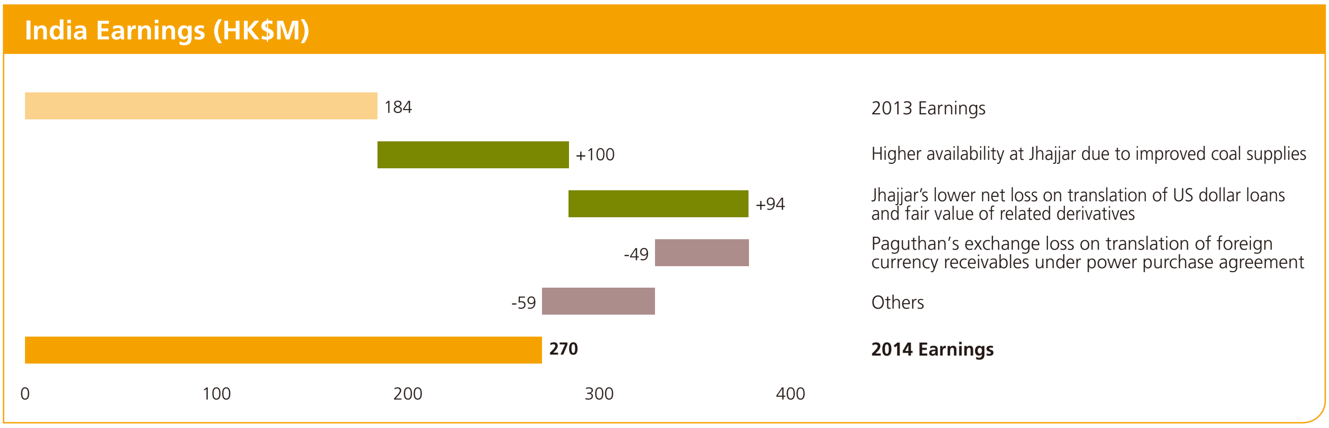
**Chan Siu Hung**
Managing Director – China

More Q&As

# INDIA

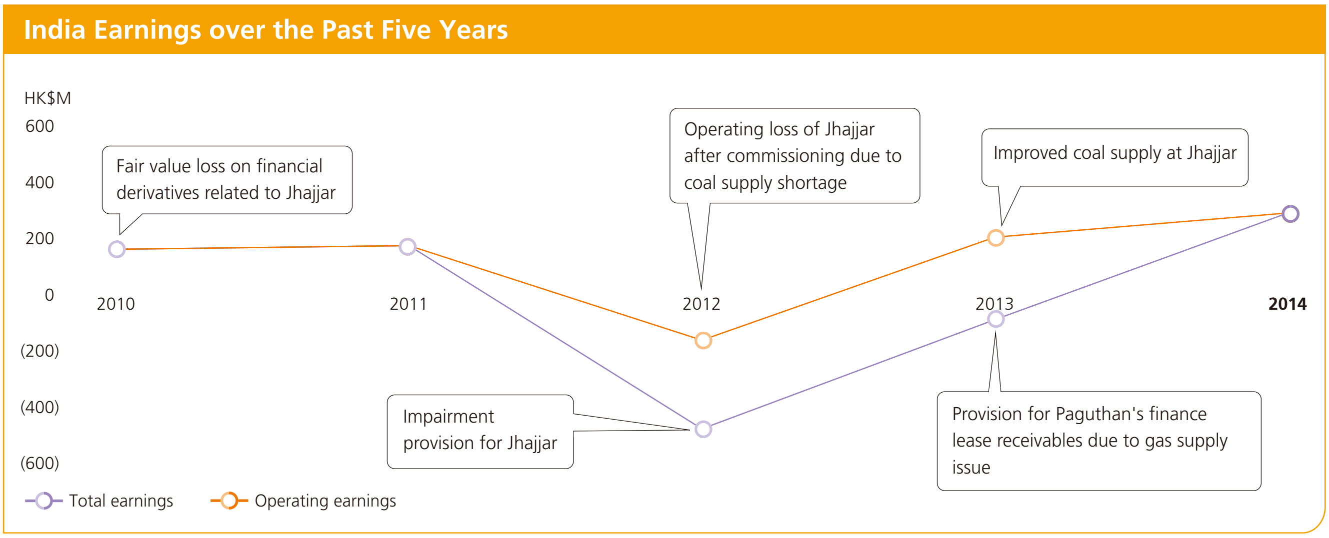
CLP India is the leading foreign independent power producer and the largest wind project developer

## Financial Performance




Operating earnings from CLP India increased from HK$184 million in 2013 to HK$270 million in 2014, mainly contributed by Jhajjar Power Station (Jhajjar) as a result of improved coal supplies, lower net loss on translation of US dollar borrowings and fair value of related derivatives. Earnings from Paguthan Power Station (Paguthan) and wind projects remained at similar levels as in 2013.

A five-year earnings analysis is set out below:




## Operational Performance

India is a developing economy with a need for new generation capacity. It is a land of great potential and represents a primary growth market for CLP. In 2014, CLP India continued to invest in the country to strengthen our position as one of the biggest foreign investors in the power sector.

Our flagship investment in India, Jhajjar, showed a remarkable improvement of its overall operating performance in 2014. For the first time, availability reached 80%, over the minimum requirement to qualify for total recovery of capacity charges. This was achieved despite the poor domestic coal supply situation and thanks to efforts of our Indian team to increase the proportion of imported coal to meet our generation needs.

Although the new Government has taken steps to improve domestic coal supply, we expect it may take another two to three years before Jhajjar can rely on domestic supply for power generation. In light of the supply shortage, we will continue to improve our sourcing of imported coal to make sure we can meet the demand of our customers. Thanks to the high efficiency of our plant, we are able to offer our customers competitive tariffs and this bolsters our efforts to address the shortage situation.

On the technical front, operations of the plant have been stable. Our two generating units in Jhajjar have both undergone a month-long outage during the year to carry out technical modifications and we managed them without affecting the availability level. In addition, the plant has received the ISO14001 Environment Management certificate in recognition of its environmental efforts.

Paguthan continued to be available well above the normative levels based on the gas available under existing long-term contracts and, increasingly, spot re-gasified LNG (RLNG). Since spot RLNG is expensive, our customer Gujarat Urja Vikas Nigam Limited (GUVNL) was reluctant to use our power generated from RLNG. This has lowered Paguthan's utilisation level to below 10%. We have renegotiated our power purchase agreement (PPA) pursuant to GUVNL's request for reduction in tariff emanating from low levels of despatch. The new arrangement includes a higher incentive threshold and sharing of some savings with the customer to help reduce its cost of power, while giving us greater certainty for the rest of the PPA tenor.

In an attempt to deregulate gas price in India and encourage companies to invest in new gas fields, the Government raised gas prices from US$4.20 per million metric British thermal units to US$5.61 from 1 November 2014. It has also announced future gas prices would be revised based on international indices every six months. We anticipate the decisions would help enhance gas availability and provide fiscal incentives to reduce the ultimate cost of electricity.

CLP is at an early stage of development of a coal-fired power plant that will use imported coal at Paguthan's existing site, where sufficient space exists. We have signed a memorandum of understanding with the Government of Gujarat in this regard. However, a final investment decision will only be made after we obtain all environmental approvals and put in place commercial contracts relating to off-take and fuel supply.

2014 also saw Paguthan receive the prestigious Order of Distinction Award for Occupational Health and Safety by the UK's Royal Society for the Prevention of Accidents (RoSPA). This is a significant achievement, considering that the plant has won the RoSPA Gold awards for the past 15 years.

In order to grow our wind energy business, we decided to invest in the 100MW Chandgarh Wind Farm in the central state of Madhya Pradesh in 2014, construction for which has already begun. Addition of this project enhances the size of our wind portfolio in India to over 1,000MW, strengthening our position as India's largest wind power producer.

During the year, we also commissioned 102.4MW of wind projects (Jath 60MW, Bhakrani 25.6MW, Mahidad 16.8MW). However, performance of the wind projects, which started out strongly in early 2014, did not continue through the year. This was largely attributed to the late and short monsoon season, sand storms in Sipla and Bhakrani wind farms in Rajasthan, grid curtailments faced by Theni wind farms in Tamil Nadu, and low wind speed in the final quarter of the year.

Stable coal supply has given Jhajjar Power Station a significant boost

Regulators in Rajasthan and Maharashtra have announced marginal hikes of tariffs for wind power projects that are under construction. This will benefit Tejuva and Yermala wind farms in the two respective states. The United Nations Framework Convention on Climate Change has approved the issuance request for over 73,000 Certified Emission Reduction (CERs) or carbon credits for Khandke II and Khandke III wind farms, which will eventually allow us to sell the CERs in the international markets.

Our wind farms received Rs.346 million (HK$42.5 million) in July 2014 under the Generation Based Incentive account, which is provided by the Federal Government to promote wind power generation. The money we received was for the period of October 2012 to September 2013.

During the year, India Ratings and Research (Ind-Ra), the Indian subsidiary of Fitch, has assigned an "IND AAA" rating to CLP India, citing its strong strategic and operational

## Performance of Jhajjar

| | 2014 | 2013 |
|---|---|---|
| Availability | **80.0%** | 62.8% |
| Utilisation | **54.1%** | 49.6% |
| Domestic Coal | **712 rakes** [1] | 689 rakes |
| Imported Coal | **305 rakes** | 275 rakes |

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

## Wind Energy Portfolio – Status and Performance

| Project | Installed Capacity (MW) | Commissioned / To be Commissioned (MW) | Forecast Full Commissioning Date | Utilisation (%) 2014 | Utilisation (%) 2013 |
|---|---|---|---|---|---|
| Andhra Lake | 106.4 | 106.4 | – | **22.7** | 24.8 |
| Bhakrani | 102.4 | 101.6 / 0.8 | March 2015 | **n/a** [1] | n/a [1] |
| Chandgarh | 100.0 | 0.0 / 100.0 | December 2015 | **n/a** [1] | n/a [1] |
| Harapanahalli | 39.6 | 39.6 | – | **27.4** | 28.7 |
| Jath | 60.0 | 60.0 | – | **n/a** [1] | n/a [1] |
| Khandke | 50.4 | 50.4 | – | **22.2** | 26.6 |
| Mahidad | 50.4 | 50.4 | – | **n/a** [1] | n/a [1] |
| Samana I | 50.4 | 50.4 | – | **20.0** | 21.0 |
| Samana II | 50.4 | 50.4 | – | **21.6** | 23.8 |
| Saundatti | 72.0 | 72.0 | – | **22.3** | 24.1 |
| Sipla | 50.4 | 50.4 | – | **23.5** | n/a [1] |
| Tejuva | 100.8 | 0.0 / 100.8 | March 2015 | **n/a** [1] | n/a [1] |
| Theni I | 49.5 | 49.5 | – | **22.6** | 25.3 |
| Theni II | 49.5 | 49.5 | – | **21.8** | 23.0 |
| Yermala | 148.8 | 0.0 / 148.8 | July 2015 | **n/a** [1] | n/a [1] |
| Total | 1,081.0 | 730.6 / 350.4 | | | |

Note:
1 n/a (not applicable): projects that had not been commissioned for a full year's operation.

linkages with CLP Holdings, and an "IND AA" rating to CLP Wind Farms (India) Private Limited (CLPWF). Ind-Ra has also upgraded the short-term rating of CLPWF and Jhajjar Power Limited (JPL) to "IND A1+", which is considered an investment grade rating. CLPWF was one of the first wind businesses in India to receive such a high rating. The improved rating allowed both CLPWF and JPL to issue commercial paper at a low cost in the last quarter of 2014.

## Environmental Performance

### Emissions

Emissions levels at Paguthan remained low as the fuel gas supply issue has yet to be resolved. To increase transparency, the station began to display its environmental parameters ($SO_2$, $NO_x$, effluent pH, effluent flow) at its main gate in June.

We have experienced some difficulties in particulates emissions at Jhajjar in the later part of 2014 resulting in occasional periods of license exceedance. The exceedances were related to plant operational issues and were mitigated by load reductions or plant shut-downs. The underlying plant issues are being actively addressed. We have reported the matter to the local government, and have not received any sanctions.

### Climate Change

We have completed the climate adaptation assessment in the first quarter of 2014 for two of our wind farms, namely Harapanahalli and Saundatti. This is the first study of its kind for our wind farm projects. We will learn from the assessment to accumulate experience for CLP Group of how climate change could affect our wind farm operations and include such learning in our future wind farm developments.

### Environmental Regulatory Compliance

In 2014, there were no fines or prosecutions arising from environmental-related regulatory non-compliances for any of our Indian assets in which we had operational control.

## Social Performance

### Stakeholder Engagement

CLP India adheres to mutual trust, respect and integrity when building relationships with key stakeholders. These include Government bureaus, governing bodies of neighbouring villages and community programme partners. From time to time, we engage State and Federal Government agencies responsible for policy decisions on areas affecting our business, and make joint representation on important issues with leading industry associations in India.

Q

**How does India fit in with CLP's overall growth strategy?**

India is seen as one of the primary growth markets for CLP along with Mainland China. The country has a population of over 1.2 billion people with a young and aspiring demography. Power consumption per capita continues to be significantly lower than that of the developed world and the country continues to experience power deficit in large areas. This offers immense potential for companies like CLP to create capacities across the value chain of the power sector, especially on the generation front. Having said that, the industry has faced its own set of problems in the recent past. Deteriorating financial health of the distribution companies, fuel shortages and frequent contractual disputes are some of the issues which need to be ironed out. The current government has already initiated a slew of reforms to kick-start the growth of the nation's economy, including a much greater willingness to welcome foreign direct investment. Still, one must be realistic with expectations. Many issues cannot be sorted out overnight even with the best of intentions. For any intended reforms to show results, it will take time. And for these reforms to fly, the existing government will also have to garner support from the state governments especially in the states where it's not ruling. We continue to evaluate greenfield projects, and are particularly focusing on the renewable energy front. Of course these projects will have to make a strong business case and are in line with the returns expectation of the company and its shareholders. In short, we remain cautiously optimistic about the long-term prospects of the Indian power sector, as well as CLP's ability to participate in it.

A

**Mr Anantharaman Venkataramanan**
Managing Director and Regional Head,
South Asia – Corporate & Institutional Clients
Standard Chartered Bank

**Rajiv Mishra**
Managing Director – India

More Q&As

## Community Initiatives

CLP India supported community initiatives with the aim of delivering positive impacts to those communities where our assets are located. Our initiatives reflected the needs and expectations of the local communities. In 2014, we actively participated in community initiatives led by local governments and provided inputs to the overall development of the areas.

Our engagement with these stakeholders contributed to the socio-economic development of the communities around our assets.

Key initiatives focused on primary health care, education and community infrastructural support. Some of the initiatives are highlighted below:

## Improving the Quality of Life for the Communities We Serve

### COMMUNITY

#### HEALTH CARE PROJECTS

- Funded the non-subvented health care projects in Bharuch District in Paguthan, benefitting around **6,000** underprivileged villagers
- HIV Nutrition Support Programme distributed nutrition kits to **35** affected children in Bharuch District in Paguthan every month
- The Mobile Health Van medical outreach programme provided free treatment and consultation to around **13,200** patients in 4 villages near our power plant at Jhajjar

#### WRESTLING TOURNAMENT

Sponsored the annual event attracting **20,000** spectators

#### COMMUNITY INFRASTRUCTURAL SCHEME

Benefitted over **3,000** villagers at Paguthan by funding improvement works of local water reservoir and sanitation system

#### PURIFIED DRINKING WATER

Provided hygienic drinking water to government schools and children centres at Jhajjar, benefitting about **800** children

#### VETERINARY CAMPS

3 Veterinary Camps were organised for cattle rearing farmers, helping around **460** animals in Jhajjar

### EDUCATION & PERSONAL DEVELOPMENT

#### CREATING A BETTER LEARNING ENVIRONMENT

- Renovated and repaired a secondary school at Jharli Village in Jhajjar, benefitting around **600** students
- Sponsored audio visual devices for **315** primary school students at Jhajjar to facilitate their learning

#### SKILL ENHANCEMENT PROGRAMMES

Provided basic computer education to over **60** students and life skill training to **1,000** villagers in Paguthan

#### RETAIL & PERSONALITY DEVELOPMENT PROGRAMME

**90** youngsters received a 40-day training which aims at enhancing their employability

#### FINANCIAL ASSISTANCE & MENTORING

Provided financial assistance and mentoring to **50** students at Paguthan

#### WOMEN EMPOWERMENT PROGRAMME

**100** women at Jhajjar received training for 40 days at 4 cloth stitching training centres run under our programme

## Outlook

Demand for electricity is immense in India. However, power shortages remain commonplace especially in the country's rural parts and during peak hours. Though this creates potential opportunities for power companies like CLP, the sector still faces major challenges on multiple fronts. Domestic fuel supply in India has been slow to catch up with the expansion of generation capacity. On one hand, shortage of domestic gas supply means new gas projects are unlikely. The lack of choices, on the other hand, may create the need for more affordable coal-fired generation in the future.

Election of the new Federal Government in the first half of 2014 has provided encouraging signs to the energy sector. The new Government has already taken steps to improve the situation of the power supply in the country and attract new investments. To address one of the perennial issues of inadequate domestic coal supplies, it has asked Coal India to double its production in the next five years. It has also, in a transparent manner, started fresh allocations of over 200 coal blocks that were recently cancelled by the Supreme Court after ruling the initial selective allocation process was arbitrary and illegal. However, as the coal shortage problem is expected to remain in the short term, we will closely monitor the situation. On top of that, we are in discussion to increase the blending of imported coal from 35% to 50%, which will further improve our coal supply position.

In another step, the Government in December tabled the Electricity (Amendment) Bill 2014. Some of the salient changes proposed aim at enhancing grid safety, unbundling the distribution sector to separate the wire and supply businesses promoting renewable energy and rationalising tariff. In order to develop smart grid and to meet its commitment of providing round-the-clock and reliable electricity supply to every household in the nation within five years, the Government is modernising the country's transmission and distribution infrastructure in earnest.

In addition, responding to the strong feedback from private investors including CLP, the Government is reviewing the bidding process for new power projects. Consultation is ongoing and we hope the new procedures will encourage more participation from the private sector.

Since the formation of the new Government, foreign investment inflows have accelerated and inflation levels are also coming down from persistent high levels. The Reserve Bank of India, the country's Central Bank, announced a rate reduction in January 2015. We believe it will lead to cuts in the high lending rates charged by Indian banks and benefit CLP India.

A major element of our strategy in India is to pursue high-efficiency imported coal-fired projects. In 2015 and beyond, CLP India will step up our import of coal to make up for the shortfall in local supply. As mentioned earlier, we also have very initial plans for a project in Paguthan. We will explore the various options for the future of the plant.

In the area of renewables, India possesses adequate resources and the new Federal Government encourages development in the renewable sector. It is expected to invest around US$100 billion over the next four years to strengthen India's energy security and lower its dependence on coal-based generation. It aims to attract new investments by providing tax breaks and cheaper loans. We will continue to monitor the situation and improve the profitability of our wind investment. We will also explore opportunities in setting up new wind farms in a wider geography beyond the existing five states in which we have established our presence.

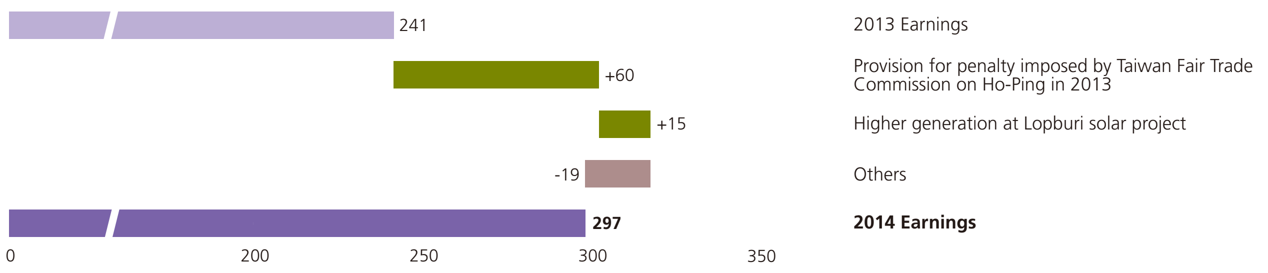
Meanwhile, India's solar power generation is approaching grid parity or the point where it can generate electricity at cost levels comparable to that of using conventional technologies. As such, we will seek opportunities in the solar sector to strengthen our leadership position in renewable energy in India.

# SOUTHEAST ASIA AND TAIWAN

We invest and develop solar and coal-fired power projects

## Financial Performance

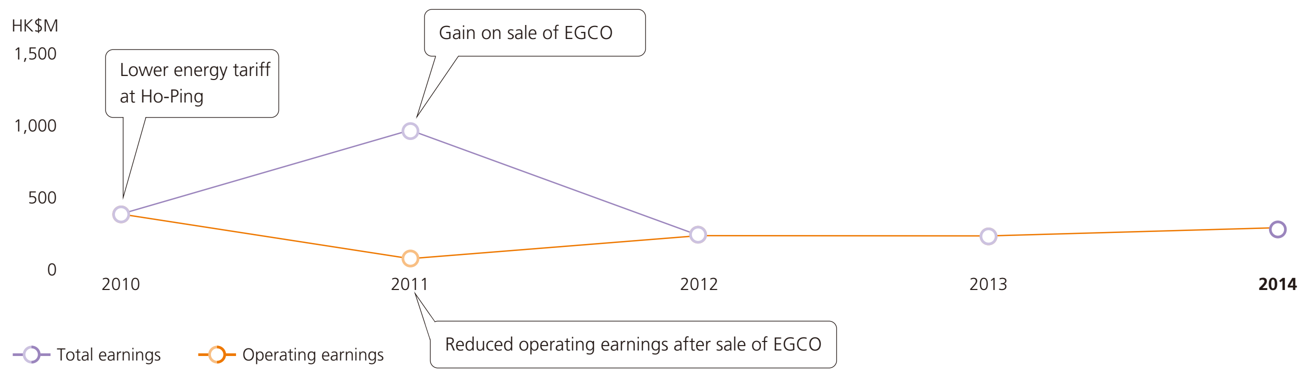
**Southeast Asia and Taiwan Earnings (HK$M)**




Operating earnings from our investments in Southeast Asia and Taiwan in 2014 increased to HK$297 million, compared with HK$241 million in 2013. Earnings from Ho-Ping Power Company (Ho-Ping) in Taiwan were higher mainly because in 2013 there was a one-off provision (HK$60 million) for a penalty imposed by the Taiwan Fair Trade Commission (FTC). Earnings from Lopburi solar project (Lopburi) in Thailand improved due to the commissioning of an 8MW expansion in May 2013 and higher solar irradiance.

A five-year earnings analysis is set out below.

**Southeast Asia and Taiwan Earnings over the Past Five Years**




## Operational Performance

In Southeast Asia and Taiwan, CLP's strategy is to focus on our existing investments and development projects, which include Ho-Ping, Lopburi and our two coal-fired development projects in Vietnam.

CLP's involvement in Ho-Ping stretches back to the mid-1990s. Currently we have a 20% interest in the project to which we continue to provide support, particularly in the areas of operation, maintenance and coal procurement. During 2014, Ho-Ping successfully completed a major overhaul of a generating unit and operated reliably. The good operational performance, together with low coal prices, enabled Ho-Ping to achieve another year of solid financial performance.

2014 saw the continuation of Ho-Ping's litigation against a penalty of NT$1.32 billion or HK$343 million (CLP's share was HK$60 million, net of tax) imposed by FTC, which has been reported previously. In October 2014, Ho-Ping received a favourable ruling from the Taipei High Administrative Court (THAC). However, this decision was appealed to the Supreme Administrative Court by FTC. Ho-Ping will continue to pursue and defend its positions.

In Thailand, Lopburi, which is owned by Natural Energy Development Co., Ltd. (NED), entered its second year of full operation. CLP owns a 33% share in NED and continues to provide management leadership and technical support to the asset. NED recorded strong earnings in 2014 thanks to high availability and good solar resources.

In Vietnam, we continue to progress our two coal-fired development projects, Vung Ang II and Vinh Tan III. These projects have been under development for some years. For Vung Ang II, progress was made in 2014 in negotiating with the Vietnamese Government the build-operate-transfer contract (BOTC) and PPA, whilst contracts for the construction and the supply and transportation of imported coal have been finalised. For Vinh Tan III, negotiations on PPA and BOTC as well as finalisation of equipment supply and construction contracts continued throughout 2014.

Whilst it is difficult to forecast accurately the timing of progress on these projects, Vung Ang II is reaching the stage in negotiations with the Vietnamese Government where we will be able to decide whether the project can progress sufficiently to allow negotiation with financers to commence.

## Environmental Performance

### Ho-Ping's Coal Consumption Limit Litigation

As described in previous Annual Reports, Ho-Ping was fined NT$442 million (HK$116 million) for exceeding the coal consumption limit set in its environmental impact assessment report for the years 2009 and 2010. Whilst Ho-Ping has received a favourable judgment from the THAC against the level of the fine, the Hualien County Government has won its appeal to the Supreme Administrative Court, which subsequently ordered THAC to retry the case. Ho-Ping will continue to defend its position in the upcoming proceedings.

## Social Performance

In Thailand, NED continued to support stakeholder engagement programmes and initiatives, focusing on youth and education. Its GreeNEDucation Centre acts as an important platform in raising renewable energy awareness throughout the community. NED also assisted local schools in devising and incorporating renewable energy education as part of their overall teaching curriculum as well as organising themed exhibits and school camps. In addition, monthly meetings with representatives from local government and authorities were held to discuss community issues. In recognition of its active participation in promoting alternative energy, NED was recognised in the Thailand Energy Awards 2014 in the alternative energy category by the Department of Alternative Energy Development and Efficiency.

In Taiwan, Ho-Ping's community initiatives continued to concentrate on the areas of health, environmental and cultural development. Throughout 2014, Ho-Ping supported numerous sports events, cultural activities, scholarships for the underprivileged and activities for the elderly and underprivileged in the nearby Hualien and Yilan counties. Through these efforts, Ho-Ping successfully engaged with key stakeholders including primary schools, indigenous residents and social welfare organisations. In 2014, Ho-Ping also proactively engaged with Suao Fishermen's Association in Yilan, which has alleged that Ho-Ping's discharge has polluted the seawater. Ho-Ping explained to them that operations of the power plant were strictly in accordance with Government's regulations.

## Outlook

Ho-Ping is CLP's anchor project in Southeast Asia and Taiwan, and we anticipate that it will continue to generate stable earnings and cash flow for the Group. Land is available at an adjacent site for expansion. However, whether the expansion will go ahead depends on Taiwan's energy policy and fuel choice for future power generation capacity, which we believe will remain unclear in the near to medium term.

In Thailand, it appears that opportunities for new independent power producers or renewables projects would be limited in the near future. We shall, therefore, concentrate our efforts on maintaining good operational and financial performance of Lopburi.

We believe our coal-fired development projects in Vietnam could help alleviate the country's electricity shortage issues. We are continuing to negotiate these projects with the Vietnamese government with a clear view to securing competitive tariffs on robust terms to allow financing to proceed. Final investment decision on these projects will be made after the project's timeline and economics are thoroughly ascertained.

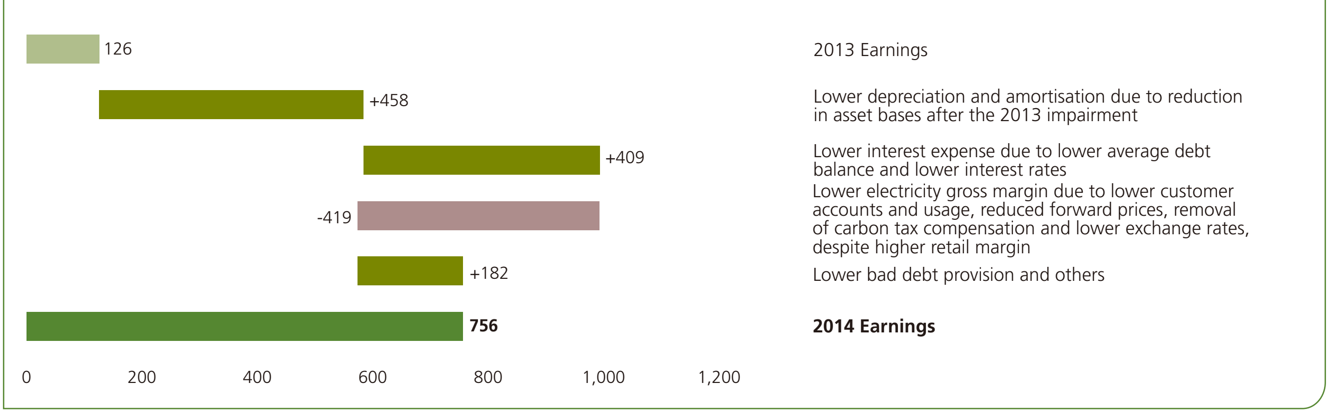
In addition to managing our existing operating assets and development projects, we will closely monitor developments in other Southeast Asian markets, especially those where long-term PPAs are still available. In the coming years, Southeast Asia and Taiwan will remain secondary growth markets for CLP.

# AUSTRALIA

EnergyAustralia is a major integrated energy provider operating in both retail and wholesale markets

## Financial Performance

### Australia Earnings before One-off Items (HK$M)

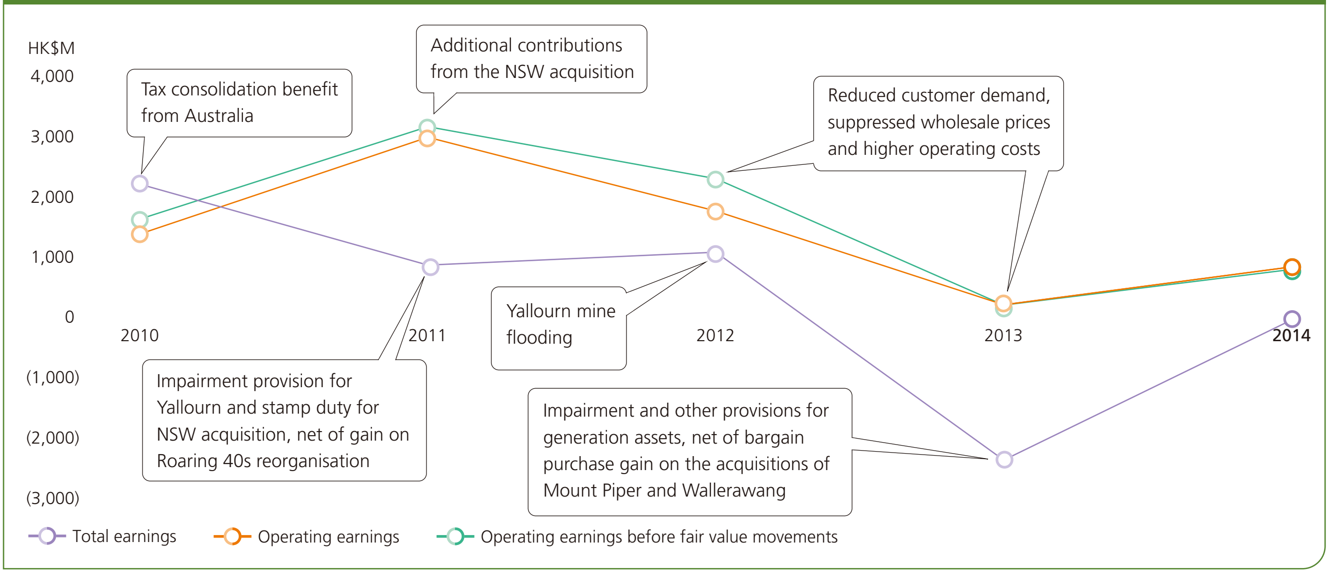



EnergyAustralia's operating earnings increased by HK$630 million to HK$756 million in 2014. The rise in earnings was attributed to lower depreciation and amortisation expenses on reduced asset bases after the 2013 impairment, decreased finance costs resulting from lower interest rates, and lower bad debt provision, but partially offset by reduced electricity gross margin. The decrease in electricity gross margin was due to reduced wholesale margin brought mainly by falling forward prices, the impact of carbon tax and the related compensation repeal, and depreciation of Australian dollar, partially offset by increased retail margin.

In 2014, an impairment provision of HK$1,578 million (A$248 million) was made on the Narrabri Coal Seam Gas Project, in which EnergyAustralia holds a 20% interest. The provision was made based on additional drilling data and analysis that reflected a reduction in the estimated total gas reserves and a fall in estimated daily production. Together with a gain on the early termination of an energy agreement (HK$152 million) and a one-off net tax credit (HK$545 million) relating to settlement of outstanding matters with the Australian Taxation Office. EnergyAustralia recorded a non-recurring loss of HK$881 million.

A five-year earnings analysis is set out below:

### Australia Earnings over the Past Five Years



## Operational Performance

Whilst the business environment was difficult with low wholesale prices and continuing high levels of competition in energy retail markets, EnergyAustralia remained focused on managing costs and making operational efficiency improvements throughout 2014. EnergyAustralia integrated two customer bases onto a single billing system, launched a number of new customer services, closed the Wallerawang Power Station in New South Wales (NSW), negotiated the termination of an onerous long-term power purchase agreement inherited from Ausgrid in NSW and reduced costs in a number of areas, including centralising those functions best managed at the corporate level.

### Business Environment

Electricity demand in the National Electricity Market (NEM) fell for the sixth consecutive year in 2014, providing downward pressure on wholesale prices. Government policies surrounding renewable energy and approvals for energy resource developments remained uncertain. Gas prices are rising along with the cost to find and develop new resources. All these factors have put pressure on our generation business.

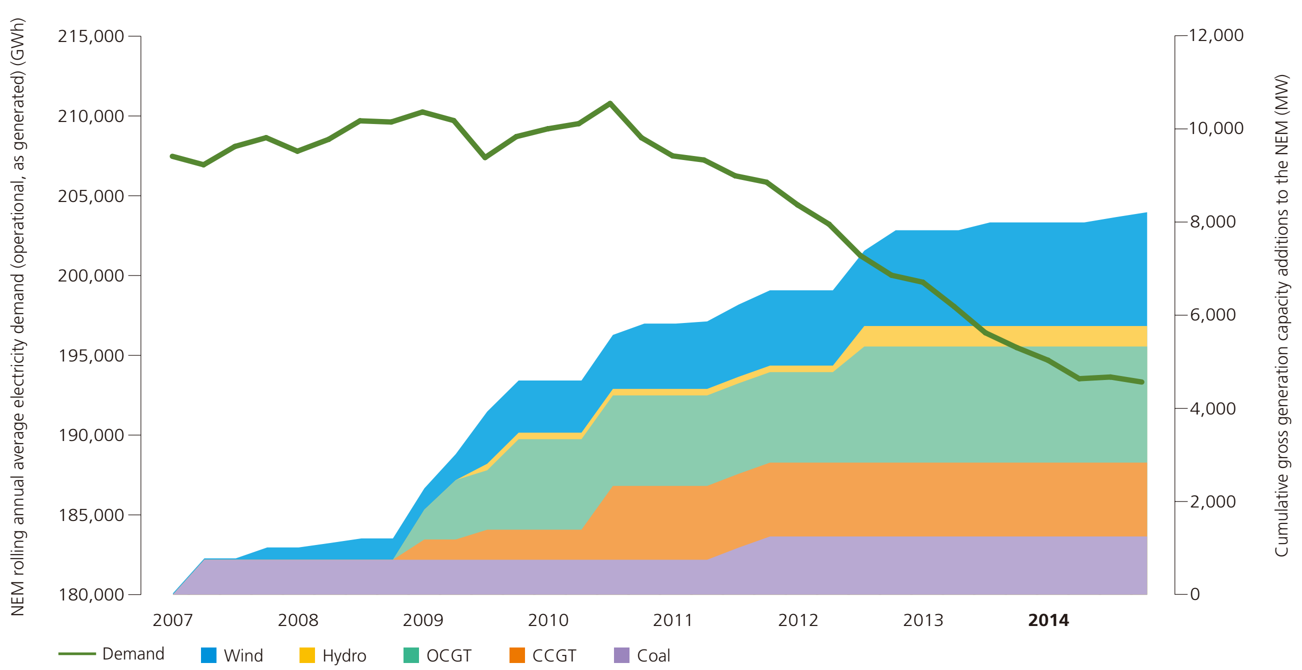
The retail environment continued to be characterised by high levels of competition, with churn rates – while lower than 2013 – remaining high. Although some consolidation of second-tier retailers occurred in 2014, smaller retailers remain very active and aggressive price discounting activities have continued in the market.

The Australian Government repealed the Clean Energy Future legislation in July 2014. The move means EnergyAustralia will not receive any future transitional support payments for which the Yallourn Power Station (Yallourn) was eligible. Another key policy area is the Renewable Energy Target (RET) scheme. The current design of the RET has a fixed volume target, leading to higher proportions of renewable energy coming into the NEM as demand falls. Based on forecasts, the current legislated 41,000GWh target is projected to account for 27% to 30% of total electricity in 2020. To assist with balancing supply with demand, EnergyAustralia has advocated for a downward adjustment to the target to a 20% proportional RET by 2020.

### Corporate

Following an extensive domestic and international search, Catherine Tanna was appointed EnergyAustralia's new Managing Director effective 1 July 2014. Ms Tanna has extensive experience in the gas and energy sector having had various senior roles at BHP Petroleum and Royal Dutch Shell before taking a senior executive role with the BG Group in Australia in 2009 and becoming BG Group's Chairman in Australia in 2012. She has been on the Board of the Reserve Bank of Australia since 2011 and represents EnergyAustralia on the Business Council of Australia. Ms Tanna has refreshed the EnergyAustralia management team. The team's focus is to optimise operations and the company's portfolio position to restore value.

**New Generation Capacity Added to the NEM Compared with Demand 2007 to 2014**




Source: Data from AEMO's Electricity Market Management System (EMMS), analytics by EnergyAustralia

### Retail

In November 2014 EnergyAustralia successfully completed the integration of its two major customer bases onto a single billing system by migrating 1.2 million customers from the NSW Government Ausgrid system onto the Customer First (C1) billing system. The completion of the migration brings the Transitional Services Agreement (TSA) with the NSW Government to an end. We expect an annual retail operational savings of A$100 million to be achieved by 2016 compared with 2013 through a combination of the end of the TSA and further process and operational improvements to C1 through 2015.

EnergyAustralia also introduced a number of operational efficiency improvements to support the successful migration of customers from Ausgrid onto the C1 system, including:

- expanding service capabilities by opening a new call centre in Geelong to support additional customers no longer serviced under the TSA;
- adjusting the call flow service model to improve customer experience; and
- introducing changes to the delivery of the back office functions to streamline customer billing, registration and credit management processes.

The technical upgrades to C1 during 2014 not only supported migration but also assisted in further reducing the total unbilled active accounts, which reached their lowest level on record in November 2014 of 0.08%.

Although retail competition in EnergyAustralia's two major retail markets, NSW and Victoria, remained robust in 2014, EnergyAustralia achieved lower churn rates than the industry average in both states. In Victoria, EnergyAustralia's churn rate was 22.5% whereas the industry rate was 25.0%. In NSW, EnergyAustralia's churn rate was 11.9% compared with 14.3% in the industry.

Aggressive retail competition and price discounting throughout 2014 resulted in a 1.7% year-on-year decline in the number of mass market customer accounts to 2.6 million by the end of 2014. On a positive note, EnergyAustralia strengthened sales capabilities throughout 2014, leading to faster registration of new accounts and enhanced customer retention activities. As a result, customer accounts increased 0.9%, or approximately 24,000, for the second half of 2014 compared to first half of 2014.

Retail electricity prices in NSW were deregulated from 1 July 2014. As an incumbent retailer, EnergyAustralia agreed to a two-year transitional retail tariff whereby households who have not switched over to a market rate received a 1.5% reduction in their rate compared to the most recent regulated price. In the longer-term deregulation provides the opportunity to offer tariff structures which better reflect customer's needs and to better manage tariffs in line with the true cost to the business.

In order to meet customers' expectations for additional value-added services, EnergyAustralia introduced two new offerings in 2014. In July, MyAccount was launched, providing customers with a secure on-line portal to view current and past bills, pay bills and update their account details. Around 78,000 customers had signed up to MyAccount by the end of 2014. In September, a new Home Services programme commenced, offering customers a tailored end-to-end service to provide, install and maintain heating, cooling, hot water and solar photovoltaic systems.

### Wholesale

In a difficult wholesale market, operational performance across EnergyAustralia's assets was positive in 2014. Yallourn and Tallawarra power plants underwent major planned outages in 2014. Both were completed on time and within budget.

In November 2014, EnergyAustralia announced the permanent closure and decommissioning of Wallerawang Power Station in NSW. The closure was in response to on-going weak wholesale prices and the lack of competitively priced coal supply.

EnergyAustralia also successfully negotiated the early termination of a long-term contract it inherited from Ausgrid. The termination of the contract releases EnergyAustralia from any future financial obligations.

## Environmental Performance

Yallourn's environmental performance improved after an upgrade was carried out. The new High and Intermediate Pressure turbine led to an efficiency improvement of 2-3% on Unit 1. Compared with before the upgrade, the unit is now capable of producing an additional 15MW for the same fuel flow.

In 2014, EnergyAustralia received three environment-related complaints, all related to emissions of dust or smoke at Yallourn and Wallerawang power stations. It also had a number of minor breaches of licence obligations at Mount

## Wholly or Partly-Owned by EnergyAustralia

| Asset / Station | Installed Capacity (MW) | | Generation (GWh) | | Utilisation[1] (%) | | Availability[1] (%) | | Operating Hours[2] | |
|---|---|---|---|---|---|---|---|---|---|---|
| Power Stations | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Hallett | 203 | 203 | 30 | 73 | 2 | 4 | 93 | 86 | 2,925 | 7,885 |
| Tallawarra | 420 | 420 | 2,480 | 3,115 | 67 | 85 | 82 | 94 | 6,193 | 8,507 |
| Yallourn | 1,480 | 1,480 | 10,697 | 8,525 | 83 | 74 | 83 | 75 | 29,944 | 26,030 |
| Mount Piper | 1,400 | 1,400 | 8,270 | 8,914[3] | 76 | 92 | 85 | 91 | 15,521 | 16,101 |
| Wallerawang[4] | 0 | 1,000 | 688 | 4,073[3] | 10 | 75 | 99 | 78 | 2,438 | 13,094 |
| Wilga Park | 16 | 16 | 14 | – | – | – | – | – | – | – |

| | Installed Capacity (Terajoule / Day) | | Throughput (Petajoule) | | Utilisation (%) | | Availability (%) | | Compressor Hours | |
|---|---|---|---|---|---|---|---|---|---|---|
| Gas Storage Facility | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Iona | 500 | 500 | 47 | 51 | 30 | 36 | 99 | 99 | 29,088 | 30,820 |

Notes:

1 In this table and elsewhere, "availability" is the extent to which a generating unit is made available by its operator for generation to the grid system, whereas "utilisation" is the extent to which the unit actually generates as compared to its rated capacity applied over the period in question.

2 Reflects the total hours in operation by all units at the station in the year.

3 Net generation at node.

4 EnergyAustralia deregistered Wallerawang with the Australian Energy Market Operator in December 2014.

| Wind Farms | Installed Capacity (MW) | Number x Wind Turbine Size | Generation at Farm Gate (GWh) 2014 | 2013 | Availability (%) 2014 | 2013 | Wind Speed (m/s) 2014 | 2013 |
|---|---|---|---|---|---|---|---|---|
| Cathedral Rocks | 66 | 33 x 2MW | 180.0 | 194.7 | 92.0 | 90.3 | 8.1 | 8.4 |
| Waterloo | 111 | 37 x 3MW | 308.1 | 296.6 | 97.6 | 95.2 | 8.2 | 8.4 |

## Generating Capacity under Contract to EnergyAustralia

| Ecogen | Installed Capacity (MW) 2014 | 2013 | Net Generation (at node) (GWh) 2014 | 2013 |
|---|---|---|---|---|
| Newport and Jeeralang | 966 | 966 | 286 | 171 |

Piper, Tallawarra and Yallourn power stations. The most significant incident involved waste water discharge that occurred at Tallawarra Power Station which resulted in a fine of A$1,500. EnergyAustralia is reviewing its operations to improve processes.

In 2014, EnergyAustralia signed a new partnership with NSW-based Nu-Rock Technology. Nu-Rock has established a demonstration plant adjacent to Mount Piper to use waste ash from the power station to produce low-cost, environmentally-friendly, light weight and fire-rated blocks, pavers, bricks, panels and other building materials. Subject to the demonstration plant being successful, Nu-Rock will look to scale up its operations to a commercial plant, also onsite at Mount Piper. This could potentially repurpose 250,000 tonnes of ash per annum.

## Social Performance

### Stakeholder Engagement

EnergyAustralia has a diverse group of stakeholders including customers, governments, local communities, suppliers and business partners. As such, EnergyAustralia customises its engagement activities to meet each group's needs. This ensures stakeholders have a good understanding of EnergyAustralia's operations. It also allows EnergyAustralia to gain insights into what issues are important to stakeholders and feed them into business planning. In 2014, EnergyAustralia's engagement activities included submissions to government policy reviews, presentations as keynote speakers at industry forums, collaboration projects with the local communities it operates in, active participation on policy committees of relevant industry associations, formal meetings and site visits.

To better understand the interaction with and impact on local communities, EnergyAustralia conducted a community stakeholder perception surveys in the second half 2014 in the Yallourn, Waterloo and Lithgow areas. The surveys showed broad support for the generation assets, with the community valuing regular site communications and community initiatives that contributed to the wider economic and social well-being of the region.

### Community Initiatives

EnergyAustralia continues to work with local communities where it operates. This approach helps build EnergyAustralia's reputation as a trusted local operator. In 2014, EnergyAustralia's community initiatives focused on homelessness, constitutional change to recognise Indigenous Australians and helping to enhance local community infrastructure. Some of our highlights are listed below:

## Creating Shared Value for the Communities We Serve

#### RECOGNISE

EnergyAustralia actively participated in a major Australian social change activity by supporting the RECOGNISE Gala Fundraising dinner in December. RECOGNISE is a part of Reconciliation Australia, which has been established to promote recognition of Aboriginal and Torres Strait Islander peoples and to remove racial discrimination from the Australian Constitution

#### POWER TO END HUNGER CAMPAIGN

EnergyAustralia joined the campaign formed by Port Adelaide Football Club and Foodbank South Australia and pledged to donate **A$100** for every goal Port Adelaide kicked during their home matches in the 2014 Australian Football League season. As a result, EnergyAustralia donated **A$20,000**, which equated to **40,000** meals for the needy

#### PARTNERSHIP WITH SWIM AUSTRALIA

Continual partnership with Swim Australia to promote swimming safety for children and their parents. The SwimSAFER Week in early December provided the public with valuable information on safety skills in and around water

#### WATERLOO WIND FARM COMMUNITY FUND

EnergyAustralia launched the Waterloo Wind Farm Community Fund to support community initiatives and projects in local area. **A$20,000** was sponsored to 9 organisations to support local conservation community groups, school programmes and improvement to local amenities

COMMUNITY

## Outlook

From a market perspective, overcapacity in the NEM is likely to continue. In August 2014, the Australian Energy Market Operator (AEMO) stated that "more than 7,500MW of generation capacity would need to be removed from the NEM to affect supply adequacy in 2014/15". In other words, around 16% of capacity could be taken out before electricity supply would reach levels considered too low to meet demand. At the same time, retail competition appears likely to remain unabated and therefore continue to put pressure on retail margins.

In power generation, rising fuel costs for both coal and gas and the expiry of long-term legacy contracts will place additional pressure on our generation business in this oversupplied market. Additionally, increasing development costs and difficulties in achieving environmental approvals have significantly impacted our ability to secure alternative, competitively-priced fuel resources. EnergyAustralia will focus on cost reductions, operational improvements and increased flexibility to enhance value. We will also seek to secure fuel for the portfolio by sourcing competitive long-term gas and coal supplies. However, in certain circumstances, where oversupply in the wholesale markets is sustained, the carrying value of generation assets may be at risk.

In retail, EnergyAustralia will leverage the benefits of the integration of two customer bases onto one system, grow the new Home Services business and continue to implement the digital transformation programme to drive new sales and retain existing customers. These initiatives will enable EnergyAustralia to reduce costs while creating the capability to deliver more value-added services.

EnergyAustralia will remain actively engaged with customers, governments and regulators to find an appropriate balance between business, environmental and community imperatives in energy, carbon and renewable policy settings. Government policy should permit commercial businesses to seek cost-effective ways to promote lower emissions from energy production, ensure good environmental outcomes and create sustainable employment opportunities while allowing appropriate returns on existing and new capital. Ultimately, stable and transparent regulatory frameworks are required to support the commitment of very long-term capital that is required to make investment in the power industry possible.

Q

**Ms Tanya Hosch**
Joint Campaign Director
RECOGNISE

**Right now the campaign to RECOGNISE Aboriginal and Torres Strait Islander Australians in the constitution and remove discrimination is preparing the nation for a successful referendum. How can EnergyAustralia and other businesses help us in this crucial task for the nation and recognise the enormous contribution that Indigenous people and cultures make to this country?**

A

Constitutional recognition of Aboriginal and Torres Strait Islander Australians is about fairness, respect and doing the right thing. Recognition is an important step towards acknowledging Australia's complete history and to promote a fair and inclusive society.

Change just does not happen. The tireless work of groups like RECOGNISE to build awareness of why our constitution needs to change is important, inspiring and it continues. However, there is a need for more voices to spread this message even further. Companies can play a key role in raising awareness as they employ many thousands of people and can reach large customer groups.

For example, EnergyAustralia has more than 2,000 employees and 2.6 million customers. EnergyAustralia wants to do the right thing by getting involved in promoting the campaign and we have started the conversation about why our constitution needs to change, through our support for the 2014 Gala RECOGNISE Dinner.

**Catherine Tanna**
Managing Director – EnergyAustralia

More Q&As


# CAPITALS

## WHAT ARE THE "CAPITALS" THAT SUSTAIN OUR BUSINESS?

We have selected some resources and relationships – collectively known as capitals – that are critical to CLP, and explain how the careful management of these can contribute to the sustainability of our business


工隊 20周年
CLP中電

# FINANCIAL CAPITAL

## Our funding resources and capability

2014, at least for the first 11 months, was a year characterised by low volatility yet high uncertainty in the financial markets. The long-predicted Great Rotation out of bond investments along with quantitative easing (QE) tapering and resumed economic growth did not materialise. Instead, global economy recovery remained sluggish and uneven, accompanied by subdued inflation pressure and low interest rates.

Although the Federal Reserve ended its asset purchase programme as scheduled in October 2014, it was confronted with aggressive monetary easing by other leading central banks. The European Central Bank (ECB) eased monetary policy further by lowering the overnight deposit rate into negative territory to encourage banks to apply funding to support the stagnating economy. In addition, the ECB also started buying asset-backed securities and covered bonds in order to inject more liquidity into the market. In the east, in an attempt to salvage the Japanese economy from the brink of a recession, Bank of Japan surprised the world markets by intensifying the quantitative and qualitative easing. The People's Bank of China announced an asymmetric rate cut (a larger reduction of lending rate than deposit rate) to address the slowdown in manufacturing and consumption and eased the rule to calculate loan-to-deposit ratio of the commercial banks amidst market pre-emption that the slowing economy and rising disinflationary pressure would warrant more easing.

Such divergence in monetary policy settings between the United States and the rest of the world is uncommon. Against a backdrop of uncertain movement of global interest rates, threat of "secular stagnation", widening growth disparities amongst major economies, tumbling commodity prices, frail currency levels against a strong US dollar and intensified geopolitical tension, the inherent fragility of an unbalanced global economy is highly vulnerable to shocks.

Although no one can predict with certainty what factor could trigger a financial market dislocation and when this would happen, it is certain that any unguided, precipitous change in sentiment, amidst the very low interest rate environment and inflated asset prices, could cause rapid and momentous movement in the financial markets. It is therefore important for CLP to remain vigilant and continue with our prudent financial management policy, including our proactive strategy in precautious financing and risk management. In managing our existing business and expansions, we have taken steps to enhance our balance sheet, defend our credit rating and manage our strategic funding in order to deliver investment returns for our regional portfolios in a persistent way. A notable example is the CAPCO / PSDC acquisitions which are detailed in the sections below.

### Applying Proven Financial Philosophy in Meeting Stakeholders Expectations

Over the years, the "Financial Capital" section of our Annual Report aimed to provide our readers with insight into CLP's financing and risk management philosophy, and how the CLP Management applies it to mitigate adversities and enhance shareholder value. The continued successful application of such philosophy is critical, particularly as failure to deliver credible action can cause impediments to operation, growth and sustainability.

The power industry is characterised by high investment costs, capital intensity, long payback periods with compound risk elements. The ability to arrange timely, cost-effective, diversified, multiple-tenured and sustainable funding in equity and debt markets is indispensable in managing and growing our business. At the same time, competence in applying sound and disciplined risk management policies in a tenacious way is imperative to maintain financial strength and strong credit in closing transactions at the most favourable terms.

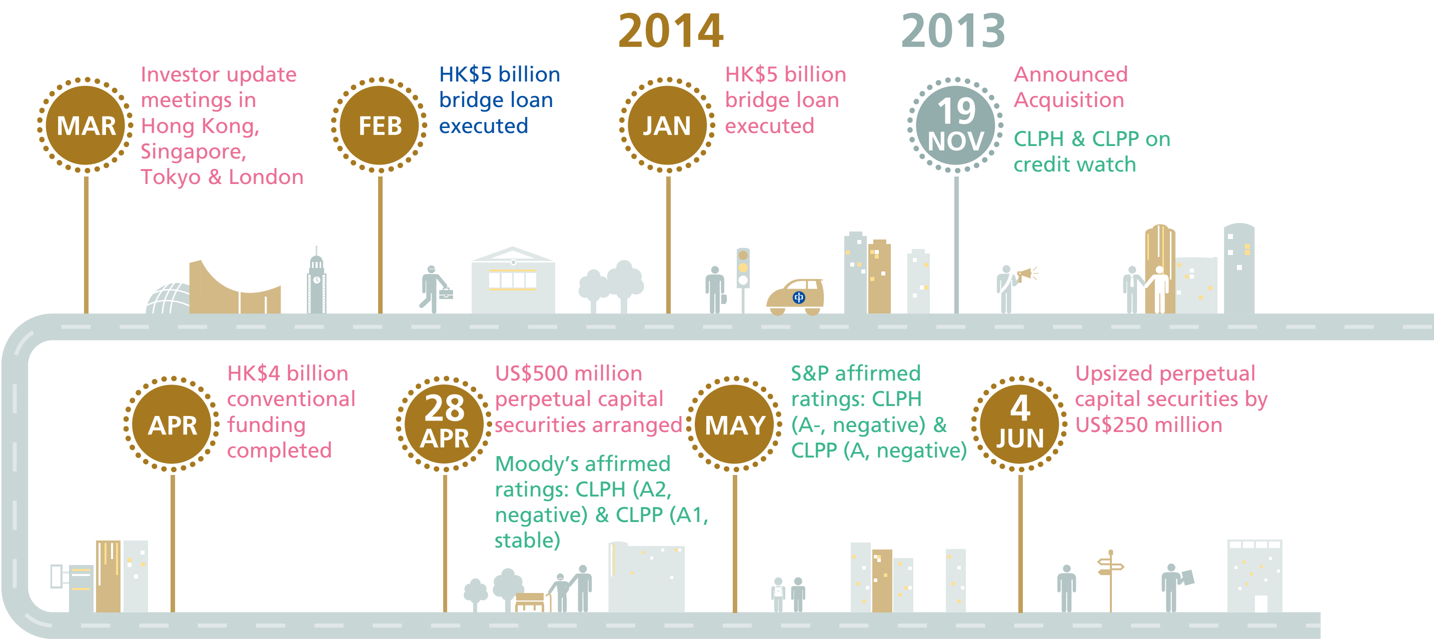
In 2014, CLP's financing and risk management philosophy and its ability to deliver were put to the test as the credit ratings of CLP Holdings and CLP Power Hong Kong were under "negative watch" after the announcement of the CAPCO / PSDC acquisitions. Whilst Management was aware of the challenges, they also believed that CLP should remain financially sound and flexible with good investment grade credit ratings notwithstanding our strategic expansion in the generation business in Hong Kong. We used a multi-levered action plan to show CLP's determination to keep a strong credit profile for the Group. These levers were:

(i) open, transparent dialogue with credit rating agencies to show the benefits of the acquisitions to CLP's business and financial profiles,

(ii) self-initiative to further strengthen CLP's balance sheet structure and diversify our funding source via a strategic issuance of an appropriate amount of perpetual capital securities which will be credit-rating conducive to CLP Holdings and CLP Power Hong Kong, and

(iii) issuance of the perpetual capital securities prior to the settlement of the acquisitions at a simple, effective structure and cost-efficient, financially flexible terms, which synchronised with the timeline to conclude CLP's credit rating review with rating agencies by completion of the acquisitions.

## Timeline of Closing Major Funding Transactions and Credit Rating Developments




CLP Power Hong Kong ("CLPP")   CLP Holdings ("CLPH")   CLPH and CLPP

Our strategy and actions under the plan included:

- Arrangement of HK$4 billion of conventional debt for CLP Power Hong Kong in the first quarter of 2014 to make way for, and avoid crowding out, the issuance of perpetual capital securities which was scheduled for the end of April 2014. This demanding timeline did not deter CLP from continuing to diversify CLP Power Hong Kong's funding to the Japanese on-shore bank market for JPY26 billion (HK$2 billion) for the second time since 2013 (involving a three-year cross border bank loan syndicated to 24 regional and city banks) to achieve further diversity of funding at better rates than those available from banks based in Hong Kong for the same tenor of debt. The remainder of the conventional debt was raised in the form of long-dated private placement bonds and bi-lateral, medium-term bank facilities at favourable terms. This has enabled Management to focus on the strategic perpetual capital securities with a much lower level of market risk;
- Completion of a HK$5 billion, two-year acquisition loan in the name of CLP Power Hong Kong with syndication to 12 banks in January 2014 to address the keen interests of the banks in participating in the acquisition financing and to broaden the lending base even though the full amount of the HK$10 billion acquisition loan at preferential terms was fully underwritten by the sole lead arranging bank in November 2013;
- Arrangement of an inaugural, US$500 million (HK$3.9 billion) 4.25% perpetual capital securities guaranteed by CLP Power Hong Kong on 28 April 2014 (with 2.4 times over-subscription by US$1.2 billion through orders from approximately 100 global investors) on a "fast track" schedule of two-and-a-half weeks following the appointment of arranging banks. The perpetual capital securities achieved a record of the lowest fixed rate US dollar denominated corporate equity hybrid securities ever issued globally, and one of the tightest ever senior-

hybrid premiums for a corporate equity hybrid. These 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 for the first 5.5 years from issuance. This issuance further strengthens CLP Power Hong Kong's credit profile which filters through to CLP Holdings' diversified funding sources and helps maintain the strong credit ratings of CLP Holdings and CLP Power Hong Kong. Following an overwhelming reverse enquiry demand from investors, in June 2014, CLP issued an additional US$250 million (HK$1.9 billion) of the same perpetual capital securities via private placement further enhancing our capital structure.

Thanks to these efforts, the CAPCO acquisition was named the Best Hong Kong Deal by FinanceAsia magazine in 2014.

During 2014, to further support CLP growth in renewable energy projects (especially wind and solar) in the Mainland, CLP tapped into the offshore Renminbi bank loan market in Hong Kong through its investment holding company, CLP Power China Limited, to raise a three-year loan to fund construction and early period of operation of our wholly-owned renewable energy projects. This not only delivers more liquid, cost efficient funding for CLP but also allows CLP China greater flexibility in its project development schedule, as well as setting a platform to migrate CLP China's financing model from standalone, project level financing to corporate funding, which will provide more favourable terms with the diversified, more substantial asset base of the holding company and solid cash flows. Following construction completion and early period of operation, CLP China intends to procure onshore, long-dated non-recourse project level financing as it has customarily done, to replace the offshore Renminbi loan, which should come with improved terms due to mitigation of construction risk.

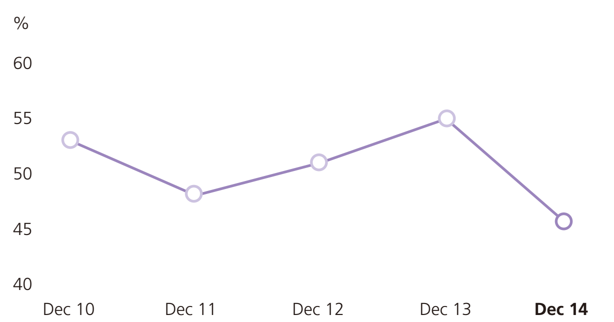
## A Substantiated and Evolving Funding Approach

Electricity business is highly capital-intensive which requires good patience to harvest. CLP's sound liquidity, cost-effective, diversified and well-managed maturity debt profile do not come by chance. We know shareholders and business partners value our commitment to prudent and vigilant financial management. We are dedicated to preserve a healthy capital structure, retain good investment grade credit ratings, maintain sound business relationships with lenders and investors whilst developing new ones, and reserve financial strength and flexibility to withstand any unforeseen contingencies driven by financial market volatilities.

These experiences and efforts allow CLP to continue to assess multiple financial markets in a sustainable, cost-effective and timely way, even in challenging periods like the Asian and global financial crises. As at 31 December 2014, the Group had maintained business relationships with 77 financial institutions (2013: 67). This number has more than doubled over the last decade from about 38 financial institutions in 2004, demonstrating our continued efforts in developing and broadening our business relationship base. The majority of the banks we had a relationship with a decade ago are still working in partnership with us, signifying the sustainability of our relationship. The increase in the number of financial market partners in 2014 signals the further broadening of our relationships with Japan-based financial institutions through the Japanese yen cross-border syndication loan arranged by CLP Power Hong Kong in 2014.

Apart from conventional bank loans with multinational, regional and local banks, CLP Power Hong Kong and EnergyAustralia have the ability to tap into the global debt capital markets denominated in multi-currencies under their Medium Term Note (MTN) Programmes for aggregated amounts of up to US$4.5 billion and A$2 billion respectively. The MTN Programmes enable us to diversify funding sources from the banking sector to global bond investors, deliver cost-effective long-term fixed rate borrowings and achieve long-tenured asset / liability matching. As at 31 December 2014, CLP Power Hong Kong has an outstanding 40 tranches of bonds (denominated in US dollars, HK dollars, Japanese yen and Australian dollars) issued under its MTN Programme comprising a nominal value of approximately HK$25 billion whilst EnergyAustralia has one outstanding tranche of Australian dollar bond (A$50 million) issued under its MTN Programme and 10 tranches of US dollar bonds (US$895 million) issued through the US private placement market.

**Ratio of Bond Funding to Total Debt**




Note: The decrease of ratio in 2014 was mainly due to consolidation of CAPCO's bank borrowings (HK$5.9 billion) and the outstanding HK$5 billion acquisition bank loan for CAPCO / PSDC acquisitions.

Notably, CLP Power Hong Kong has raised more debt funding via placement of 12-15 years fixed rate bonds in the recent years to capture the very low interest rate environment in supporting new capital investments and to lock in benign fixed interest rates so that it can deliver higher certainty of earnings. Nowadays, about 39% and 48% of debt funding at CLP Power Hong Kong and EnergyAustralia come from bond investors based outside Hong Kong and Australia respectively.

Commencing in 2014, in addition to earnings before interest and taxes (EBIT) interest cover (2014: 6 times versus 2013: 3 times), we have also calculated fund from operations (FFO) interest cover (2014: 9 times versus 2013: 8 times) which can better indicate how well CLP generates operating cash flows to cover interest payments. FFO interest cover is calculated by cash inflow from operations divided by interest charges and capitalised interest.

## Overview of CLP's Funding Approach

**A prudent yet dynamic approach in optimising the debt profile**

**Market Knowledge and Close Monitoring**

- Proactively follow market development
- Useful update and insights from financial counterparties

**Prudent Financial Management Strategy**

- Identifying funding and hedging requirements timely
- Cost efficient, simple-structured, accounting hedge effective approach to mitigate risks

**Funding Diversity**

- Spreading out of sources, tenor, markets and instruments

**Sound Business and Financial Profile**

- Strong liquidity buffer to fence off contingencies and adversities

**Good Investment Grade Credit Ratings**

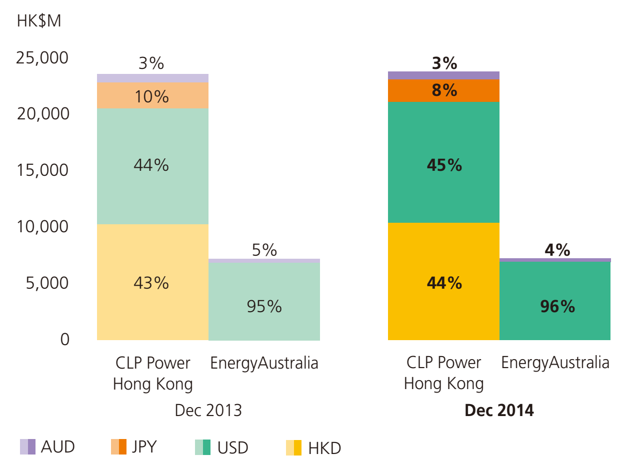
- Healthy capital structure
- Strong financial metrics and flexibility

**Good, Long-term Relationships**

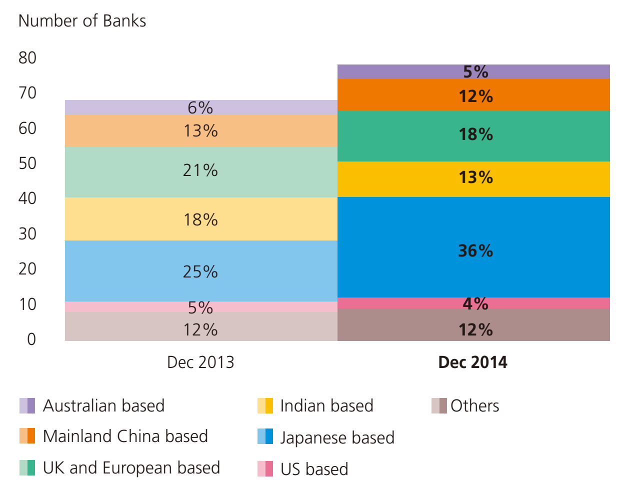
- Sustainable relationship with lenders and investors
- Develop new business with potential parties

**Well-diversified, cost-efficient debt profile with strong financial flexibility**

### Currency of Bond Funding

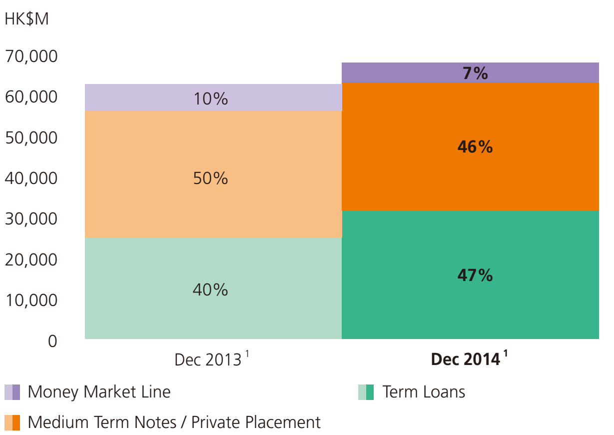



### CLP Banking Relationship – Balanced Mix of Lending Financial Institutions

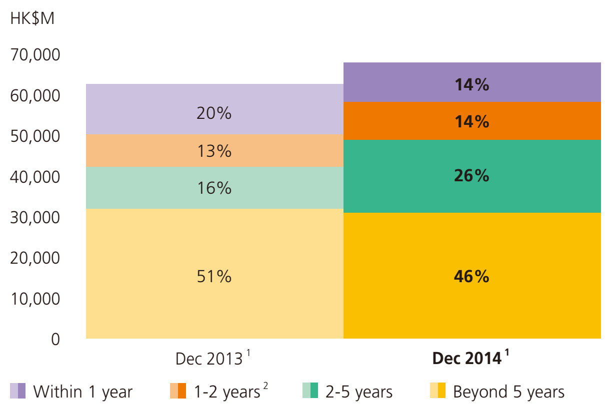



Note: Geographical bases of the financial institutions are determined according to the places of incorporation of their respective holding entities.

## Loan Balance – Type




## Loan Balance – Maturity

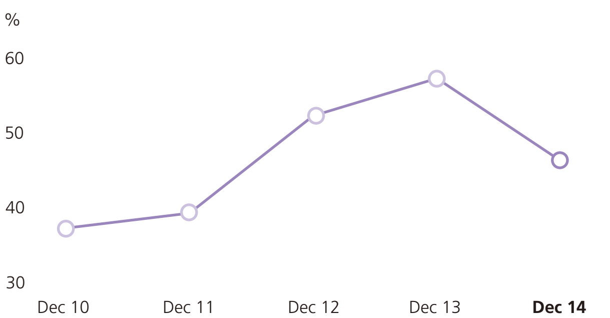



Notes:

1 The 2014 figures include CAPCO and PSDC as subsidiaries of the Group after the acquisitions. For comparative purpose, we have included CLP Group, CAPCO and PSDC in the 2013 figures.

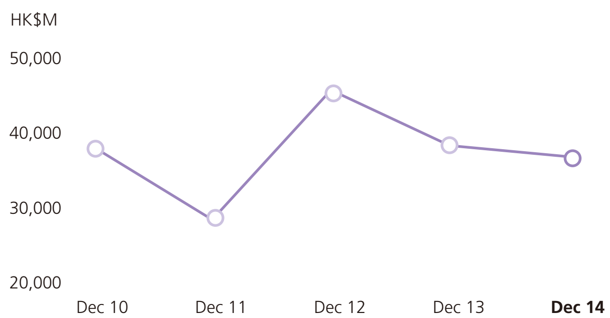
2 Loan balance of one to two years includes loan drawdown with current tenor less than one year under revolving facility with maturity falling beyond one year.

## Ratio of Debt with Maturity Beyond Five Years to Total Debt




Note: The decrease of ratio in 2014 was mainly due to consolidation of CAPCO's bank borrowings (HK$5.9 billion) which were shorter than five years and the outstanding HK$5 billion two-year acquisition bank loan for CAPCO / PSDC acquisitions.

## Liquidity




Note: Liquidity equals to the undrawn bank facilities plus bank balances, cash and other liquid funds.

## Debt profile as at 31 December 2014

| | CLP Holdings HK$M | CLP Power Hong Kong HK$M | CAPCO HK$M | Other Subsidiaries[1] HK$M | CLP Group HK$M |
|---|---|---|---|---|---|
| Available Facility [2] | 15,500 | 40,430 | 7,165 | 36,873 | 99,968 |
| Loan Balance | – | 34,780 | 5,855 | 26,800 | 67,435 |
| Undrawn Facility | 15,500 | 5,650 | 1,310 | 10,073 | 32,533 |

Notes:

1 Mainly relates to EnergyAustralia and subsidiaries in India.

2 For the MTN Programmes, only the amounts of the bonds issued as at 31 December 2014 were included in the total amount of Available Facility. The Available Facility in EnergyAustralia excludes a facility set aside for guarantees.

In 2014, our highly disciplined, diversified and vigilant financial management approach has helped CLP entities fence off financial market challenges such as QE tapering and geo-political upheavals like the Ukraine crisis and complete major financing transactions with good outcomes as below.

| Major Achievements in Financing Activities | |
|---|---|
| **CLP Holdings** | **HK$5 billion one-year bank facility**<br>• Bridge loan drawn in name of CLP Holdings to partially fund the CAPCO / PSDC acquisitions with preferential interest rate. The fund amount was repaid in October 2014. |
| **CLP Power Hong Kong** | **US$750 million (HK$5.8 billion) perpetual capital securities**<br>• US$500 million (HK$3.9 billion) arranged in April 2014 with around 2.4 times oversubscription by US$1.2 billion orders from about 100 global investors<br>• Upsized by US$250 million (HK$1.9 billion) in June 2014 following strong reverse enquiry demand by investors<br>• Maintains a record of the lowest fixed rate US dollar denominated corporate equity hybrid security which achieves credit rating agency equity credit, and one of the tightest ever senior-hybrid premiums for a corporate equity hybrid<br>• Obtained 50% equity credit from Moody's for life and Standard & Poor's (S&P) for the first 5.5 years from issuance at CLP Power Hong Kong level, conducive to maintaining good investment grade credit ratings of CLP Holdings and CLP Power Hong Kong<br>• US dollar principal was hedged back to Hong Kong dollars to mitigate foreign currency risk<br>**JPY26 billion (HK$2 billion) three-year syndicated bank loans**<br>• Japanese yen proceeds were swapped back to Hong Kong dollars to mitigate foreign currency risk<br>• Successfully syndicated to 24 regional and city banks in Japan with 1.3 times oversubscription in June 2014<br>• Borrowing cost was lower than loans offered by Hong Kong based banks in the same tenor after swapped back into Hong Kong dollars<br>**HK$5 billion two-year bank facility**<br>• Bridge loan drawn in the name of CLP Power Hong Kong to partially fund the CAPCO / PSDC acquisitions with preferential interest rate<br>• Successfully syndicated to 12 multinational and regional banks in January 2014<br>**HK$1.45 billion 12 to 15-year bonds**<br>• Long-dated Hong Kong dollar bonds at favourable interest rates<br>**HK$1.2 billion five-year bank loan facilities**<br>• Arranged at favourable terms |
| **EnergyAustralia** | **Annual refinancing of three-year A$700 million (HK$4.4 billion) working capital facility**<br>• Extended maturity by one year to June 2017 with existing lenders at lower interest margin |
| **CLP India** | **Rs.4.15 billion (HK$509 million) project loan facility**<br>• Refinanced part of the existing debt for Jhajjar project at reduced interest rate<br>**Rs.1.5 billion (HK$184 million) loan facilities**<br>• Working capital facilities for Jhajjar project<br>**Rs.4.7 billion (HK$577 million) short-term bank loan facilities**<br>• Bridge loans for the construction of various wind projects which will be replaced by long-term, project financing after construction completion<br>**US$110 million (HK$853 million) long term corporate loans**<br>• Borrowed at standalone credit of CLP Wind Farms (India) Private Limited to fund four new wind farm projects<br>• US dollar principal was hedged back to Indian rupees to mitigate foreign exchange risk<br>**Rs.2 billion (HK$245 million) commercial papers**<br>• Replaced existing bank facilities of Jhajjar project and CLP Wind Farms (India) Private Limited at lower interest rates |
| **CLP China** | **RMB630 million (HK$787 million) 12-year project loan**<br>• Non-recourse long-term finance to fund construction of Sihong Solar Power project (51% CLP owned) |

## Effective Risk Management is Indispensable

### Risk Management

CLP has long-established, well-proven risk management policies that are tenaciously applied throughout the Group and reviewed regularly for identifying and effectively managing financial risks. Our substantial businesses in the region expose CLP to multiple risks including liquidity, (re)financing, foreign exchange, interest rate, counterparty and compliance.

Risks not managed in good manner will cause losses and failure. In contrast, effective, well-balanced risk management can add value to shareholders and stakeholders. We avoid forming personal views in applying risk management, and seek cost-efficient, hedge-accounting effective, and plain vanilla derivative instruments to hedge genuine economic exposures and mitigate undue profit and loss impact. Our initiative to hedge a high level of foreign exchange and interest rate exposure on behalf of customers is but one example of this, allowing all parties to avoid undue tariff volatility, even though a significant portion of this risk could be passed through to end users.

### Comprehensive Financial Risk Management

**Effective, prudent risk management policies with regular review**

↓

**Identify, evaluate and mitigate risk exposure**

↓

| Liquidity | Refinancing | Foreign Exchange | Interest Rate | Counterparties | Compliance |
|---|---|---|---|---|---|
| • Sufficiency<br>• Strong buffer of committed facilities and cash balances | • Diversity (sources, tenor, instruments)<br>• Proven, long-term relation<br>• Proactive planning and timely execution | **Translational:**<br>• No hedging for regional equity investment but match with local currency debt<br><br>**Transactional:**<br>• Hedge committed and highly probable exposure<br>• Cost-efficient, accounting effective hedging | • High fixed rate portion to match long-term capital expenditure<br>• High certainty of earnings and cash flow | • Pre-approved, qualified, creditworthy financial institutions<br>• Manage exposure limits | • Full compliance through high standard of corporate governance, policies and integrity |

### Liquidity

CLP is risk averse. We understand it is critical to ensure sufficient liquidity at all times by efficiently managing our cash / liquidity position, maintaining sufficient committed credit facilities / cash balances and preserving strong financial flexibility to meet exceptional situations and contingencies.

As of the end of 2014, CLP Group is highly liquid with HK$36.9 billion undrawn bank facilities and internal resources.

### Refinancing

At CLP, we appreciate long-term, trustworthy relationships with business counterparties, including bond investors / analysts, lending banks and financial derivative counterparties. At the same time, we strive to broaden our relationship base, diversify our treasury portfolio to reduce refinancing risk and explore funding alternatives with competitive terms.

Our determination to diversify (funding source, instrument, tenor, geographical region) and reduce refinancing risk have produced well spread out debt maturities in recent years, which helps to better align with the long payback periods of our capital assets, lock in attractive low fixed interest rates and deliver stable earnings and cash flows. Ratio of debt beyond five years has increased from 37% in 2010 to 46% in 2014.

### Foreign Exchange

The regional presence of CLP has resulted in translational foreign currency risk which relates to the equity investment element of our investments outside Hong Kong, and transactional foreign currency risk which arises due to the mismatch of revenues generated in host country currencies of the respective business units while debt and / or payments are repaid / made in other currencies. CLP does not hedge translational foreign currency risk as our equity investments are long-term and geographically diversified. CLP Group, however, hedges a high portion of committed and highly probable transactional foreign currency risk so that it can deliver a more certain economic outcome.

### Interest Rate

CLP proactively manages interest rate risk through monitoring of financial markets and arrangement of fixed rate debt and / or entering into fixed rate interest rate swaps. Subject to market situation, we prefer a high level of fixed rate debt so that we can have stable and certain cash flows.

### Counterparties

Each business unit of CLP has a list of authorised financial institutions which are financially sound, erudite and competent in executing financing and risk management transactions. It is essential that we work with counterparties with a high level of creditworthiness, strong capability and a good understanding of CLP as our risk management often comes with long tenures that will require the counterparties to perform their obligations well over a long period of time.

### Compliance

CLP strives to maintain full compliance of rules and regulations in association with our financial and risk management activities. This will require a high level of personal integrity, effective corporate governance and good team spirit amongst other principal attributes.


Mr Hokuto Nakano
Managing Executive Officer,
Head of East Asia, Mizuho Bank, Ltd.

### As CLP now owns 70% of CAPCO, how will you look to maximise the synergies of a more unified corporate structure from the perspective of enhancing capital structure and cost-effective financing going forward? What plans do you have to optimise debt and treasury management between CLP Holdings, CLP Power Hong Kong, and CAPCO?

In addition to the strategic and economic benefits, our 70% stake in CAPCO offers us the right opportunity to achieve higher corporate governance and financial management synergies in a number of ways. These include better alignment with CLP's capital structure, dividend stream, bank relationships, financial and risk management policies, treasury management and e-banking systems.

The US$750 million perpetual capital securities issuance in 2014 demonstrates how we were able to close out the CAPCO acquisition without compromising on our credit ratings or cost effectiveness of funding. The securities placement and incremental earnings from the acquisition will further strengthen CLP's balance sheet and cash flow, providing us with greater autonomy to optimise them. The unified dividend policy and payment stream in consideration of CLP Group's liquidity will also improve cohesive cash management within the Group. The CLP "halo" will facilitate CAPCO's financing and hedging by enabling our counterparties to focus on one credit in the context of the wider CLP Group amidst stronger business relationship, as compared with different majority shareholders for CLP Power Hong Kong and CAPCO in the past.

In parallel with the CAPCO acquisition, we have also integrated treasury policies (financing, risk management, authorities), treasury and e-banking systems, among CLP Holdings, CLP Power and CAPCO. It is intended that these initiatives will result in higher efficiency, lower execution risk, better cost effectiveness in managing the business which, in turn, can deliver higher value to shareholders, customers and other stakeholders.


Francis Ho
Director – Group Treasury

More Q&As

## Credit Ratings

Over the years, CLP remains committed to maintain good investment grade credit ratings. In November 2013, following the announcement of the proposed acquisitions of a further 30% interest in CAPCO and the remaining 51% interest in PSDC, Standard & Poor's (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 acquisitions as well as the sound business profile and robust cash flow of the transaction. CLP also reviewed the capital structure of the SoC business and issued an aggregate of US$750 million perpetual capital securities to further enhance the balance sheet structure of the regulated utility and holding company.

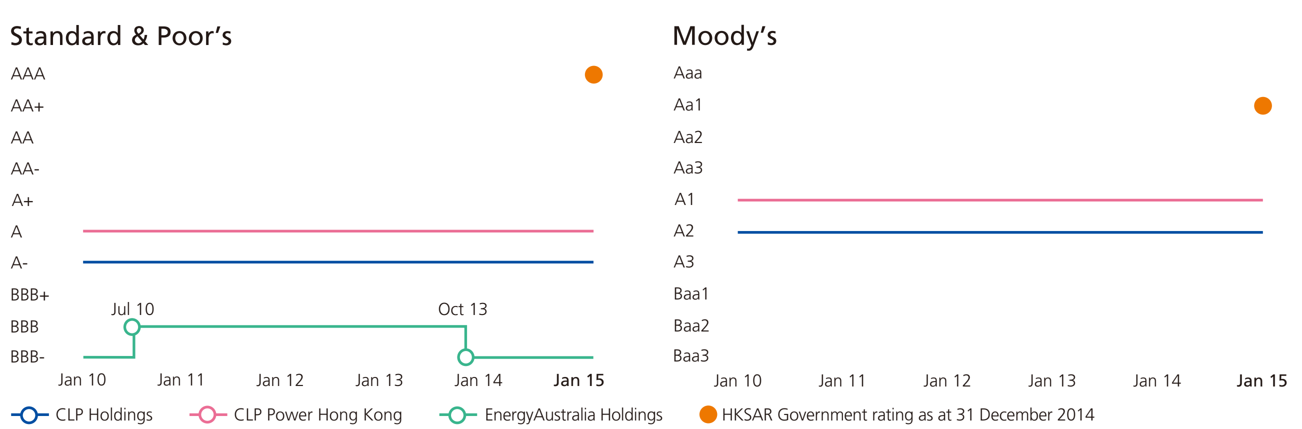
These proactive initiatives delivered good outcome. In response to CLP Power Hong Kong's issuance of the perpetual capital securities, Moody's revised the rating outlook of CLP Power Hong Kong to stable from negative and affirmed the A1 and A2 credit ratings of CLP Power Hong Kong and CLP Holdings respectively 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 financially 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 credit ratings of major companies within the Group as at 31 December 2014 were as below.

| | CLP Holdings | | CLP Power Hong Kong | | Energy Australia | HKSAR Government | |
|---|---|---|---|---|---|---|---|
| | S&P | Moody's | S&P | Moody's | S&P | S&P | Moody's |
| **Long-term Rating** | | | | | | | |
| Foreign currency | A- | A2 | A | A1 | BBB- | AAA | Aa1 |
| Outlook | Negative | Negative | Negative | Stable | Negative | Stable | Stable |
| Local currency | A- | A2 | A | A1 | BBB- | AAA | Aa1 |
| Outlook | Negative | Negative | Negative | Stable | Negative | Stable | Stable |
| **Short-term Rating** | | | | | | | |
| Foreign currency | A-2 | P-1 | A-1 | P-1 | – | A-1+ | – |
| Local currency | A-2 | P-1 | A-1 | P-1 | – | A-1+ | – |

The charts below illustrate the credit rating changes of our major companies in the past five years. More information about our credit ratings is shown on our website.

### Long-term Credit Ratings – Foreign Currency and Local Currency



### CLP Holdings

| Positives | Negatives |
|---|---|
| Moody's: Affirmed the A2 credit rating with negative outlook in April 2014. | |
| • Sound liquidity profile supported by good access to bank and capital markets<br>• Well-managed debt maturity profile<br>• The CAPCO / PSDC acquisitions will improve CLP Holdings' operating profile in Hong Kong with better integration of the local operations | • Weakened financial profile due to underperformance of overseas business, especially in Australia<br>• Growing overseas and non-regulatory business investments increase risk profile<br>• Increased leverage after the CAPCO / PSDC acquisitions but weakening of credit metrics is expected to be temporary |
| S&P: Affirmed the A- credit rating, removed from credit watch and kept the negative outlook in May 2014. | |
| • Strong business risk profile and intermediate financial risk profile<br>• Strong liquidity and good financial flexibility<br>• Strong competitive position supported by stable power demand outlook in Hong Kong<br>• Comprehensive strategic planning process, very high operating standards, good record of operational effectiveness, strong management and governance | • Increased debt level after the CAPCO / PSDC acquisitions<br>• Tough operating condition in Australia<br>• Coal shortage and low availability at Jhajjar; however, availability has been improving since the second half of 2013 |

### CLP Power Hong Kong

| Positives | Negatives |
|---|---|
| Moody's: Affirmed the A1 credit rating with outlook revised to stable from negative in April 2014. | |
| • Strong and predictable cash flow<br>• Highly stable regulatory environment<br>• The CAPCO / PSDC acquisitions would strengthen CLP Power Hong Kong's operating profile without compromising its projected credit metrics | • Pressure on fuel costs due to gradually increasing consumption of more expensive gas to meet environmental policy objective set by the Government<br>• A material deterioration of the credit profile of CLP Holdings can trigger a review on CLP Power Hong Kong's rating |
| S&P: Affirmed the A credit rating, removed from credit watch and kept the negative outlook in May 2014. | |
| • Excellent business risk profile and adequate liquidity, stable and strong cash flow<br>• Sound banking / capital market relationship with good liability management<br>• Strong regulatory advantage due to transparent / predictable regulatory framework<br>• Approved capital expenditure plan until September 2018 will ensure predictable returns and growth in cash flows from the enlarged assets | • Uncertainty over future regulations and clean energy policy<br>• Weakening financial strength after the CAPCO / PSDC acquisitions |

### EnergyAustralia

| Positives | Negatives |
|---|---|
| S&P: Affirmed the BBB- credit rating with negative outlook in May 2014 | |
| • Strong liquidity profile<br>• Satisfactory business risk profile, operational flexibility from a diverse profile<br>• Economic scale from being one of the three largest vertically integrated energy utilities in Australia<br>• Track record of support from its higher rated owner, CLP Holdings | • Aggressive financial risk profile, weak near-term credit metrics<br>• Uncertainty of exposure under any carbon abatement<br>• Integration risk of the new retail billing system<br>• Competitive retail and wholesale markets amid continued weak electricity market demand |

# NATURAL CAPITAL

## Our respect for the environment

Throughout CLP's operations, environmental protection encompasses many aspects including compliance, commitment, corporate responsibility and risk management. While environmental regulations around the world are becoming more stringent, CLP continues to drive initiatives through its continuous efforts in capacity building, research and internal commitments. In 2013, we reported our efforts in developing Group-wide environmental standards and guidelines which are now being implemented across the Group.

One of the key focuses for 2014 was integrating our Health, Safety, Security, and Environment (HSSE) standards as part of our overall management framework. Our Safety Committee was upgraded into a HSSE Committee, and a somewhat fragmented management system on HSSE issues was revamped into an integrated one. The benefits of such integration included facilitating business-aligned decision making, aligning processes throughout functional units, reducing duplication and bureaucracy (including streamlining of meetings and internal reporting), and enhancing HSSE awareness. More details are in the "Human Capital" section.

## Environmental Management

As part of our operational environmental risk management, all power generation facilities in which we have operational control (as defined by our CLP Group's Environmental Management System Standard) must establish effective environmental management systems which conform to the globally recognised ISO14001 Standard and achieve third-party certification within two years from commencement of operation or acquisition. For 2014, we are pleased to report that all assets in this category achieved ISO14001 certification on time. A more detailed summary of our environmental management systems, and environmental measures for these facilities as at 31 December 2014, is available in our 2014 Sustainability Report online. SR

### How will CLP achieve the new 2019 environmental emission caps in Hong Kong? How will CLP balance emission caps and fuel cost pressure?

Q

**Mr Simon H. Y. Lee**
Managing Director, Equity Research,
Morgan Stanley

CLP has made significant contributions in improving air quality in Hong Kong by reducing emissions from our power plants. Despite an approximate 80% increase in electricity demand over the last two decades, we have reduced our sulphur dioxide ($SO_2$), nitrogen oxides and respirable suspended particulates levels – also by about 80%.

The emission caps for our power stations for 2015 and 2017 require emissions to be reduced by up to 65% and 68% respectively from the tight base of 2014. To meet these caps, our gas consumption volume needs to be increased. Since natural gas, especially the gas supply from the Second West-East Gas Pipeline, is more expensive than coal, our fuel costs for electricity generation could increase significantly.

We also take a wide range of measures to achieve an optimal balance between meeting the emission caps and mitigating these fuel cost pressures. Presently, CLP is temporarily importing additional nuclear power from Daya Bay as well as using more low emissions coal. Moreover, we have enhanced the operational performance of generation plants and emission reduction equipment. These measures aim at allowing us to consume less natural gas while still achieving the emission targets.

For 2019, the Government has further tightened the emission cap for $SO_2$ by another 4% from the 2017 levels. This requires CLP to explore additional options to mitigate fuel cost pressures, and to enhance operational performance. In addition to these, CLP is exploring different fuel sources and technologies, including Floating Storage Regasification Units (FSRU) which will allow access to competitive gas supplies from world markets.

A

**Paul Poon**
Managing Director
CLP Power Hong Kong

More Q&As

## Performance on Group Environmental Goals

At the core of our CLP Group's Sustainability Framework are three aspirational environmental goals to move towards zero emissions, a more sustainable rate of resource use, and no net loss of biodiversity.

Our performance in these areas is summarised below:

| Group Goal | Aspect | Group Highlights | 2014 | 2013 |
|---|---|---|---|---|
| **Move towards zero emissions** | **Greenhouse gases** | • Total $CO_2$ emissions (from power generation)<br>• Carbon intensity (on equity basis) | **53,044kT**<br>**0.84kg $CO_2$ / kWh** | 44,076kT<br>0.82kg $CO_2$ / kWh |
| | **Air pollutants** | • Total $SO_2$ emissions<br>• Total $NO_x$ emissions<br>• Total particulate matter emissions | **93.0kT**<br>**74.6kT**<br>**11.5kT** | 50.5kT<br>50.2kT<br>5.5kT |
| | **Water discharged** | • Total water discharged | **4,792.2 $Mm^3$** | 5,000.8 $Mm^3$ |
| | **Waste** | • Total solid waste produced<br>• Total liquid waste produced | **21,626T**<br>**2,861kl** | 8,037T<br>1,228kl |
| **Move towards a more sustainable rate of resource use** | **Fuel** | • Total coal consumed<br>• Total gas consumed<br>• Total oil consumed<br>• Non-carbon % (on equity basis)<br>• Renewable energy % (on equity basis) | **541,865TJ**<br>**63,268TJ**<br>**2,345TJ**<br>**16.7%**<br>**14.1%** | 433,763TJ<br>73,510TJ<br>1,973TJ<br>19.4%<br>16.3% |
| | **Water** | • Total water withdrawal | **4,834.0 $Mm^3$** | 5,031.0 $Mm^3$ |
| **Move towards no net loss of biodiversity** | **Air/ Terrestrial** | • Group guidelines developed | • **Endorsed by Group HSSE Committee** | |

### Climate Vision 2050

In 2007, we set a pathway towards long term carbon reduction through our Climate Vision 2050, adopting ambitious carbon reduction targets. At the time, it was envisaged that there would be significant international momentum on direct management of climate change, along with the development of more non-carbon emitting projects. However financial constraints and uncertainties surrounding the adoption of an international climate change agreement have meant that our course to long term carbon reduction will not follow a linear path. In 2014, the Group's carbon intensity was 0.84kg $CO_2$ / kWh, up from 0.82kg $CO_2$ / kWh in 2013. The rise was attributed mainly to the acquiring of additional shares for our power generation assets in Hong Kong, which resulted in an increase in equity of the fossil-fuel portfolio. There was also a general reduction in output from renewables projects, in particular hydro projects in Mainland China. Our renewable energy capacity in 2014, meanwhile, fell to 14.1% from approximately 16% in 2013 while our non-carbon emitting generation capacity also dropped to 16.7%, down from 19.4% in 2013. These reductions were due mainly to the acquiring of additional shares for our power generation assets in Hong Kong and the addition of Fangchenggang Power Station Phase II.

As our CEO has mentioned, we anticipate that attractive investments in our growth markets will be coal-based projects, adding to our overall carbon intensity levels. However, whilst our present portfolio composition means that we may not be able to achieve our interim targets within the original timeframe set, we remain committed to our original long-term vision set through Climate Vision 2050. In our efforts to attain our long-term targets, we intend to utilise technologies striving for the highest possible efficiency for our thermal projects and continue to invest in renewables. In addition, we will ensure our carbon approaches are consistent with the national policies in the countries we operate. And finally, we will regularly monitor global and national development and adjust our investment profiles as required.

### Climate Adaptation for CLP Assets

While CLP is continuing to proactively manage its climate risks, to reduce our portfolio's emissions intensity and to diversify our generation mix, we have also started to assess the potential risks climate change poses on our power assets' operations. Since 2010, we have completed a series of climate adaptation studies on existing power plants, starting with our existing fossil fuel power plants and have also recently completed assessments on a number of plants within our renewable portfolio, as shown in the table below.

| | |
|---|---|
| **2010** | • Ho-Ping Power Station, Taiwan<br>• Paguthan Power Station, India (known as GPEC Power Station at the time) |
| **2012-2013** | • Fangchenggang Power Station, China<br>• Tallawarra Power Station, Australia<br>• Jhajjar Power Station, India |
| **2013-2014** | • Jiangbian Hydropower Station, China<br>• Saundatti Wind Farm, India<br>• Harapanahalli Wind Farm, India |

We will leverage on the experience in managing climate change risks to our operations, as well as taking such considerations into account for new projects.

## Environmental Regulatory Compliance

As at 31 December 2014, we had one environmental regulatory non-compliance that resulted in fines or prosecutions. The incident happened at Tallawarra Power Station in Australia which involved cooling water discharge temperature exceeding the allowable limit. The power station was subjected to a fine of A$1,500. Tallawarra has already addressed this through an improvement of internal procedures. We also recorded four operational exceedances, which were mainly results of normal fluctuations of operational conditions. These incidents were reported to local environmental authorities.

### Air Quality

Our air emissions performance has remained largely steady compared to 2013. This is because air emissions mitigation measures in place at our power assets have remained largely the same. The only exception being at Fangchenggang Power Station where we successfully retrofitted and commissioned an Selective Catalytic Reduction system in 2014 in order to meet with the more stringent $NO_x$ emission standard on Mainland China.

### Emerging Environmental Regulations

We are experiencing a rapid global growth in environmental regulations, both in scope and stringency. Issues of PM2.5 and mercury and toxic substance have received wide attention, particularly in the US. As reported in 2013, we completed a review of PM2.5 emissions, mercury and toxic substances and how such regulations may affect our power. 2014 also saw a release by the US government on a carbon reduction plan proposal directly applicable to the power sector. We will continue to monitor such regulatory developments.

### Data Management

To cater for the ever increasing demand on ESG reporting, CLP has recently upgraded its internal data management system in this regard. This represents the first cloud-based Group-wide reporting system for CLP. The system was launched in the fourth quarter of 2014, for full-year reporting from 2015 onwards.

For more details on CLP's Natural Capital, please refer to our Sustainability Report online.

EnergyAustralia launches the Waterloo Wind Farm Community Fund to support local conservation

# HUMAN CAPITAL

## Our people and safety performance

Throughout Hong Kong and across the Asia-Pacific region, the CLP Group employs over 7,300 people. We remain committed to a continued and sustainable improvement in our safety performance and our goal of zero injuries. In this section we describe how we bring out the best that our hugely talented employees have to offer to deliver value to our shareholders.

Safety has always been our absolute number one priority and the phrase "Safety Comes First" has guided us well as we have steadily expanded our business outside Hong Kong to over 30 work locations in five markets.

The benchmarks for measuring safety performance in our industry are the Lost Time Injury Rate (LTIR) and Total Recordable Injury Rate (TRIR). They refer to the number of lost time injuries or recordable injuries measured over 200,000 working hours of exposure, which is equivalent to around 100 persons working for one year.

In 2014, our TRIR increased slightly but we continued to perform well compared with peers in the industry. Our LTIR improved, with a total of 23 lost time injuries recorded, down from 33 in 2013. However, we reported a fatality at our Tejuva wind farm construction site on 2 October 2014. This involved an employee of one of the contractors of the project developer at its batching plant when a truck was being reversed into the parking area. An independent accident investigation panel was set up to look into the root cause of the incident. On the panel's recommendations, we took several actions, such as improving lighting conditions and providing clearer signage, to avoid similar incidents from arising in future.

The table below summarises the overall safety performance achieved by our majority controlled affiliates in 2014 for both employees and contractors. Data from 2013 has been included for comparison purposes.

### Actions Taken

In 2014, we developed a more integrated approach to the management of Health, Safety, Security and Environment (HSSE) issues across the CLP Group with the launch of a HSSE Management System in August. Adoption of this system is expected to drive the development of policies, management systems and practices that will enable us to achieve business results without harm to people or the environment. We also launched a set of 10 Critical Risk Standards for the identification of high risk activities. These will be used when developing procedures to ensure that risks are well managed and that experiences and best practices from different sites are shared. Other HSSE related documents will be rolled out progressively during 2015.

The overall safety of our new projects is of paramount importance as safety risks are at their highest and the location and environment is new to us and our contractors. To minimise the occurrence of any incidents, we provided ongoing

**Safety Performance**

| | Employees | | | | | | Combined Employees and Contractors | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | | 2014 | | | 2013 | | |
| Location | LTI | LTIR | TRIR | LTI | LTIR | TRIR | LTI | LTIR | TRIR | LTI | LTIR | TRIR |
| CLP Holdings | 0 | 0.00 | 0.00 | 0 | 0.00 | 0.48 | 1 | 0.32 | 0.32 | 1 | 0.29 | 0.88 |
| Hong Kong | 1 | 0.02 | 0.11 | 1 | 0.02 | 0.11 | 6 | 0.06 | 0.17 | 5 | 0.05 | 0.17 |
| Mainland China | 0 | 0.00 | 0.44 | 1 | 0.11 | 0.45 | 1 | 0.03 | 0.31 | 2 | 0.07 | 0.21 |
| India | 0 | 0.00 | 0.71 | 1 | 0.17 | 0.34 | 7 | 0.19 | 0.86 | 17 | 0.39 | 0.77 |
| Southeast Asia and Taiwan * | N/A | N/A | N/A | 0 | 0.00 | 0.00 | N/A | N/A | N/A | 1 | 0.21 | 0.21 |
| Australia | 3 | 0.14 | 0.42 | 2 | 0.13 | 0.39 | 8 | 0.27 | 0.83 | 7 | 0.33 | 0.95 |
| Total: | 4 | 0.05 | 0.26 | 5 | 0.06 | 0.23 | 23 | 0.11 | 0.41 | 33 | 0.16 | 0.39 |

* We ceased having operational control of Lopburi, Thailand and Ho-Ping, Taiwan in June and October 2013 respectively. Therefore, the assets were not included in 2014's data.

safety support to, and site safety reviews of our key projects under construction. In 2014 this included Sihong Solar and Fangchenggang II in the Mainland. Apart from improving the hardware, we have introduced a behavioural safety programme tailored for large scale construction projects that has been used in CLP Power Hong Kong and EnergyAustralia to Fangchenggang II. The programme focuses on enhancing our colleagues' observation and coaching skills, and aims to boost the site's safety standard through education and campaigns.

Our safety standards require us to have independent high quality reviews of our operating units every five years. This year we invited NOSA, a global safety leader, to conduct our annual five-star safety audits in all our majority-owned assets in Mainland China, Ho-Ping in Taiwan as well as Paguthan and Jhajjar in India. Two assets in the Mainland (Qian'an and Jiangbian) and Ho-Ping received a five-star award. All the other Chinese assets were rated four-star. Paguthan received the highest "NOSCAR" award and Jhajjar was rated three-star.

## Our Organisation and Resources

To successfully implement our revised investment strategy that the Board has approved, we must ensure that we are effectively organised, adequately resourced, and equipped with the necessary capabilities. We continuously review our organisation to ensure that it supports our investment strategy and the continued efficient and safe operations of our businesses. In addition, our structure needs to have organisational agility to adapt to an increasingly complex and volatile business environment. The tables below show more details of our employee distribution at the end of 2014.

Age (% of Employees)

| | Below 18 | 18 to 29 | 30 to 39 | 40 to 49 | 50 & Above |
|---|---|---|---|---|---|
| Hong Kong | 0.02 | 12.37 | 20.80 | 29.24 | 37.57 |
| Mainland China | 0.00 | 17.71 | 27.29 | 40.83 | 14.17 |
| India | 0.00 | 27.58 | 42.62 | 22.00 | 7.80 |
| Australia* | 0.00 | 27.05 | 37.10 | 19.20 | 16.65 |

* Exclude Mount Piper and Wallerawang staff

Gender (% of Employees)

| | Male | Female |
|---|---|---|
| Hong Kong | 82.5 | 17.5 |
| Mainland China | 78.3 | 21.7 |
| India | 91.1 | 8.9 |
| Australia* | 54.7 | 45.3 |

* Exclude Mount Piper and Wallerawang staff

Employment Type (% of Employees)

| | Permanent | Short-term Contract |
|---|---|---|
| Hong Kong | 81.4 | 18.6 |
| Mainland China | 73.3 | 26.7 |
| India | 99.7 | 0.3 |
| Australia* | 98.0 | 2.0 |

* Exclude Mount Piper and Wallerawang staff

In all of our operations the majority of employees are local. However as an international business, we also need to move staff between operations for reasons including individual development, transfer of know-how, and project resourcing.

In 2014 a total of 500 headcount were employed in wind, solar and hydro projects, reflecting the progressive shift in our generation portfolio to renewable energy.

## Ensuring We Have the Capabilities to Implement Our Strategy

Our core requirement is to ensure that we attract, retain and deploy employees with the capabilities needed to construct, operate and maintain power facilities across the full range of fuel types. In particular, we need to retain and maintain our excellence in engineering. We use manpower forecasting models to project our recruitment and development needs for skilled labour over a five-year period and develop our resourcing plans. In 2014, in Hong Kong we recruited 323 new staff. The average age of these new recruits is 31.5, significantly below the average age of our Hong Kong workforce.

Key contributors to our ability to attract and retain staff are competitive remuneration, comprehensive retirement and medical benefits, good vacation provisions and attractive career development opportunities for high performers.

Our career development opportunities reflect our high rate of internal promotion compared to external recruitment, and this is based on our strong management development and succession planning process. For example, of our current 10 members of Senior Management, two were external appointments and eight internal promotions.

Whilst it is well recognised that the majority of individual development is derived from on-the-job experience, we are also committed to maintaining our investment in formal training and development programmes. Training activities include job specific skills, generic management or supervisory skills, and language training. They are delivered both internally and through attendance at external courses and conferences. The tables below show the percentage of employees trained by gender and employee category, as well as the average training hours completed per employee.

| | % of Employee Trained | | Average Training Hours |
|---|---|---|---|
| | Male | Female | Per Employee |
| Hong Kong | 95.0 | 84.7 | 51.3 |
| Mainland China | 97.9 | 97.1 | 88.1 |
| India | 91.7 | 100.0 | 31.6 |
| Australia* | 100.0 | 100.0 | 16.5 |

* Exclude Mount Piper and Wallerawang staff

| | % of Employee Trained | | | |
|---|---|---|---|---|
| | Managerial | Professional | General & Technical Staff | Total |
| Hong Kong | 79.9 | 92.8 | 94.9 | 93.2 |
| Mainland China | 100.0 | 92.9 | 99.4 | 97.7 |
| India | 92.3 | 91.0 | 96.0 | 92.5 |
| Australia* | 100.0 | 100.0 | 100.0 | 100.0 |

* Exclude Mount Piper and Wallerawang staff

To support our succession planning process we run a number of regular management development programmes at the Group level to identify successors and other high potential staff. In addition to their formal development content, these programmes strengthen personal networks across the Group and expose participants to a cross-cultural learning environment. In 2014, a number of our employees took part in the following programmes:

- Personal leadership programme at the Institute for Management Development;
- Accelerating Management Talent consortium programme at Richard Ivey University of Western Ontario;
- Hong Kong Challenge;
- Tsinghua Executive Consortium programme; and
- World Business Council for Sustainable Development Future Leaders Programme.

In EnergyAustralia, 60 staff members took part in two new development programmes that focused on general management and leadership for emerging leaders in 2014. In addition, 17 EnergyAustralia colleagues received education assistance during the year. In Hong Kong we also have an established programme to provide financial assistance to staff undertaking further education, which sponsored 14 staff in 2014.

Our ability to retain staff is reflected in our voluntary turnover rates, which are typically below the local market average in most of our operations. In the tables below we show our voluntary staff turnover rate by age group and gender.

| | Voluntary Turnover Rate (%) | | | | |
|---|---|---|---|---|---|
| | Below 18 | 18 to 29 | 30 to 39 | 40 to 49 | 50 & Above |
| Hong Kong | 0.0 | 5.1 | 4.7 | 1.6 | 2.0 |
| Mainland China | 0.0 | 7.7 | 2.8 | 1.0 | 0.0 |
| India | 0.0 | 17.3 | 13.5 | 10.1 | 3.8 |
| Australia* | 0.0 | 14.6 | 10.5 | 10.8 | 9.1 |

* Exclude Mount Piper and Wallerawang staff

| | Voluntary Turnover Rate (%) | | |
|---|---|---|---|
| | Male | Female | Overall |
| Hong Kong | 2.1 | 5.3 | 2.6 |
| Mainland China | 2.4 | 2.9 | 2.5 |
| India | 13.6 | 9.0 | 13.2 |
| Australia | 11.1* | 11.8* | 11.6# |

* Exclude Mount Piper and Wallerawang staff
\# Include Mount Piper and Wallerawang staff

## Leveraging Our Capabilities to Implement Our Strategy

Leveraging our capabilities means both being able to deploy key skills to where they are needed around the Group, and capturing and retaining critical experience in order to ensure we are not losing it through retirement or sub-contracting our core capabilities.

An important example of leveraging our capabilities in 2014 is our resourcing plan for the Fangchenggang II construction project. Two people were seconded into operational positions in Fangchenggang I. In addition, we posted a further 12 employees to the construction this year, in order to expose them to project management and construction experience, and capture that learning to support our future project needs.

## Addressing Long-term Human Capital Challenges

To be a sustainable business we also have to anticipate and plan for the longer term internal and external Human Capital challenges that we face. The most significant of these are:

- We have an ageing workforce in our core Hong Kong business, as a result of low turnover and a high average length of service. The percentage of staff eligible to retire in the next five years is shown in the table below.

| | % of employees due to retire in the next five years |
|---|---|
| Hong Kong | 15.4 |
| Mainland China | 11.1 |
| India | 1.4 |
| Australia* | 9.2 |

* Include Mount Piper and Wallerawang staff

- Externally we face demographic pressures in some markets due to a combination of ageing populations and high demand for engineers. Consequently we need to diversify our sources of recruitment for engineers, both geographically and in terms of gender diversity.
- Historically we have had limited geographical mobility of Hong Kong-based staff due to cultural and personal reasons. This has inhibited our ability to deploy our core capabilities effectively outside of Hong Kong, and we are now taking active steps to increase mobility.
- In some parts of the world young engineers have an increasing preference to work in renewable energy. Given that our renewable energy business is concentrated in India and China, we are creating opportunities for Hong Kong-based engineers to be seconded to these projects.

To address our long-term challenges we have implemented a number of initiatives.

Firstly, we have established a senior management forum, which meets regularly, to review and optimise the use of engineering resources. A key task being addressed by this forum is increasing the mobility of engineering staff across the Group.

Secondly, we are upgrading our manpower planning capabilities. In 2014 we carried out an exercise with Energy & Utility Skills, a utility industry research body, adopting sophisticated computer modelling techniques to enhance our capability to assess the impact of voluntary turnover and retirement on future recruitment plans.

Thirdly, we are progressively increasing the number of graduate engineering trainees, and diversifying the sources of recruitment. In addition to Hong Kong, this year we will hire more extensively throughout China and India, and seek to increase the number of female engineers we employ. Our apprentice and technician intakes will also be progressively expanded.

## Increasing Diversity

Given that we employ predominantly local staff in each of the markets that we operate in, CLP is already a very diverse organisation from an ethnic perspective. For example, EnergyAustralia's newly-established Diversity & Inclusion Council is reviewing the need for an aboriginal and Torres Strait Islander employment strategy and a reconciliation action plan to reflect community and political concerns over the employment of indigenous peoples.

Utility industries have historically had a significantly higher percentage of male than female employees. In our case this is compounded by our operating in countries across Asia Pacific that, for cultural reasons, have relatively low levels of female participation in their workforces.

The tables below show the breakdown of male and female staff by level, and also the diversity of our current Senior Management Team.

| | % of Employees | | | | | |
|---|---|---|---|---|---|---|
| | Managerial | | Professional | | General & Technical Staff | |
| | Male | Female | Male | Female | Male | Female |
| Hong Kong | 76.9 | 23.1 | 80.1 | 19.9 | 84.8 | 15.2 |
| Mainland China | 78.3 | 21.7 | 85.7 | 14.3 | 75.5 | 24.5 |
| India | 94.9 | 5.1 | 93.7 | 6.3 | 83.8 | 16.2 |
| Australia | 73.8 | 26.2 | 62.1 | 37.9 | 47.2 | 52.8 |

| | % of Senior Executives by Nationality Group |
|---|---|
| Chinese | 33 |
| European | 13 |
| American / Canadian | 17 |
| Australian / New Zealander | 20 |
| Indian | 17 |

| | % of Senior Executives by Gender |
|---|---|
| Male | 83 |
| Female | 17 |

Whilst we will keep developments with respect to targets under review, we are taking a number of initiatives to increase gender diversity:

- We measure and report gender diversity across the Group to increase the visibility of the issue to the Group Executive Committee and the Human Resources & Remuneration Committee.
- In Hong Kong we have sought the views of female employees, via focus groups, on how to ensure that we remain a female friendly employer. This has resulted in the enhancement to our maternity leave policy in Hong Kong to allow for a period of additional unpaid leave to be taken at the end of paid maternity leave.
- We are working in partnership with the Hong Kong Institution of Engineers to provide 20 female mentors from CLP for female engineering students, in order to encourage them to pursue engineering as a career.

## Employee Engagement

We engage with our employees through a variety of channels, the most important of which is ensuring effective day to day communication through our organisation and management structure.

Each of our businesses carries out an Employee Opinion Survey at appropriate intervals. These surveys are administered independently and confidentially, and the overall Employee Engagement scores for each country are benchmarked against the local market norm.

As local market norms vary significantly, it is not possible to have a single engagement score for the whole Group given the geographic diversity of our business.

In 2014, our Hong Kong and China businesses carried out surveys, and the Employee Engagement scores for both are significantly above the local market norms.

It was particularly pleasing to note that, overall, our female employees in Hong Kong are more positive in their perceptions of CLP as an employer than our male employees.

## Dealing Effectively with Grievances and Complaints

Each of our businesses has an employee grievance procedure in place that reflects our Value Framework and any applicable local legal requirements. For example in Hong Kong, CLP's Grievance Resolution Policy encourages employees to discuss issues freely and openly with their supervisors. They are encouraged to bring issues forward to the Human Resources Department or higher level of management if they think the issues are not resolved or are being unjustly handled. There will be no discrimination, coercion or retaliation for doing so.

During 2014, we received two complaints related to harassment that were found to be substantiated following investigation. There were no substantiated complaints on discrimination, human rights or labour disputes.

With respect to complaints of discrimination and harassment, we have clear policies in place, supported by employee training. For example in India in 2014 training on prevention of Sexual Harassment at the Workplace was attended by 14 senior employees who are members of CLP India's Internal Complaints committee.

In the case of any employee having concerns, we follow established procedures to address grievances. We investigate all complaints of discrimination and harassment. These procedures ensure fairness and independence in the investigation process, and respect for the confidentiality of the parties involved. In Hong Kong and Australia complaints may also be made to relevant external bodies such as the Human Rights and Equal Opportunity Commission in Australia.

In 2014, a claim was filed by 14 employees with the Hong Kong Labour Tribunal, requesting additional compensation for standby duties performed in previous years. The company had sought to resolve the matter through negotiation but 10 staff making the claim did not agree to it. The matter is now subject to the decision of the Tribunal.

For more details on CLP's Human Capital, please refer to our Sustainability Report online. SR

# SOCIAL AND RELATIONSHIP CAPITAL

## Our values and commitment to serve

Businesses thrive for many reasons. One of the keys to the overall success of our business is the public's acceptance of CLP as a provider of essential services. With any commercial organisation, there are times when we need to make tough decisions which may impact our business and the community at large. Our core values ensure that such decisions are made fairly and ethically, and the right balance is struck between economic, social, and environmental aspects, as well as the interests of our shareholders and stakeholders.

In addition to striving to supply electricity safely, reliably at reasonable cost to our customers, we are committed to running our business in a responsible and ethical manner, taking into account the views and opinions of our stakeholders and acting upon these inputs when appropriate. At the same time, our active stakeholder engagement and community activities allow us to give back to the communities we serve and to positively contribute to the society at large.

Below we will explain how we put our values into practice, our interaction with the communities we serve, and engagement with stakeholders.

### Community Initiatives

Integral to CLP's DNA is its focus on giving back to the community. Its long tradition of philanthropy has been a time-honoured principle and commitment that has served CLP for the last 113 years. Realising that our power expertise could help to improve people's lives, several frontline staff in Hong Kong voluntarily provided free rewiring services for the elderly living at squatters and public housing estates in 1994. Support from management has helped foster this spirit into a company-wide culture. Today, CLP volunteers have established a strong presence in Hong Kong with over 1,200 members and expanded our community initiatives across our Group businesses.

## CLP's Value Framework

Our Value Framework defines the values that underpin our strategy and operations, the standards by which we expect everyone in the CLP Group to conduct themselves, and how we interact with our stakeholders to achieve our vision. It is an articulation of our beliefs, and how these beliefs drive our behaviour as we strive to earn and sustain trust and support from our stakeholders. It is the bedrock of our corporate culture and the foundation of our reputation.

## CLP's Community Initiative Approach


To internalise this culture across the Group, we included "caring for the community" as part of CLP's core values in a formal "Value Framework" which we first published in 2003. More recently, we have integrated community initiatives into our annual business planning process, with specific and measurable targets.

Our community initiatives share a simple but important goal: to improve the quality of life of the people we serve. Our focus areas include climate change, youth education and development, community health and wellness as well as arts and culture. We take a country and site-specific approach and tailor-make programmes to address the needs and expectations of the local communities we serve.

In Hong Kong, one of our key focus areas is community wellness. This includes serving hot meals to the elderly and needy families, and assisting unemployed people in our service areas to find work. We also work with non-governmental organisations to assist new immigrants in making Hong Kong their new home. In India, our community initiatives focus on women's issues, seeking to enhance education levels and capability of women in villages as a neglected group in society. In Mainland China, youth education remains our priority.

Our programmes are carefully selected and inputs from relevant stakeholders are sought to ensure that our programmes meet the needs and expectations of the local communities we serve. We measure the effectiveness of our programmes annually and welcome stakeholder feedback so that our activities may be adapted and refined. In addition, strict disciplines and benchmarking are also applied to maintain a high standard of execution and overall implementation.

## Stakeholder Engagement

We carry out regular engagement with community members to listen to and understand their views in all of the markets in which we operate. This communication not only provides valuable feedback for our businesses, but also assists us to learn about community needs and assess the best way to leverage our resources and expertise to contribute to future community development.

We actively engage with community representatives, the media and opinion leaders to exchange views about our business, industry development and regulatory issues. In recent years, market and technology changes have added considerable complexity to the electricity business. Consequently, we see it as our responsibility to share our expertise, through education, information exchange and public forums, to assist in facilitating discussions on important issues of public interest. By doing so, we believe that we can contribute to a better future.

The fuel mix consultation launched by the HKSAR Government in 2014 was a good example of our engagement efforts. In addition to putting forward our own submission, we actively participated in public forums and reached out to business groups to help focus the discussions on some of the critical issues of public concern. We believe our participation has helped the public and businesses to understand the fuel mix issues and allows them to form their own opinions.

Our engagement efforts are not limited to local social issues. We also engage with global leaders, universities, international organisations and professional bodies to keep abreast of new developments worldwide. Organisations with whom we work with at an international level include:

- World Business Council for Sustainable Development
- World Energy Council
- MIT Joint Program on the Science & Policy of Global Change
- International Electric Research Exchange
- International Emission Trading Association
- International Integrated Reporting Council

In dealing with climate change and other emerging cross-border issues, and through proactive knowledge sharing we believe we have a part to play in engaging and interacting with international industry experts, research and academic communities and NGOs. Our focus areas include:

- Monitoring emerging trends and assessing related risks;
- Introducing best practices to improve operational efficiency and business performance;
- Exploring new technologies and potential business paradigms in order to uphold our licenses to operate;
- Building internal capacity to tackle emerging issues;
- Sharing our experience and knowledge to build trust and credibility amongst our stakeholders, and
- Stimulating thought leadership.

As a reputable and responsible business, we are constantly aware that we need to strike a balance between economic, social and environmental dimensions of our business, and the interests of our shareholders and other stakeholders in making decisions. This has been an integral part of our success for over a century, and will continue to be so in the years ahead. Details of our community initiatives and stakeholder engagement efforts in the different countries in which we operate can be found in the Performance and Business Outlook Section and our Sustainability Report online. SR


## How does CLP ensure our community initiatives match the needs of the society?

For us to design programmes that can bring tangible benefits to the community as intended, CLP must stay in touch with the pulse of the society. We work closely with partners such as district leaders and NGOs, who are at the forefront serving the community, to identify societal needs that fit well with our focus areas. We also place priority on activities where CLP's power expertise can be best leveraged. The CLP Subsidy Programme for Energy Efficient Electrical Appliances launched last year in Hong Kong is a good example where the needs to improve living conditions for the underprivileged was matched with our expertise to promote energy efficiency and saving.

Once the design of a community initiative is drawn up, we work to ensure that resources are most efficiently allocated in its implementation. Besides calling on the support of our highly committed CLP volunteers, we also rely on the extensive network and expert views of our community partners. For instance, more than 300 district councillors and 13 NGOs supported the above cited programme to distribute energy efficient home appliances to 4,000 needy households. Collaboration with local partners is as crucial as having the optimal design to the success of any community initiatives.

Last but not least is an established measurement mechanism that seeks stakeholder feedbacks on our programmes. CLP has used internationally-recognised measurement tools to evaluate our major community programmes so as to identify areas for improvement. The learnings are then incorporated back into the design of our future community programmes.


**Mr Chui Kang Ho**
Acting Resources Programming Engineer – North Region
CLP Power Hong Kong

**Quince Chong**
Chief Corporate Development Officer

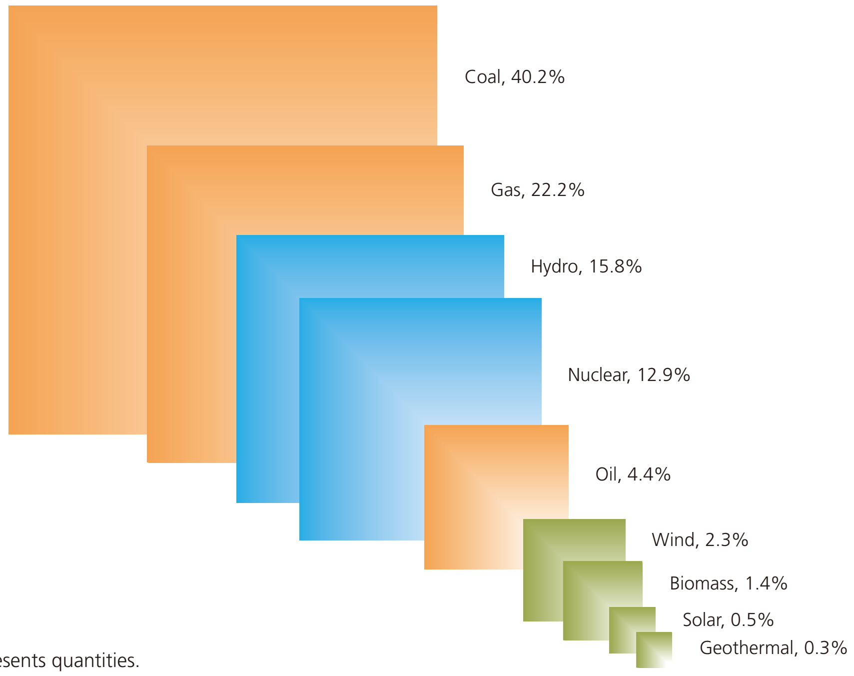
**More Q&As**

# INTELLECTUAL CAPITAL

## Our expertise

There are more options available today for new power generation than we have ever seen in the past. Conventional thermal power plants still provide the majority of electrical energy but the use of renewable resources is increasingly viable as part of the efforts to reduce carbon emission. Nuclear power remains controversial but will continue to grow in some countries, particularly China.

### Global Electricity Production in 2013




Note: Area represents quantities.

Source: International Energy Agency 2014

It is important that CLP has a clear view of the developing technologies and the capability to build and operate a range of projects in each of its markets. We can then take investment decisions based on an assessment of the maturity and economics of the different technologies and the regulatory and policy support available in each country. We also set objectives across the CLP portfolio in terms of a balance of risks and a gradually reducing carbon footprint.

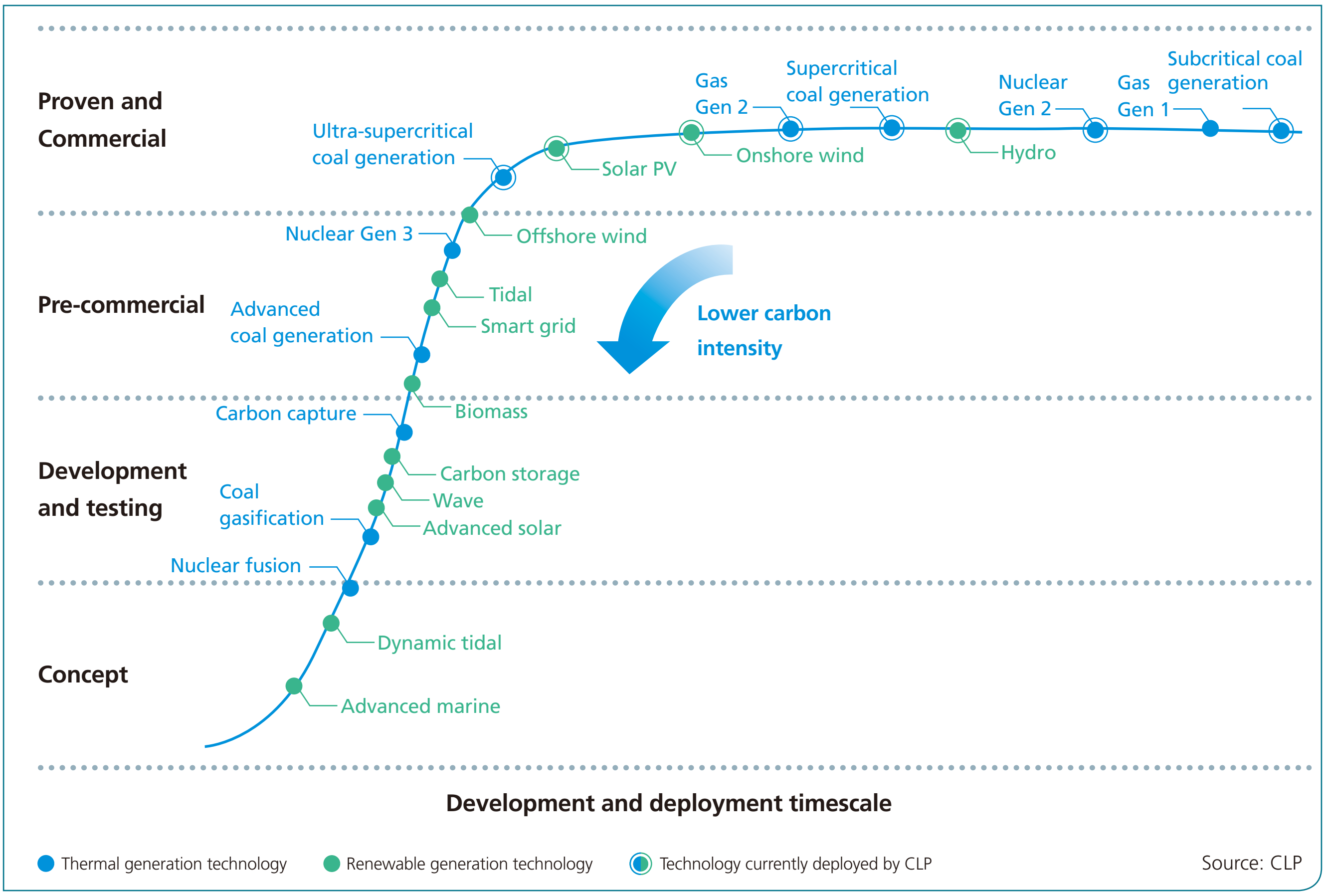
Emerging technologies inevitably progress through a development process before they can be adopted for commercial power projects. They may start as an innovative concept that leads on to testing and development at small scale. Some technologies will go no further than this but those that look promising may move into larger scale pre-commercial development where significant investment is needed. Eventually some may reach a level of proven reliability and performance that can be used on a commercial scale for power generation.

CLP does not see itself as a venture capitalist that tries to pick technology winners at early stages of development. We aim to be an industry leader in using advanced technologies, but only when the development and prototype risks have been reduced to a manageable level.

The diagram on page 102 illustrates the stages of development of the different generation technologies.

**Coal**-fired generation generally remains the most economical in Asia and growing economies will continue to build new coal plants to meet increasing demand. The economics of coal-fired generation could change if a meaningful value was placed on reduced carbon emissions but there is still no international consensus on how to do so. CLP's climate

## Thermal and Renewable Power Generation Technology




strategy aims for a reduced carbon intensity, which we are achieving, but we must also respond to the markets opportunities for new investments as they arise. We will therefore consider new coal-fired projects where we can use high-efficiency equipment that goes as far as possible with proven technology to reduce carbon emissions. The Fangchenggang II project is an example, where we are installing ultra-supercritical coal-fired units. We have also installed selective catalytic reduction and flue gas desulphurisation equipment in our existing coal-fired plants to reduce sulphur and nitrogen oxide emissions.

**Gas**-fired generation is an alternative to coal where it is available. However, much of the indigenous gas in Asia is already committed and new project opportunities generally depend on imported supplies, either as liquefied natural gas or through pipelines. CLP retains the capability to develop gas-fired generation projects using advanced combined cycle technology. We continue to explore the possibilities of increased gas supplies for Hong Kong, together with the feasibility of a floating regasification unit for liquefied natural gas. The opportunities for gas-fired projects elsewhere in Asia appear to be limited.

**Nuclear** power is a significant part of China's long term plans and their rate of new construction is higher than any other country in the world. CLP is a partner in the pioneering project at Daya Bay, which continues to supply safe and reliable energy to Hong Kong. We see a progression of nuclear technology towards high levels of inherent safety, both in new projects and in additional safeguards applied to existing plants. It would not be realistic for CLP to take a lead role in a nuclear project, given the magnitude of the investment and the extensive regulatory requirements that would be involved. Nevertheless, we will continue to explore opportunities for minority investments where we can make a contribution to high standards of management and transparency.

**Wind** power is leading the growth in renewable energy and onshore wind turbines have reached a stage of technical maturity. Subsidised feed-in tariffs are still needed where wind power is competing with low cost coal-fired energy but the level of subsidy is fairly modest. China and India have become the world leaders in wind power. CLP is active in both markets and we have the capability to develop, build and operate wholly-owned projects. We use tools such as computational fluid dynamics modelling technique to determine the locations of each wind turbine and thereby to optimise wind farm performance. Offshore wind power is potentially attractive but has been slower to develop in Asia. The costs are still high and the economic viability depends on extending wind turbine technology to higher output ratings. We will take a cautious approach but watch for further developments.

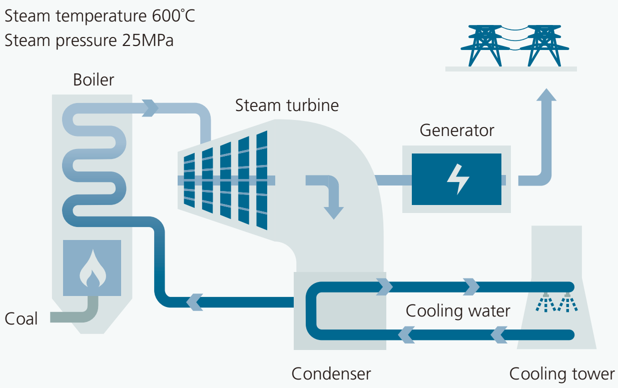
**Solar** photovoltaic power started some 10 years behind wind power but has expanded so rapidly that the total installed solar plant capacity worldwide is now at the same level as wind power was five years ago. The costs have come down dramatically and we believe the economics will continue to improve. Solar power has the significant advantage that it can be installed both as utility scale projects with a wholesale tariff and also in some countries it may be used at small scale on buildings and homes where its production cost is competing with retail tariffs. CLP has experience with several solar projects using both thin-film and poly crystalline silicon technology, and fixed and tracking systems. We see this as an area for further expansion.

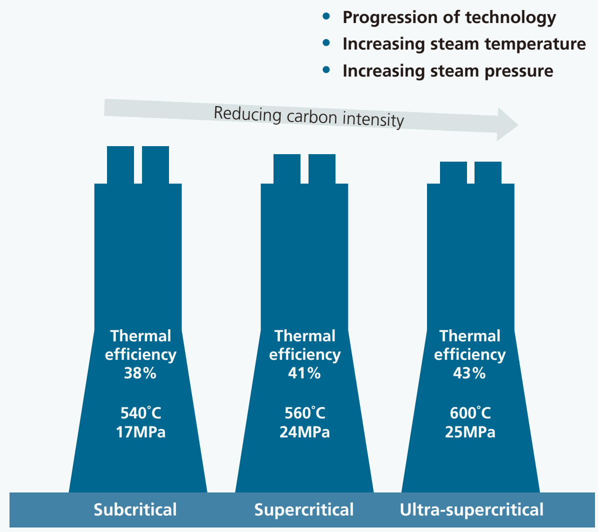
**Hydropower** is still the major form of renewable energy in terms of total production but its growth is now relatively slow. CLP has built and operated several hydro projects and we will consider new opportunities if they arise. However, new hydro resources are limited and tend to involve large-scale construction in remote locations. We do not expect to see many realistic opportunities emerge.

There are **other forms of renewable energy** such as tidal power and wave energy that have the potential to contribute to world power production. However, the technology needed to capture and convert these resources is at an early stage of development and not yet widely used. It remains to be seen which of the many technical options currently under development will reach maturity and whether the economics will be viable.

## Fangchenggang Power Station II – An Example of High-efficiency Coal-fired Technology

### Ultra-supercritical technology




Source: CLP

More than half of the world's power generation still depends on fossil fuels and this is particularly the case in Asia, where coal is the major energy source. CLP is one of the leaders in renewable energy development but we also realise that coal-fired capacity will continue for some time. We therefore aim to install the most efficient coal-fired technology that is proven and reliable.

The thermal efficiency of a power plant determines how much fuel it consumes to produce a unit of electricity and hence its carbon intensity. Thermal power technology operates between the high temperature of the steam produced by the boiler and the low temperature of the sea or air used for cooling. Improvements in technology now enable us to use higher temperatures and pressures that will increase thermal efficiency.

CLP is constructing the Fangchenggang II project in the Mainland using ultra-supercritical technology, which is an advancement on our earlier supercritical and subcritical projects. As illustrated in the diagram on the left, ultra-supercritical technology reflects the progression in thermal power engineering and Fangchenggang II will have the lowest carbon intensity of any coal-fired power station in CLP's portfolio.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股東特別大
CLP Holdings L
Extraordinary Gene

# GOVERNANCE

## WHAT PROCESSES SUPPORT OUR ABILITY TO CREATE VALUE?

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

# BOARD OF DIRECTORS

## Non-executive Directors

**The Honourable Sir Michael Kadoorie**
GBS, LLD (Hon.), DSc (Hon.), aged 73,
Chairman, N (Appointed on 19 January 1967▲)

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

**William Elkin Mocatta**
FCA, aged 61, Vice Chairman, F&G, H, P
(Appointed on 16 January 1993▲)

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

**Ronald James McAulay**
MA, CA, aged 79
(Appointed on 1 January 1968▲)

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

**John Andrew Harry Leigh**
aged 61
(Appointed on 10 February 1997▲)

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

**Andrew Clifford Winawer Brandler**
MA, MBA, ACA, aged 58 , F&G, S
(Appointed on 6 May 2000)

Mr Brandler holds an MA degree from Cambridge University, MBA degree from Harvard Business School, and is a Member of The Institute of Chartered Accountants in England and Wales. He is the Chairman of Sir Elly Kadoorie & Sons Limited. He was the Group Managing Director and Chief Executive Officer (CEO) of CLP Holdings Limited from 6 May 2000 to 30 September 2013. He continued to serve on the Board as an Executive Director until his redesignation as a Non-executive Director on 1 April 2014. Mr Brandler is a Director of EnergyAustralia Holdings Limited (a wholly-owned subsidiary of CLP Holdings). He is also a Non-executive Director and Deputy Chairman of The Hongkong and Shanghai Hotels, Limited and a Non-executive Director of Tai Ping Carpets International Limited.

**Lee Yui Bor**
BSc, MSc, PhD, DIC, C.Eng., MIET, FHKIE,
aged 68 (Appointed on 4 August 2003)

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

## Independent Non-executive Directors

**Vernon Francis Moore**
BBS, FCA, FCPA, aged 68, A, F&G, H
(Appointed on 7 March 1997▲)

Mr Moore is the Chairman of both the New Hong Kong Tunnel Co. Ltd. and the Western Harbour Tunnel Co. Ltd, a director and the chief financial officer of CITIC Pacific Limited, and a Vice Patron of the Community Chest of Hong Kong. He was an executive director of CITIC Limited (formerly known as CITIC Pacific Ltd) from 1990 to 2014 and chief financial officer from 1990 to 2005 and 2008 to 2014. Mr Moore was also a non-executive director of Cathay Pacific Airways Ltd from 1992 until 2009 (except June to September 1996).

**Sir Roderick Ian Eddington**
AO, aged 65, F&G
(Appointed on 1 January 2006)

Sir Rod Eddington was the 1974 Rhodes Scholar at the University of Western Australia. He completed a D Phil in the Department of Engineering Science at Oxford University. He is the Non-executive Chairman (Australia and New Zealand) of JP Morgan Chase Bank N.A. and a Non-executive Director of 21st Century Fox (split from News Corporation) and John Swire & Sons Pty Ltd. He is the Chairman of Lion Pty Ltd since 1 April 2012. Sir Rod Eddington was the Chief Executive of British Airways plc from 2000 until he retired on 30 September 2005. He has close connections with Hong Kong through his previous directorships with Cathay Pacific Airways Limited, Swire Pacific Limited and Hong Kong Aircraft Engineering Company Limited during the period from 1988 to 1996.

**Nicholas Charles Allen**
aged 59, A, F&G, H, N, S
(Appointed on 12 May 2009)

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

**Cheng Hoi Chuen Vincent**
GBS, OBE, JP, aged 66, F&G, H, N
(Appointed on 17 August 2011)

Mr Cheng holds a Bachelor of Social Science degree in Economics from The Chinese University of Hong Kong and a Master of Philosophy degree in Economics from The University of Auckland. Mr Cheng was the Adviser to the Group Chief Executive of HSBC Holdings plc between June 2011 and May 2012. He was Chairman of The Hongkong and Shanghai Banking Corporation Limited, HSBC Bank (China) Company Limited and HSBC Bank (Taiwan) Limited between 2005 and 2011, an Executive Director of HSBC Holdings plc (2008 to 2011), and a Non-executive Director of HSBC Bank (Vietnam) Limited (2008 to 2010). He is currently an Independent Non-executive Director of MTR Corporation Limited, Great Eagle Holdings Limited, China Minsheng Banking Corp., Ltd., Shanghai Industrial Holdings Limited, Wing Tai Properties Limited, Hutchison Whampoa Limited and Hui Xian Asset Management Limited.

**Law Fan Chiu Fun Fanny**
GBS, JP, aged 62, A, S
(Appointed on 17 August 2011 and reappointed on 1 August 2012)

Mrs Law graduated from the University of Hong Kong with an Honours degree in Science. She received a Master degree in Public Administration from Harvard University and was named a Littauer Fellow. She also has a Master degree in Education from The Chinese University of Hong Kong. Prior to her retirement from the civil service in 2007, Mrs Law was the Commissioner of the Hong Kong Independent Commission Against Corruption. During her 30 years in the civil service, Mrs Law worked in many fields, including medical and health, economic services, housing, land and planning, home affairs, social welfare, civil service, transport and education. Mrs Fanny Law is currently a Hong Kong SAR Deputy to the 12th National People's Congress of the People's Republic of China, a Member of the Executive Council of the Government of Hong Kong SAR, a Director of the Fan Family Trust Fund, Special Advisor to the China-US Exchange Foundation and Honorary Principal of Ningbo Huizhen Academy. She is also an Independent Non-executive Director of China Unicom (Hong Kong) Limited and the Chairperson of the Hong Kong Science and Technology Parks Corporation.

**Lee Yun Lien Irene**
aged 61, A, F&G, S
(Appointed on 15 October 2012)

Ms Lee holds a Bachelor of Arts Degree from Smith College, USA, and is a Barrister-at-Law in England and Wales and a member of the Honourable Society of Gray's Inn, UK. Ms Lee is currently the Executive Chairman of Hysan Development Company Limited, an Independent Non-executive Director of Cathay Pacific Airways Limited, Hang Seng Bank Limited, Noble Group Limited (listed on Singapore Exchange Limited) and The Hongkong and Shanghai Banking Corporation Limited. Ms Lee has wide experience in financial services, including banking, funds management and general insurance.

**Rajiv Behari Lall**
aged 57, F&G
(Appointed on 13 August 2013)

Dr Lall holds a Bachelor of Arts Degree in Politics, Philosophy and Economics from Oxford University and a Ph. D. in Economics from Columbia University. He has over 30 years' experience with leading global investment banks, multilateral agencies and in academia. His areas of expertise include project finance, private equity/ venture capital, international capital markets, trade, infrastructure and macroeconomic policy issues with a focus on emerging markets including India and China in particular. Dr Lall is currently the Executive Chairman of IDFC Limited (formerly known as Infrastructure Development Finance Company Limited), a company listed on the National Stock Exchange of India Limited and the Bombay Stock Exchange. He is also a director of The Great Eastern Shipping Co. Ltd., a company listed on the Bombay Stock Exchange, National Stock Exchange of India Limited and with its global depository receipts listed on the Luxembourg Stock Exchange.

## Executive Director

**Richard Kendall Lancaster**
BE, aged 53 , F&G, S
(Appointed on 3 June 2013)

Mr Lancaster holds a bachelor degree in electrical engineering from the University of New South Wales. He is the Chief Executive Officer (CEO) and is responsible for overall group performance of CLP. Before assuming his role as CEO on 30 September 2013, Mr Lancaster was the Managing Director of CLP Power Hong Kong Limited since 2010, and as such, held overall responsibility for the operations of the Hong Kong business. Mr Lancaster began his career with the Electricity Commission of New South Wales in Australia and has 31 years' experience in the power industry and in other industrial operations in Australia, UK and Hong Kong. He joined CLP in 1992 and has wide management experience in the operations, projects, commercial, and finance areas. Mr Lancaster is a Director of The Business Environment Council.

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

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

Full particulars of Directors, including their directorships in the subsidiary companies of CLP Holdings, other directorships held in the last three years in public listed companies and other major appointments are available on our website.

# SENIOR MANAGEMENT

From left to right
Front row: Yuen So Siu Mai Betty, Richard Kendall Lancaster, Geert Herman August Peeters, Poon Wai Yin Paul
Back row: Roy Anthony Massey, Chong Wai Yan Quince, David John Simmonds, Catherine Leigh Tanna, Chan Siu Hung, Rajiv Ranjan Mishra

## Richard Kendall Lancaster

**Chief Executive Officer**

Mr Lancaster's biography is on page 107.

## Geert Herman August Peeters

**Group Director & Chief Financial Officer, MSc, CEng(Belgium), aged 51, F&G, P**

Mr Peeters, a Knight in the Order of Leopold, has a Master of Science in Electro Mechanical Engineering (Gent, Belgium) and postgraduate master's degrees in Business and IT Administration. He is responsible for Group financial control & reporting, Group treasury, Group tax, Group corporate finance, risk management and investor relations of CLP Holdings Limited. He has over 25 years of experience in the energy industry. Prior to joining CLP, he was the Deputy Chief Financial Officer of GDF SUEZ Group based in Paris. Mr Peeters has been with GDF SUEZ since 1997, gaining extensive experience in senior financial and operational roles in Europe, Latin America, the Middle East and North America. He has also served as the Chief Financial Officer of International Power plc, a GDF SUEZ subsidiary listed on the London Stock Exchange until July 2012.

## Yuen So Siu Mai Betty

**Vice Chairman – CLP Power Hong Kong, B.Comm., CPA, CA (Canada), aged 57, F&G**

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

## Poon Wai Yin Paul

**Managing Director – CLP Power Hong Kong, BSc(Eng.), FIET, FIMechE, FHKIE, FIEAust, FHKEng, CEng, CPEng, aged 62**

Mr Poon holds overall responsibility for the operations of the Hong Kong business. Mr Poon has over 37 years' experience in the power industry. He joined CLP Power Hong Kong in 1981 and had held various management positions in different operational departments and in CLP Power International. He was the Chief Operating Officer – CLP Power Hong Kong before assuming his current position in September 2013.

## Chan Siu Hung

**Managing Director – China, JP, BSc(Eng.), MSc, CEng, MIET, MHKIE, aged 56**

Mr Chan is responsible for CLP's China business. Mr Chan holds an MSc degree in Electricity Industry Management and Technology from the University of Strathclyde, and a BSc degree in electrical engineering from the University of Hong Kong. He joined CLP Power Hong Kong in 1981 and had held various management positions in different functional areas including operations, maintenance, asset management, corporate strategy and planning. Mr Chan is a member of the 11th Guangdong Provincial Committee of the Chinese People's Political Consultative Conference.

## Rajiv Ranjan Mishra

**Managing Director – India, MBA, aged 49**

Mr Mishra is responsible for asset management and business development of CLP's investments in India. He joined CLP in 2002 and has 20 years' experience in the power industry, both in India and internationally, mostly involved in project financing, investment appraisal, finance and accounting and general management. He holds a Bachelor's degree in Chemical Engineering (first class distinction) and an MBA degree from the Indian Institute of Management, Lucknow.

## Catherine Leigh Tanna

**Managing Director – EnergyAustralia, LLB, aged 53**

Appointed as Managing Director of EnergyAustralia on 1 July 2014, Ms Catherine Tanna holds overall responsibility for the asset management and business development of CLP's investments in Australia. Ms Tanna is also a Director on the Board of the Reserve Bank of Australia and a member of the Business Council of Australia. Prior to joining EnergyAustralia, Ms Tanna was the Chairman, BG Australia. Ms Tanna also had a long career with Shell and BHP Billiton. Ms Tanna studied at the University of Queensland and holds a Bachelor of Laws degree.

## David John Simmonds

**Group General Counsel & Chief Administrative Officer, LLB, BCom, aged 44**

Mr Simmonds holds a Bachelor of Laws (Honours) and a Bachelor of Commerce from the University of Melbourne. Mr Simmonds joined the CLP Group in August 2007 and became the Group General Counsel & Chief Administrative Officer on 30 September 2013. He is responsible for the provision of legal and insurance services across the CLP Group, the Group's property development and management activities, special projects of the CEO, and a range of commercial and administrative matters of significance to the Group. He has extensive infrastructure experience advising on strategic acquisitions and divestments, projects and construction, corporate structuring, regulatory issues and competition laws.

## Chong Wai Yan Quince

**Chief Corporate Development Officer, BSSc, aged 51, S**

Ms Chong joined CLP Power Hong Kong on 1 September 2012 as Chief Corporate Development Officer. At CLP Power Hong Kong, she leads the functions of marketing and customer service, public affairs and community relations to help drive customer service excellence and strengthen ties with customers and the community as a whole. She is also responsible for all public affairs and sustainability development matters of the CLP Group. Before joining CLP, Ms Chong was Director Corporate Affairs of Cathay Pacific Airways. She has over 25 years of experience in corporate communications and customer services after having held various senior management positions in the tourism, hotel and aviation industries, including the Hong Kong Tourism Board (formerly the Hong Kong Tourist Association).

## Roy Anthony Massey

**Director – Group Human Resources, MBA, LLB, aged 60**

Mr Massey is responsible for all human resource related matters across the Group. Prior to joining CLP in 2000, Mr Massey was a management consultant for 16 years, working on projects in the UK, Russia, Romania and the Middle East. Mr Massey was previously a Human Resources Manager in both the UK and with a US multinational in Saudi Arabia. Mr Massey holds an MBA degree from the Manchester Business School, and a degree in Law from Liverpool University.

**F&G** Finance & General Committee
P Provident & Retirement Fund Committee
S Sustainability Committee

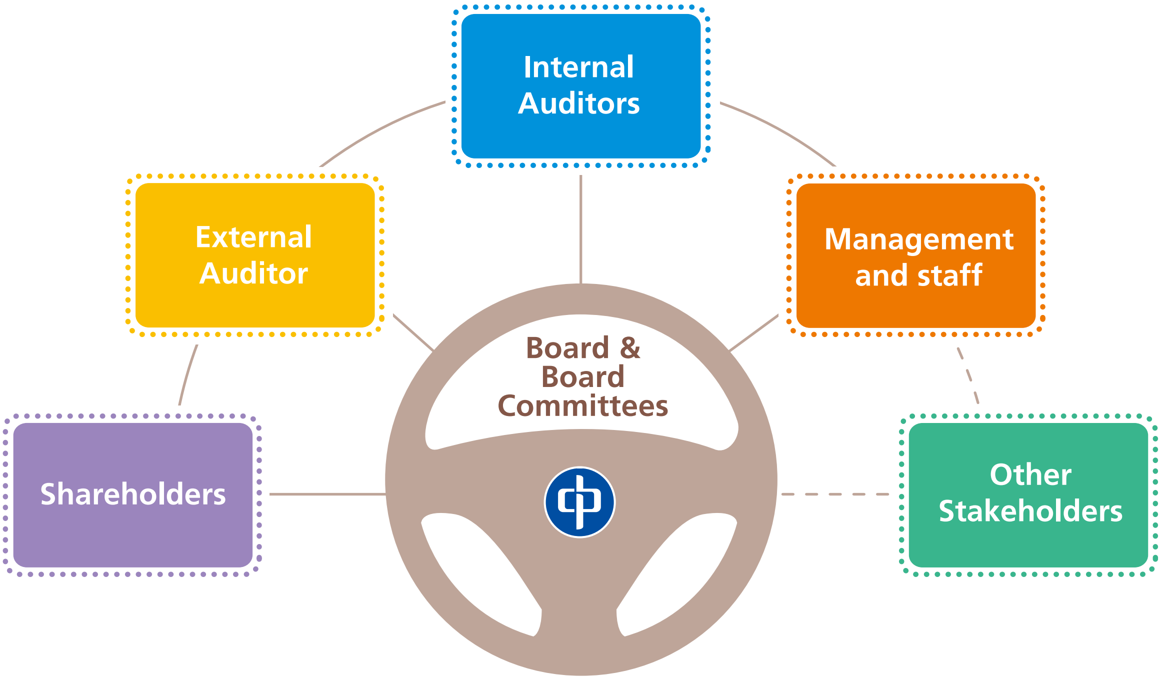
Full particulars of Senior Management, including their directorships in the subsidiary companies of CLP Holdings and other major appointments are available on our website.

# CORPORATE GOVERNANCE REPORT

## CLP's Corporate Governance Framework

Good corporate governance enhances the credibility and reputation of the Company, as well as promoting and safeguarding the interests of shareholders and other stakeholders. Maintaining a good, solid and sensible framework of corporate governance has been and remains one of CLP's top priorities.

We use a Corporate Governance Framework to identify all the key participants in good governance, the ways in which they relate to each other and the contribution each makes to the application of effective governance policies and processes.




Our Corporate Governance Framework rests on two important commitments:

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

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

## "The CLP Code on Corporate Governance"

The Hong Kong Stock Exchange's 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 (the Listing Rules), sets out principles of good corporate governance and two levels of recommendation:

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

Our Board adopted the CLP Code in February 2005. The decision to adopt the CLP Code, as opposed to the Stock Exchange Code, reflected our wish to express our corporate governance practices in our own words and to use a structure which corresponded to our existing framework. The CLP Code is updated from time to time, most recently in February 2015, reflecting the New Companies Ordinance (NCO) which took effect from 3 March 2014 and the evolution of CLP's corporate governance practices. Shareholders may download a printable copy of the CLP Code from our website, obtain a hard copy from the Company Secretary on request at any time, or by completing and returning the form enclosed with this Annual Report.

The CLP Code incorporates all of the Code Provisions and Recommended Best Practices in the Stock Exchange Code, save for the single exception explained below. It exceeds the requirements of the Stock Exchange Code in many aspects. CLP has also applied all of the principles in the Stock Exchange Code. The manner in which this has been done is set out in the CLP Code and this Corporate Governance Report. The following are the major respects in which the CLP Code exceeds (✓✓) or meets (✓) the Code Provisions and Recommended Best Practices of the Stock Exchange Code.

| | |
|---|---|
| ✓✓ | CLP has established a Corporate Governance Framework which covers all of the relationships and responsibilities of the external and internal corporate governance stakeholders in a comprehensive and structured way. |
| ✓✓ | CLP published a formal Value Framework in 2003, most recently updated in September 2013, which sets out the business principles and ethics underpinning CLP's activities. |
| ✓✓ | CLP acknowledges shareholders' rights as set out in the Organisation for Economic Cooperation and Development's "Principles of Corporate Governance". |
| ✓✓ | Half of the CLP Holdings Board are Independent Non-executive Directors. |
| ✓✓ | CLP has adopted its own Code for Securities Transactions by Directors, which is on terms no less exacting than the required standard as set out in the Model Code under Appendix 10 of the Listing Rules. This Code also applies to other "Specified Individuals" such as members of the CLP Group's Senior Management. A copy of this Code is available on the CLP website. |
| ✓✓ | In addition to the disclosure of interests of Directors and their confirmation of compliance with the Model Code and CLP Code for Securities Transactions, we disclose Senior Management's interests in CLP Holdings' securities and their confirmation of compliance with the Model Code and CLP Code for Securities Transactions. |
| ✓✓ | We issue a formal letter of appointment for Non-executive Directors, modelled on the letter of appointment in the "Higgs Report" in the UK on the "Review of the Role and Effectiveness of Non-executive Directors". The model letter is on our website and deals with a range of matters regarding a Director's appointment and responsibilities. |
| ✓✓ | We publish the terms of reference and membership of all Board Committees on the websites of CLP and Stock Exchange. |
| ✓✓ | We conduct a regular evaluation of the performance of the Board as well as all of its Board Committees. |
| ✓✓ | The Audit Committee comprises only Independent Non-executive Directors. Two of the four members have appropriate professional qualifications, accounting and related financial management expertise. |
| ✓✓ | We issue an Audit Committee Report which sets out the primary responsibilities of the Audit Committee and the work performed by it during the period under review. |
| ✓✓ | CLP publishes its annual performance on environmental, social and governance issues through this Annual Report and our Sustainability Report available online. These in many respects exceed the terms of the Environmental, Social and Governance (ESG) Reporting Guide at Appendix 27 to the Listing Rules. SR |
| ✓✓ | We announce our financial results within two months after the end of the financial year. We publish our full Annual Report on our website within the following fortnight and send this to shareholders about two weeks after that. |
| ✓✓ | We serve more than 20 clear business days notice for our annual general meetings and more than 14 clear business days notice for all other general meetings. |
| ✓✓ | We provide enhanced disclosure of financial information about the CLP Group's joint ventures and associates. |
| ✓✓ | The Chief Executive Officer (CEO) and Chief Financial Officer (CFO) submit an annual "General Representation Letter" to the Audit Committee, in which they give a personal certification of compliance by themselves and their subordinates with a range of key internal control systems, disciplines and procedures, which cover financial and relevant non-financial information. |
| ✓✓ | We issue a Sustainability Committee Report which sets out our sustainability framework (constructed around those areas, objectives and goals which we consider most relevant to CLP's business) and summary of work done by the Sustainability Committee. |
| ✓✓ | Our Anti-Fraud Policy states the Company's commitment to preventing, detecting and reporting fraud. |
| ✓✓ | We adopt a Fair Disclosure Policy which sets out the principles for the broad and non-exclusionary distribution of information to the public. |
| ✓✓ | We publish a set of Continuous Disclosure Obligation Procedures which formalise the current practices in monitoring developments in our businesses for potential inside information and communicating such information to our shareholders, the media and analysts. |
| ✓✓ | We issue a Risk Management Report which sets out CLP's risk management framework and how CLP manages the Group's material risks. |
| ✓ | All Code Provisions of the Stock Exchange Code. |
| ✓ | All Recommended Best Practices of the Stock Exchange Code, except the single one explained on the next page. |

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

Our website includes an annotated version of the CLP Code, with cross-references from the CLP Code to the corresponding Code Provisions and Recommended Best Practices of the Stock Exchange Code. Throughout the year, the Company met the Code Provisions as set out in the Stock Exchange Code.

## Evolution of CLP's Corporate Governance in 2014

In 2014, we made further progress in the evolution of our corporate governance practices, in line with the CLP Code and emerging developments in global corporate governance practices:

- Set a 10% cap on the price discount for any new shares to be issued under the General Mandate to issue shares unless and until there is a material change in circumstances or market condition. The introduction of such a cap aligns with international best practice and has received overwhelming support from shareholders at the 2014 Annual General Meeting (AGM).
- Conducted 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 Board Performance Evaluation Report in 2012. More details are provided on pages 122 and 123 of this Report.
- Reviewed and endorsed the revised Articles of Association of CLP Holdings for adoption by the shareholders at the 2015 AGM after taking a prudent and considered approach to review the practical issues having regard to the development of implementation of those changes of the NCO. Recognising that it is a best corporate governance practice to allow sufficient time for shareholders / investors to appoint a proxy to attend and vote at a general meeting, the Board decided that the notice period of 21 clear days for moving a Special Resolution at a general meeting be maintained rather than shortening it to 14 days as provided in the NCO.
- Strengthened the governance process used for investments within the CLP Group and reissued the Investment Committee Guidelines to all business and functional units based on recommendations from the internal review. These guidelines stem from the underlying principles of strengthening the governance around investments and associated financial and resource commitments by the CLP Group both prior to and after the final investment decision.
- Adopted CLP's HSSE (Health, Safety, Security and Environment) Management System Standard to drive the development of the policies, management systems and practices that enable CLP to achieve business results without harm to people or the environment. This Standard explains the overall approach to HSSE management across the CLP Group and how the various HSSE standards and guidelines should be applied at the CLP Group, regional and asset levels.
- Expanded the Terms of Reference of the Sustainability Committee beyond environmental, social and ethical issues to encompass health, safety and security matters from a long-term strategic sustainability perspective.
- Revamped CLP Group Website with enhanced contents and grouping which offered a more audience-centric experience and ease of navigation of information, including corporate governance related information.
- Updated CLP Group Information Security Policies, and strengthened staff awareness of cyber security through an engagement programme and activities started in Hong Kong and extending to other regions.

- Held 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.
- Provided updates on the new Connected Transaction Rules and their implications to CLP Directors, management, subsidiaries and joint ventures and established procedures to facilitate and monitor reporting of continuing connected transactions.
- Set up a Task Force comprising representatives from Group Corporate Secretarial, Group Internal Control, Group Risk Management and Group Internal Audit with an aim to review, identify and map out what and how the Hong Kong Stock Exchange's proposal on risk management and internal control under the Stock Exchange Code can be early adopted.
- Further enhanced our reporting on ESG issues against the ESG Reporting Guide issued by the Hong Kong Stock Exchange and the Global Reporting Initiative G4.
- Provided training on the implementation of the Continuous Disclosure Obligation Procedures to CLP's management, subsidiaries and joint ventures.
- Continued to undertake corporate governance roadshows to exchange views with institutional investors and international experts in corporate governance.
- Contributed our views on corporate governance issues by responding to formal Consultation Papers issued by the Hong Kong Stock Exchange.

## Shareholders

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

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

Details of the profile of the shareholders in the Company, aggregate shareholding and important shareholders' dates in the coming financial year are set out in the "Shareholder Value and Engagement" section at page 22 of this Annual Report.

From publicly available information and as far as our Directors are aware, CLP Holdings has maintained a sufficient public float of its share capital in the Hong Kong stock market throughout the financial year ended 31 December 2014 and has continued to maintain such a float as at 26 February 2015.

Pursuant to the NCO and our Articles of Association, a General Meeting of shareholders can be convened by the Board or a written request signed by shareholders holding at least 5% of the total voting rights of all the shareholders having a right to vote at that meeting, stating the general nature of the business to be dealt with at the meeting, and deposited at the Company's registered office in Hong Kong at 8 Laguna Verde Avenue, Hung Hom, Kowloon.

The procedures for shareholders to put forward proposals at our AGM or any General Meeting include a written notice of those proposals being submitted by shareholders, addressed to the Company Secretary at the registered office. The detailed procedures vary according to the nature of the meeting and the type of resolution. The relevant procedure to propose a person other than a Director of the Company for election as a director is set out in the Notice of AGM which accompanies the despatch of this Annual Report to shareholders and will be included with the notice to shareholders of any future AGM. The procedures for shareholders to convene and put forward proposals at our AGM or any General Meeting are available on our website or on request to the Company Secretary.

The most recent Extraordinary General Meeting (EGM) was convened by the Board and held on 22 January 2014 at the Kowloon Shangri-La, Hong Kong to consider the acquisitions of further interests in Castle Peak Power Company Limited and Hong Kong Pumped Storage Development Company, Limited (CAPCO / PSDC Acquisitions). The items discussed and the percentage of votes cast have been reported in the 2013 Corporate Governance Report.

The most recent AGM was held on 8 May 2014 at the Hong Kong Polytechnic University, Kowloon, Hong Kong. The major items discussed and the percentage of votes cast in favour of the resolutions relating to those items are set out below:

- Re-election of Mr J. A. H. Leigh, Sir Rod Eddington, Mr Ronald J. McAulay and Dr Y. B. Lee as Directors of the Company (79.7442% to 98.0975% in respect of each individual resolution);

- General mandate to Directors to issue and dispose of additional shares in the Company, not exceeding 5% of the total number of shares in issue and such shares shall not be issued at a discount of more than 10% to the Benchmarked Price of such shares (General Mandate) (99.5069%); and
- General mandate to Directors to exercise all the powers of the Company to buy back or otherwise acquire shares of the Company in issue, not exceeding 10% of the total number of shares in issue (99.9975%).

All resolutions put to shareholders at the most recent EGM and AGM were passed. The results of the voting by poll of the EGM and 2014 AGM have been published on CLP's website and the website of the Hong Kong Stock Exchange. The full proceedings of the EGM and 2014 AGM can be viewed in the "Investors Information" section of the Company's website. Minutes of the EGM and 2014 AGM were also published on the Company's website.

In 2014, in response to a concern raised by some institutional investors that they would vote against a general mandate to issue shares if no price discount cap is imposed on the mandate, the Board proposed a 10% cap (rather than 20% as limited under the Listing Rules) on the price discount for any new shares to be issued under the General Mandates to be sought at future AGMs unless and until there is a material change in circumstances or market condition. This proposal on 10% price discount cap has received overwhelming support from shareholders, as evidenced by the increase in the percentage of votes cast in favour of the General Mandate at the AGM from 81.36% in 2013 to 99.51% in 2014.

The Company regards the AGM as an important event in the corporate year and all Directors and Senior Management make an effort to attend. The Chairmen of Board Committees attend the AGM and will take shareholders' questions. A representative (usually the engagement partner) of the external auditor also attends the AGM and will take questions from shareholders relating to their audit of the Company's Financial Statements.

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

Enquiries may be put to the Board by contacting either the Company Secretary through our shareholders' hotline (852) 2678 8228, e-mail at cosec@clp.com.hk or by questions at a General Meeting.

## The Board

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

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

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

In setting the strategic direction of the Group, the Board held an extended Board meeting in October 2014 to review the investment strategy for the CLP Group. After deliberation, the Board approved an updated investment strategy for implementation, which is succinctly summarised as "Focus · Delivery · Growth". The key components of the investment strategy and their challenges and opportunities are set out in the "Chairman's Statement" and the "CEO's Strategic Review" at pages 7 and 11 respectively of the Annual Report.

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

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review the contribution required from Directors and whether they are spending sufficient time performing their responsibilities to the Company;

(c) to review and monitor the training and continuous professional development of Directors and Senior Management;

(d) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(e) to develop, review and monitor the Code of Conduct applicable to employees; and

(f) to review the Company's compliance with the CLP Code on Corporate Governance and disclosure in the Corporate Governance Report.

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

The Directors are responsible for the preparation of the financial statements for each financial period which give a true and fair view of the state of affairs of the Group at each period end and of the results and cash flows for that period. In preparing these financial statements for the year ended 31 December 2014, the Directors have selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group.

### Board Composition

As at the date of this Report, the Board comprises 14 Directors. Two of them are women. All Directors (with the exception of the CEO) are non-executive and independent of management, thereby promoting critical review and control of the management process. The Board includes seven influential and active Independent Non-executive Directors to whom shareholder concerns can be conveyed. The non-executive members of the Board also bring a wide range of business and financial experience to the Board, which contributes to the effective direction of the Group.

Details of all Directors and their biographies are given on pages 106 and 107 of this Annual Report. The relationships (including financial, business, family or other material or relevant relationships) among members of the Board are also disclosed. There is no such relationship as between the Chairman and the CEO. All of the Non-executive Directors (see page 106) are not considered as independent, due to their association with the Kadoorie Family, who have a substantial interest (35.01%) in CLP. In common with all Directors, they are aware of their responsibilities to all shareholders.

Directors are requested to declare their direct or indirect interests, if any, in any proposals or transactions to be considered by the Board at Board meetings and withdraw from the meetings as appropriate. There was no such occasion in 2014.

The Company follows guidelines at each financial reporting period to seek confirmation from Directors in respect of any transactions of the Company or its subsidiaries which are related to Directors or their associates.

In addition, identified significant related party transactions are disclosed in Note 33 to the Financial Statements of the Annual Report.

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

The Chairman responds to employees' questions during a Directors' visit to CLP India

## Board Diversity Policy

The Board formally adopted a Board Diversity Policy in August 2013 which seeks to record, more formally, CLP's policy on board diversity and to recognise the terms of relevant code provisions of the Stock Exchange Code which came into effect on 1 September 2013. The Policy is available on the CLP website.

CLP's Value Framework emphasises our respect for people and diversity. The Board Diversity Policy is just one example of the wider applications of our Value Framework. We believe that board diversity enhances decision-making capability and a diverse board is more effective in dealing with organisational changes and less likely to suffer from group thinking. We recognise that board diversity is an essential element contributing to the sustainable development of the Company. The objectives of this Policy are, with the support of our shareholders, to have a Board which:

a) is characterised by a broad range of views arising from different experiences when discussing business;
b) facilitates the making of informed and critical decisions; and
c) has sustainable development as its core value,

and thus promotes the interests of all our stakeholders, particularly the long-term interests of our shareholders, fairly and effectively.

For the purpose of this Policy, CLP considers the concept of diversity incorporates a number of different aspects, such as professional experiences, business perspectives, skills, knowledge, gender, age, cultural and educational background, ethnicity and length of service. The achievement of these objectives is measurable on an objective review by shareholders of the overall composition of the Board, the diversity of background and experience of individual directors and the effectiveness of the Board in promoting shareholders' interests.

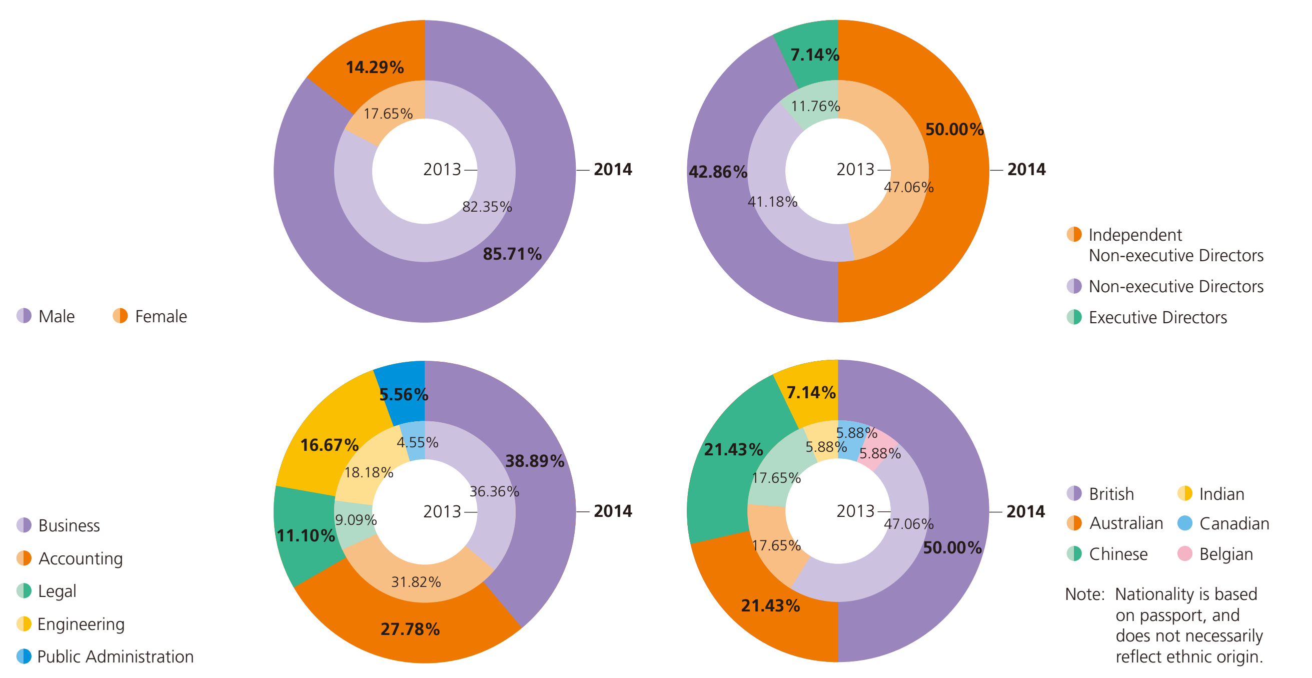
Recognising directors are appointed by shareholders, not the Board or the Company, merit and competence to serve the Board and hence shareholders remains the first priority. In order for shareholders to judge for themselves whether the Board as constituted is a reflection of diversity, or a gradual move to increased diversity, on a scale and at a speed which they support, we shall continue to provide sufficient information to shareholders about the qualifications, experience, characteristics etc. of each individual Board member and therefore, the Board as a whole so that shareholders are aware of the composition of their Board, including diversity.

The Nomination Committee has been charged with the review of the Board Diversity Policy on a periodic basis. In 2013, the Nomination Committee endorsed the approach of review of the Policy that it may take the form of an analysis of the Board in the different aspects of diversity having regard to the sustainable development of the Company, supplemented with shareholders' feedback on the diversity of the Board and its overall effectiveness in promoting shareholders' interests.

In 2014, we have measured the diversity of the Board as of 2013 and 2014 based on the aspects of independence, gender, nationality and ethnicity and skills and experience (which are the measurable objectives as set out in the Board Diversity Policy).

The analysis on the opposite page has indicated that despite a decrease in the gender and nationality aspects of diversity in 2014, there was an increase in the percentage of independent Directors on the Board, whilst maintaining the overall diversity of the Board. We have also sought shareholders' views on the satisfactory levels of the diversity aspects of the Board during the Shareholders' Visit Programme 2013 – 2014. The overall results showed that shareholders were satisfied with the diversity aspects of the Board and its effectiveness in promoting shareholders' interests. The 2014 review of the Board Diversity Policy was endorsed by the Nomination Committee.

## Diversified Board




### Appointment of Directors

CLP follows a formal, considered and transparent procedure for the appointment of new directors. Appointments are first considered by the Nomination Committee. In assessing potential candidates for the Board, the Nomination Committee considers the diversity perspectives, as set out on page 116. Notwithstanding the diversity perspectives, all appointments to the Board are based on merit, having regard to the ability of candidates to complement and expand the skills, knowledge and experience of the Board as a whole. The recommendations of the Committee are then put to the full Board for decision. Thereafter, all Directors are subject to election by shareholders at the first General Meeting following their appointment.

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

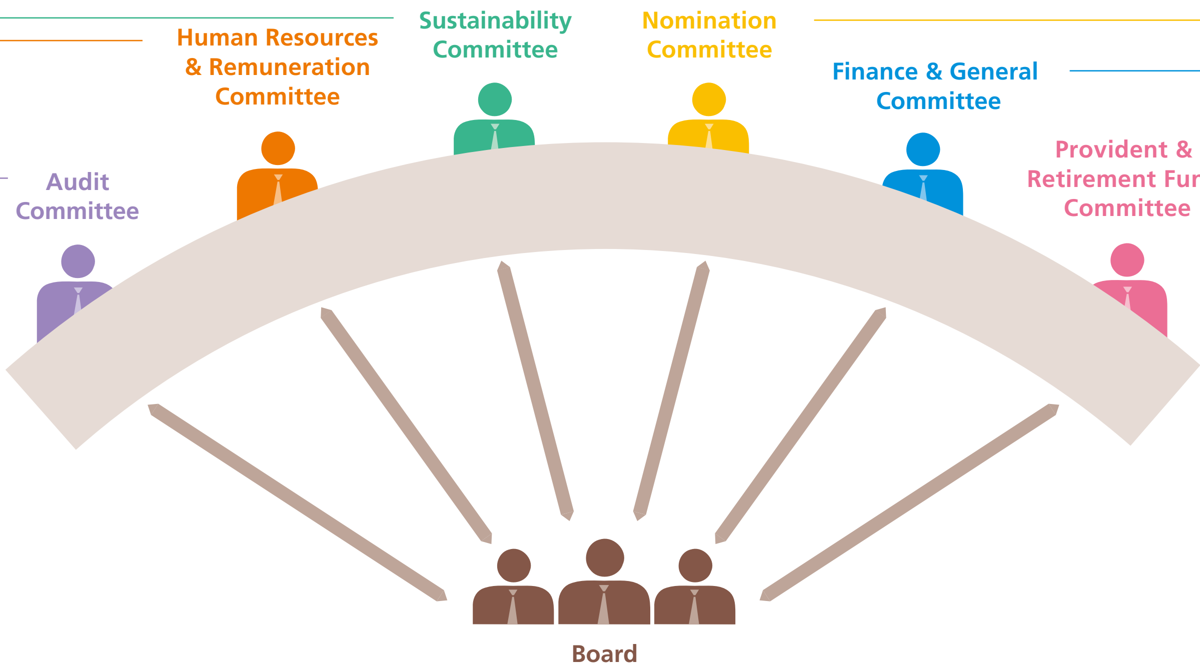
All Non-executive Directors have a formal letter of appointment, modelled on the letter of appointment in the "Higgs Report" in the UK on the "Review of the Role and Effectiveness of Non-Executive Directors". Non-executive Directors are paid fees for their services on Board and Board Committees, based on a formal independent review undertaken no less frequently than every three years. The most recent review was undertaken at the beginning of 2013. The remuneration policy and fees paid to each Non-executive Director in 2014 are set out in the Human Resources & Remuneration Committee Report at page 150 of this Annual Report.

### Chairman and Chief Executive Officer

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

## Board Committees

The following chart explains the responsibilities and the work that each Board Committee undertook on behalf of the Board during 2014 and in 2015 up to the date of this Report (the Relevant Period). The terms of reference and membership of all Board Committees are disclosed in full on the websites of CLP and Stock Exchange. They are also available in writing upon request to the Company Secretary.




### Audit Committee

Details of the Audit Committee, including its membership, terms of reference and work done during the Relevant Period are set out in the Audit Committee Report at page 142 of this Annual Report.

### Human Resources & Remuneration Committee

Details of the Human Resources & Remuneration Committee, including its membership, terms of reference and work done during the Relevant Period are set out in the Human Resources & Remuneration Committee Report at page 150 of this Annual Report.

### Sustainability Committee

Details of the Sustainability Committee, including its membership, terms of reference and work done during the Relevant Period are set out in the Sustainability Committee Report at page 145 of this Annual Report.

## Membership of Nomination Committee

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

## Responsibilities and Work Done

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

- reviewing the current Board structure and composition;
- reviewing the Board Diversity Policy;
- assessing the independence of all Independent Non-executive Directors, including Mr Vernon Moore and Mr Vincent Cheng who will retire and present themselves for re-election by shareholders at the 2015 AGM;
- reviewing the approach of the 2014 performance evaluation of the Board and Board Committees;
- reviewing the contribution required from a Director to perform his / her responsibilities and whether he / she has spent sufficient time performing them;
- reviewing the training and continuous professional development of Directors; and
- considering the nomination of a potential candidate for appointment as Independent Non-executive Director.

## Membership of Finance & General Committee

Mr William Mocatta (Chairman), Mr V. F. Moore, Sir Rod Eddington, Mr Nicholas C. Allen, Mr Vincent Cheng, Ms Irene Lee, Dr Rajiv Lall, Mr Andrew Brandler, Mr Richard Lancaster, Mrs Betty Yuen and Mr Geert Peeters.

## Responsibilities and Work Done

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

- the Company's interim and annual results and the amounts of dividends payable to shareholders for the financial years ended 31 December 2013 and 2014;
- longer term financing for / after CAPCO / PSDC Acquisitions and rating update of CLP Group;
- 2015 tariff strategy for the Hong Kong electricity business;
- the CLP Group Business Plan and Budget 2015 – 2019;
- CLP Group cost of capital study;
- CLP's foreign exchange translation risk and counterparty exposures;
- the Company's funding requirements, undertakings, guarantees and indemnities;
- re-opening and upsizing of hybrid security;
- funding approach for wholly-owned renewable projects in China;
- surplus fund management service agreement for Guangdong Nuclear Power Joint Venture Company;
- CLP as a cornerstone investor of the initial public offering of CGN Power;
- update on Fangchenggang Phase II Project and Guizhou Sandu Phase I Wind Project in China;
- divestment of CSEC Guohua and Shenmu joint ventures;
- Listing Rules implications for CSG Group becoming a connected person of CLP Holdings at completion of the CAPCO / PSDC Acquisitions;
- permanent head office project;
- directors' fees arrangement at CLP Power Hong Kong, CAPCO and PSDC;
- CLP India Wind Business review, including update on Tejuva Wind Project in Rajasthan and investment in Chandgarh Wind Project in Madhya Pradesh; and
- EnergyAustralia business review.

## Membership of Provident & Retirement Fund Committee

Mr William Mocatta (Chairman), Mr Geert Peeters and a Trustee.

## Responsibilities and Work Done

This Committee advises the Trustee on investment policy and objectives for the Group's retirement funds, namely the CLP Group Provident Fund Scheme and CLP Group Top-Up Scheme. During the Relevant Period, the Committee monitored the performance of the investment managers and the overall portfolio, arranged education and communication for schemes members; and organised activities relating to retirement planning for members.

## Board and Committee Attendance

The Board meets in person at least five times per annum and on other occasions when a Board decision is required on major issues. Details of Directors' attendance at the General Meetings, Board and Board Committee meetings held in 2014 are set out in the following table. The overall attendance rate of Directors at Board meetings was 94.19% (2013: 90.63%).

| Directors | Meetings Attended / Held | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Board[1] | Audit Committee[2] | Finance & General Committee | Human Resources & Remuneration Committee | Nomination Committee[3] | Provident & Retirement Fund Committee | Sustainability Committee | AGM[2] | EGM[2] |
| **Non-executive Directors** | | | | | | | | | |
| The Hon Sir Michael Kadoorie | 4 / 6 | | | | 1 / 1 | | | 1 | 1 / 1 |
| Mr William Mocatta | 6 / 6 | | 7 / 7 | 3 / 3 | | 2 / 2 | | 1 | 1 / 1 |
| Mr Ronald J. McAulay | 5 / 6 | | | | | | | 1 | 1 / 1 |
| Mr J. A. H. Leigh | 5 / 6 | | | | | | | 1 | 1 / 1 |
| Mr I. D. Boyce[4] | 1 / 1 | | 1 / 2 | | | | | 1 | 1 / 1 |
| Mr Andrew Brandler[5] | 6 / 6 | | 7 / 7 | | | | 3 / 3 | 1 | 1 / 1 |
| Dr Y. B. Lee | 6 / 6 | | | | | | | 1 | 1 / 1 |
| Mr Paul A. Theys[6] | 1 / 1 | | | | | | | 0 | 1 / 1 |
| **Independent Non-executive Directors** | | | | | | | | | |
| Mr V. F. Moore | 6 / 6 | 6 / 6 | 6 / 7 | 2 / 3 | | | | 0 | 0 / 1 |
| Professor Judy Tsui[7] | 1 / 1 | 3 / 3 | | | | | 2 / 2 | 0 | 1 / 1 |
| Sir Rod Eddington[8] | 6 / 6 | | 5 / 7 | 1 / 1 | | | | 1 | 1 / 1 |
| Mr Nicholas C. Allen | 6 / 6 | 6 / 6 | 7 / 7 | 3 / 3 | 1 / 1 | | 3 / 3 | 1 | 1 / 1 |
| Mr Vincent Cheng | 6 / 6 | | 6 / 7 | 3 / 3 | 1 / 1 | | | 0 | 0 / 1 |
| Mrs Fanny Law | 6 / 6 | 6 / 6 | | | | | 2 / 3 | 1 | 1 / 1 |
| Ms Irene Lee[9] | 6 / 6 | 6 / 6 | 7 / 7 | | | | 0 / 1 | 1 | 0 / 1 |
| Dr Rajiv Lall | 5 / 6 | | 3 / 7 | | | | | 0 | 0 / 1 |
| **Executive Director** | | | | | | | | | |
| Mr Richard Lancaster | 5 / 5 | | 7 / 7 | | | | 3 / 3 | 1 | 1 / 1 |

Notes:

1 Included a Board meeting where the Chairman met Independent and other Non-executive Directors without the Executive Director and management present.

2 Representatives of the external auditor participated in every Audit Committee meeting, the AGM and the EGM held on 22 January 2014.

3 In addition to the annual meeting, review and approval of nomination of Directors' appointment is by circulars to all the members of the Nomination Committee. In 2014, the Committee has also reviewed by circular the independence of Independent Non-executive Directors, Directors' time commitment and Directors' continuous professional development.

4 Mr I. D. Boyce retired as a Non-executive Director and a member of the Finance & General Committee with effect from the conclusion of the 2014 AGM held on 8 May 2014.

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

6 Mr Paul A. Theys resigned as a Non-executive Director following completion of the CAPCO/PSDC Acquisitions on 12 May 2014.

7 Professor Judy Tsui retired as an Independent Non-executive Director and a member of the Audit Committee and the Sustainability Committee with effect from the conclusion of the 2014 AGM held on 8 May 2014.

8 Sir Rod Eddington resigned as a member of the Human Resources & Remuneration Committee with effect from the conclusion of the 2014 AGM held on 8 May 2014.

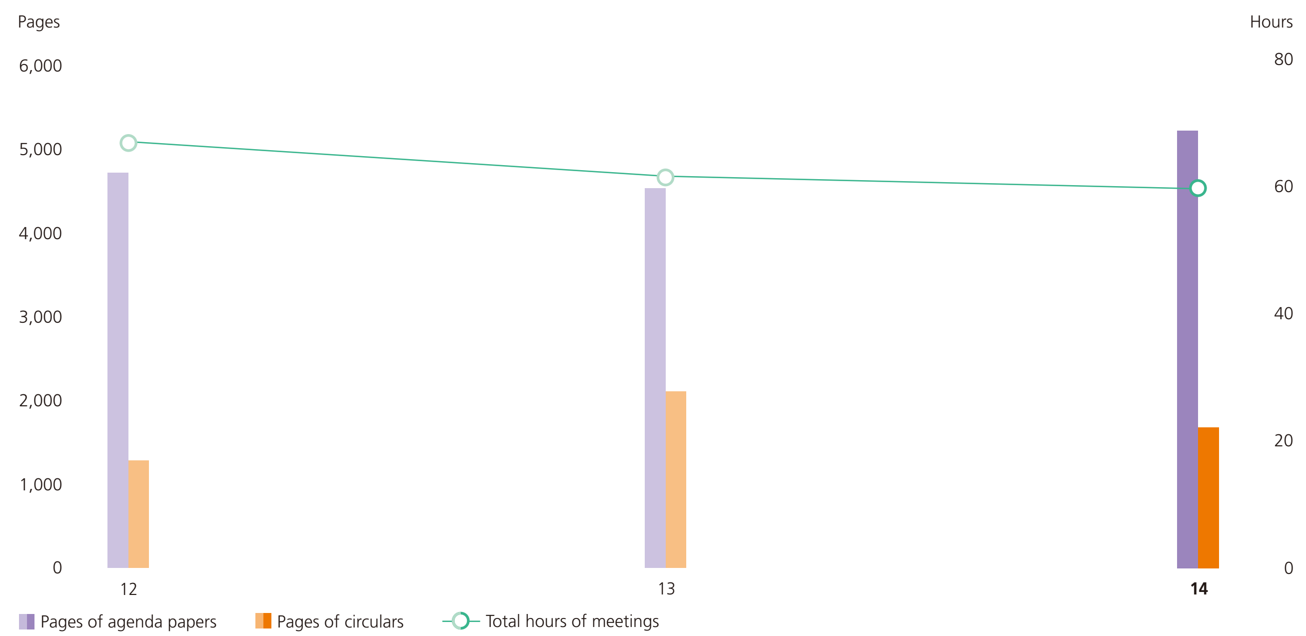
9 Ms Irene Lee was appointed a member of the Sustainability Committee with effect from 8 May 2014.

## Directors' Commitments

The Company has received confirmation from each Director that he / she has given sufficient time and attention to the affairs of the Company for the year. Directors have disclosed to the Company the number and nature of offices held in Hong Kong or overseas listed public companies or organisations and other significant commitments, with the identity of the public companies or organisations and an indication of the time involved. During the year ended 31 December 2014, no current Director held directorships in more than seven 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. Directors are also reminded to notify the Company Secretary in a timely manner and bi-annually confirm to the Company Secretary any change of such information. In respect of those Directors who stand for re-election at the 2015 AGM, all their directorships held in listed public companies in the past three years are set out in the Notice of AGM. Other details of Directors' appointments are set out under "Board of Directors" at page 106 of this Annual Report and on CLP's website.

To indicate the attention given by our Board to the oversight of CLP's affairs, the following chart summarises the duration of those meetings and the volume of papers submitted to Directors for review during 2014 (compared to 2012 and 2013).

### Workload of Board and Board Committees




## Directors' Interests

The interests in CLP's securities held by Directors as at 31 December 2014 are disclosed in the Directors' Report of this Annual Report at page 164. Particular attention is given to dealings by Directors in shares in CLP. Since 1989, the Company has adopted its own Code for Securities Transactions by Directors, largely based on the Model Code set out in Appendix 10 of the Listing Rules. Our Code is periodically updated to reflect new statutory and regulatory requirements, as well as our strengthened regime of disclosure of interests in our securities. This Code is on terms no less exacting than the required standard set out in the Model Code. All Directors have confirmed, following specific enquiry by the Company, that throughout the year ended 31 December 2014 they complied with the required standard set out in the Model Code and our own Code for Securities Transactions.

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

**Participation in Directors' Continuous Professional Development Programme in 2014**

| | Reading regulatory updates | Paying visits to local management & CLP's facilities | Hosting Shareholders' Visits | Attending expert briefings/ seminars/conferences relevant to the business or directors' duties |
|---|---|---|---|---|
| **Non-executive Directors** | | | | |
| The Hon Sir Michael Kadoorie | ✓ | ✓ | ✓ | ✓ |
| Mr William Mocatta | ✓ | ✓ | ✓ | ✓ |
| Mr Ronald J. McAulay | ✓ | ✓ | | ✓ |
| Mr J. A. H. Leigh | ✓ | ✓ | | ✓ |
| Mr Andrew Brandler | ✓ | ✓ | ✓ | ✓ |
| Dr Y. B. Lee | ✓ | ✓ | ✓ | ✓ |
| **Independent Non-executive Directors** | | | | |
| Mr V. F. Moore | ✓ | ✓ | ✓ | ✓ |
| Sir Rod Eddington | ✓ | ✓ | | |
| Mr Nicholas C. Allen | ✓ | ✓ | ✓ | ✓ |
| Mr Vincent Cheng | ✓ | ✓ | | ✓ |
| Mrs Fanny Law | ✓ | ✓ | ✓ | ✓ |
| Ms Irene Lee | ✓ | ✓ | ✓ | ✓ |
| Dr Rajiv Lall | ✓ | ✓ | | ✓ |
| **Executive Director** | | | | |
| Mr Richard Lancaster | ✓ | ✓ | ✓ | ✓ |
| **Company Secretary** | | | | |
| Mrs April Chan[1] | ✓ | ✓ | ✓ | ✓ |

Note:

1 During 2014, Mrs April Chan served as the Past President on the Council of The Hong Kong Institute of Chartered Secretaries and of Corporate Secretaries International Association and has exceeded the 15 hours of professional training requirement of the Listing Rules.

## Board Evaluation

A performance evaluation of the CLP Holdings Board and its Board Committees for 2013 was conducted 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. It 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 the Stock Exchange Code and Listing Rule requirements. Any exceptions to the Stock Exchange 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 with a view to making further improvements in Board effectiveness. For example, the CLP Group Monthly Management Reports were further streamlined to provide Directors with additional indicators for them to appreciate the underlying operating performance of the Company's businesses from new perspectives.

Board performance is evaluated on an ongoing basis with an independent evaluation every three years. In line with this interval, Directors agreed that performance evaluation of the Board as a whole and its Board Committees for 2014 would continue to be conducted internally in the form of a questionnaire. A summary of the 2014 findings will be disclosed in the next published report.

## Company Secretary

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

## Management and Staff

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

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

To facilitate the sharing of information, coordination of resources and activities at Group level and serve as a consultation point for decisions which are material for the CLP Group, a Group Executive Committee comprising the most senior executives (as listed on page 108) together with the Company Secretary and the Director – Group Operations & Construction is in place under the chairmanship of the CEO.

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

We have a Whistleblowing Policy to encourage employees and related third parties (such as customers and suppliers) who deal with the Company to raise concerns in confidence about misconducts, malpractices or irregularities in any matters related to the Company. A whistleblowing policy specific for EnergyAustralia to reflect the local legislative requirements was also adopted. During 2014, there were eight cases of whistleblowing.

Non-compliance with the Code of Conduct results in disciplinary action. Disciplinary measures are decided by the relevant line management. These measures are then subject to review and endorsement by a Code of Conduct Committee, which comprises the Group Director & Chief Financial Officer, Group General Counsel & Chief Administrative Officer and Director – Group Human Resources, in order to ensure the consistency and fairness of treatment. During 2014, there were seven breaches of the Code. Sanctions applied ranged from reprimands to dismissal. No breaches of the Code were material to the Group's financial statements or overall operations. Adherence to the Code of Conduct cannot be waived.

We have voluntarily extended the CLP Code for Securities Transactions to cover Senior Management and other "Specified Individuals" such as senior managers in the CLP Group. All members of the Senior Management have confirmed, following specific enquiry by the Company, that throughout the year ended 31 December 2014 they complied with the required standard set out in the Model Code and CLP Code for Securities Transactions.

Save for the interest disclosed by Mr Richard Lancaster in the Directors' Report at page 164 of this Annual Report, the interest in 600 shares each respectively disclosed by the Managing Director – CLP Power Hong Kong, the Managing Director – China and the Director – Group Human Resources, the other members of the Senior Management did not have any interests in CLP Holdings' securities as at 31 December 2014.

Members of Senior Management are paid in line with market practice and with regard to their performance. The principles and details of the remuneration of individual members of Senior Management are set out in the Human Resources & Remuneration Committee Report at page 150 of this Annual Report.

We have a formal procedure in place for reporting the training and continuous professional development of Senior Management. Whilst we recognise that the majority of personal development comes from on-the-job experience, we also encourage members of Senior Management to supplement this through a variety of training activities. These include selective nominations to formal executive development programmes at leading business schools, attendance at executive briefings on matters of topical interest, and access to on-line learning and information sources. We also make selective use of systematic and independent executive assessment processes in order to help identify individual development needs and provide inputs to our succession planning decisions.

## Participation in Training and Continuous Professional Development of Senior Management in 2014

| | Attending formal executive development/training programme | Attending expert briefings/seminars/workshops/conferences relevant to the business or their duties | Participating as speakers at events | Access to web based learning resources |
|---|---|---|---|---|
| **Senior Management** | | | | |
| Mr Richard Lancaster | | ✓ | ✓ | ✓ |
| Mr Geert Peeters[1] | | ✓ | ✓ | ✓ |
| Mrs Betty Yuen | | ✓ | ✓ | ✓ |
| Mr Paul Poon | | ✓ | ✓ | ✓ |
| Mr S. H. Chan | | ✓ | ✓ | ✓ |
| Mr Rajiv Mishra | ✓ | ✓ | ✓ | ✓ |
| Ms Catherine Tanna[2] | | ✓ | | ✓ |
| Mr David Simmonds | ✓ | ✓ | | ✓ |
| Ms Quince Chong | | ✓ | ✓ | ✓ |
| Mr Roy Massey | | ✓ | | ✓ |

Notes:

1 Mr Geert Peeters was appointed as a member of Senior Management on 1 April 2014.

2 Ms Catherine Tanna was appointed as a member of Senior Management on 1 July 2014.

## Internal Auditors

CLP's Group Internal Audit (GIA) department plays a major role in monitoring the internal governance of the CLP Group. The department is led by the Director – Group Internal Audit and includes 26 other staff with professional qualifications (including for example, from the Hong Kong Institute of Certified Public Accountants). The tasks of the department are set out in the CLP Code and include:

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

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

During 2014, GIA issued reports to Senior Management covering various operational and financial units of the Group, including joint venture activities outside Hong Kong. GIA also conducted reviews of major projects and contracts as well as areas of concern identified by management.

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

## External Auditor

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

During the year, the external auditor (which for these purposes includes any entity under common control, ownership or management with the external auditor or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally) provided the following audit and permissible audit related and non-audit services to the Group:

| | 2014 HK$M | 2013 HK$M |
|---|---|---|
| **Audit** | 37 | 34 |
| **Permissible audit related and non-audit services** | | |
| Due diligence and accounting/tax advisory services relating to business developments | 1 | 7 |
| Other services | 6 | 5 |
| **Total** | 44 | 46 |

The lead audit partner of our external auditor after having served the Company's statutory audits in that capacity since 2007 had retired from CLP's audit assignments after the year ended 31 December 2013. She was replaced by a partner who has not had any involvement in the CLP Group audit in the previous 10 years.

## Other Stakeholders

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

## Internal Control

The Company has had in place for many years an integrated framework of internal controls which continues to be consistent with the COSO (the Committee of Sponsoring Organisations of the Treadway Commission) framework that has been updated with 17 principles on effective internal controls as illustrated below:

### Operations, Reporting & Compliance

**Control Environment**

- Demonstrates a commitment to integrity and ethical values
- The board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control
- Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives
- Demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives
- Holds individuals accountable for their internal control responsibilities in the pursuit of objectives

**Risk Assessment**

- Specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives
- Identifies risks to the achievement of its objectives across the entity and analyses risks as a basis for determining how the risks should be managed
- Considers the potential for fraud in assessing risks to the achievement of objectives
- Identifies and assesses changes that could significantly impact the system of internal control

**Control Activities**

- Selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels
- Selects and develops general control activities over technology to support the achievement of objectives
- Deploys control activities through policies that establish what is expected and procedures that put policies into action

**Information and Communication**

- Obtains or generates and uses relevant, quality information to support the functioning of internal control
- Internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control
- Communicates with external parties regarding matters affecting the functioning of internal control

**Monitoring Activities**

- Selects, develops, and performs ongoing and / or separate evaluations to ascertain whether the components of internal control are present and functioning
- Evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate

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

## Control Standards, Checks and Balances

The Company's expectations regarding duty and integrity are clearly spelt out in formal policy manuals, which include the Company's Code of Conduct and Management Control Standards Manual. Similar controls are implemented at our subsidiaries.

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

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

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

In addition to setting out guidelines, principles and values, we recognise that an environment where employees feel free to bring problems to management is also necessary to make our internal control system effective. Our Code of Conduct and Whistleblowing Policy make it clear that all reports to management will be handled confidentially to the fullest extent possible under the circumstances and, most importantly, that everyone in Senior Management will fully support those who in good faith report potential or actual breaches of the Code of Conduct and any possible improprieties in any matters related to the Company. The Audit Committee has reviewed the effectiveness of the implementation of the Whistleblowing Policy in 2014 and found no significant areas of concern.

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

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

## Control Processes

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

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

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

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

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

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

The digital Group Internal Control System, which was introduced in 2012 for managers to complete their representation letters, has enhanced the promptness and thoroughness in completion of the General Representation Letter process with a view to bringing material issues, if any, to the CEO and CFO's attention in a timely manner.

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

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

To further strengthen the monitoring of the Group's overall risk management approach and strategy, a Group Risk Management Framework is in place to improve communication of identified risks within management, measure the impact of the identified risks and facilitate implementation of coordinated mitigating measures. The way we manage risk is set out in the Risk Management Report at page 132. The Audit Committee oversees the development and implementation of the Group Risk Management Framework.

## Control Effectiveness

The Board is responsible for the Company's internal control system and for reviewing its effectiveness. GIA and management conduct reviews of the effectiveness of the Company's internal control system, including those of its subsidiaries. The Audit Committee reviews the findings and opinion of GIA and management on the effectiveness of the Company's internal control system five times a year, and reports regularly to the Board on such reviews.

In respect of the year ended 31 December 2014, the Board considered the internal control system effective and adequate. No significant areas of concern that might affect shareholders were identified during the Relevant Period.

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

## Inside Information

With respect to procedures and internal controls for the handling and dissemination of inside information, the Company:

- is aware of its obligations under the Securities and Futures Ordinance and the Listing Rules and the overriding principle that inside information should be announced immediately it is the subject of a decision;

- conducts its affairs with close regard to the "Guidelines on Disclosure of Inside Information" and "Recent Economic Developments and the Disclosure Obligations of Listed Issuers" issued by the Securities and Futures Commission in June 2012 and the Hong Kong Stock Exchange in 2008 respectively;
- has implemented and disclosed its own policy on fair disclosure (set out in Section V of the CLP Code);
- has included in its Code of Conduct a strict prohibition on the unauthorised use of confidential or inside information; and
- has established and implemented procedures for responding to external enquiries about the Group's affairs. Senior managers of the Group are identified and authorised to act as the Company's spokespersons and respond to enquiries in allocated areas of issues.

The Company has also published Continuous Disclosure Obligation Procedures which formalised the current practices for monitoring developments in our businesses for inside information and communicating such information to our shareholders, the media and analysts. These Procedures are on the CLP website. Training on the implementation of the Procedures has been provided to CLP's management, subsidiaries and joint ventures.

## Communication with Shareholders

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

CLP's 2014 Sustainability Report, published online at the same time as this Annual Report, describes in detail our delivery of social and environmental value in 2014 and contributes to integrated reporting about all aspects of our activities. The Report discloses our achievements and shortcomings in managing the social and environmental aspects of our business in a comprehensive, honest and accessible way. It also includes an independent assurance report from PwC. We welcome feedback on both the Annual and Sustainability Reports.

A detailed account of CLP's different channels of communication with our Shareholders is set out in the "Shareholder Value and Engagement" section at page 22 of our Annual Report. Pursuant to the authority delegated from the Board, the Audit Committee has reviewed the implementation of the Shareholders' Communication Policy in 2014 and considered the communication with Shareholders effective.


Our Chairman listens carefully to shareholders

## Reporting via Internet

The CLP website is a major channel for providing our shareholders and other stakeholders with information on the Company's corporate governance structure, policies and systems. The "About CLP" and "Investors Information" sections of our website include:

- CLP Code on Corporate Governance;
- CLP Fair Disclosure Policy;
- Announcements made during the preceding five years;
- Whistleblowing Policy;
- CLP Value Framework including Code of Conduct and Responsible Procurement Policy Statement;
- CLP Anti-Fraud Policy;
- CLP Procurement Values and Principles;
- Continuous Disclosure Obligation Procedures;
- Board and Board Committees Performance Evaluation Conclusion;
- Actual Remuneration Awarded to Executive Directors and Senior Management;
- Review of Fees payable to Non-executive Directors;
- Induction and Professional Development for Directors;
- Participation in Directors' Continuous Professional Development Programme;
- Board Diversity Policy;
- General Representation Letter;
- Guidelines on Disclosure of Related Party Transactions of the CLP Group;
- Code for Securities Transactions by CLP Holdings Directors and Specified Individuals;
- Policy on Making Political Contributions;
- Articles of Association;
- Procedures for Shareholders to Convene General Meetings / Put Forward Proposals;
- Shareholders' Communication Policy;
- Shareholders' Guide;
- Biographical data on Directors and Senior Management;
- Model Letter of Appointment for Non-executive Directors;
- Terms of Reference of Board Committees;
- Frequency and length of meetings, volume of briefing papers considered and Members' attendance of the Board and Board Committees;
- General Meetings proceedings;
- Interest in shares of Top 10 shareholders of the Company, Substantial Shareholders and Directors & CEO;
- Summary shareholdings identified pursuant to Section 329 of the Securities and Futures Ordinance;
- Analyst briefings and ESG webcast;
- Responses to Consultations; and
- Frequently asked questions (regularly updated).

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

Corporate Governance

## Corporate Governance – Continuing Evolution and Disclosure

We make a constructive and informed contribution to the ongoing debate about corporate governance in Hong Kong through frequent and active participation in seminars and workshops. We also make a point of responding to every public consultation by the regulatory authorities on proposed governance and regulatory reforms. For example in 2014 we submitted our views on issues relating to risk management and internal control, review of Listing Rules on disclosure of financial information with reference to the NCO and Hong Kong Financial Reporting Standards, proposed minor/housekeeping Listing Rules amendments and weighted voting rights. We always post our submissions on our website so that shareholders can judge whether we have properly reflected their views and their interests.

Our own corporate governance practices evolve, not only in line with local requirements, but through our own experience and by reference to international developments. Through this Corporate Governance Report, the CLP Code and the Corporate Governance section of our website, we offer a full view of our practices and policies and how these are evolving. Our objective is that, at all times, our corporate governance meets our shareholders' expectations and serves their interests. We will continue to review and, where appropriate, improve on our corporate governance practices in light of evolving experience, regulatory requirements and international developments.

By Order of the Board

**April Chan**
Company Secretary
Hong Kong, 26 February 2015

### Generally speaking, in what circumstances does CLP issue special dividends? Does the Company have plans to reward long-term shareholders with special dividends? Will CLP consider issuing its interim dividends in shares instead of cash? Does CLP have plans to list CLP Power Hong Kong Limited separately in Hong Kong?


We always look for opportunities to create value for our shareholders whether through share price appreciation, dividend payments, or otherwise. Historically, special dividends were paid out of the earnings from our property development, e.g. the Hok Un project and other asset disposals.

Regarding scrip dividends to shareholders, the Board has considered this option. However, this is a relatively uncommon mechanism in Hong Kong and the take-up rate, as opposed to receiving dividends in cash, varies. Another limitation is that there are considerable administrative costs payable to the share registrar for processing scrip dividends. Many shareholders have told us they would prefer to avoid such costs and have more dividends paid directly to them. As a result, we do not presently envisage offering a scrip dividend option to our shareholders but we will continue to look at this option.

At CLP, we place shareholder value as our first priority when considering any potential divestments or restructuring. While we will consider different options from time to time, we continue to believe that the greatest value for shareholders comes from leveraging our capabilities across a diversified portfolio of investments, rather than separating or breaking up the Company. Certainly, at this stage, there are no immediate plans for any separate listing of CLP Power Hong Kong.


**Mr Chow Yeung Wai**
Shareholder

**Richard Lancaster**
Chief Executive Officer

More Q&As

# RISK MANAGEMENT REPORT

*We are committed to continually improving our risk management framework, capabilities, and culture across the Group so as to ensure the long-term growth and sustainability of our business.*

## CLP's Risk Management Philosophy

Risk is inherent in CLP's business and the markets in which it operates. The challenge is to identify risks and then manage these so that they can be reduced, transferred, avoided or understood. This demands a proactive approach to risk management and an effective group-wide risk management framework.

CLP's overall risk management process is overseen by its Board as an element of solid corporate governance. CLP recognises that risk management is the responsibility of everyone within CLP. Rather than being a separate and standalone process, risk management is integrated into business processes including strategy development, business planning, capital allocation, investment decisions, internal control and day-to-day operations.

CLP's risk management objectives:

- At a strategic level, CLP focuses on the identification and management of material risks at the Group, business and functional levels in order to better equip itself to pursue the Group's strategic and business objectives. In pursuing growth opportunities, CLP aims to optimise risk / return decisions while establishing strong and independent review and challenge processes.
- At an operational level, CLP aims to identify, assess, evaluate and mitigate operational hazards and risks in order to create a safe, healthy, efficient and environmentally-friendly workplace for its employees and contractors while ensuring public safety and health, and minimising environmental impact.

## CLP's Risk Appetite and Risk Profiling Criteria

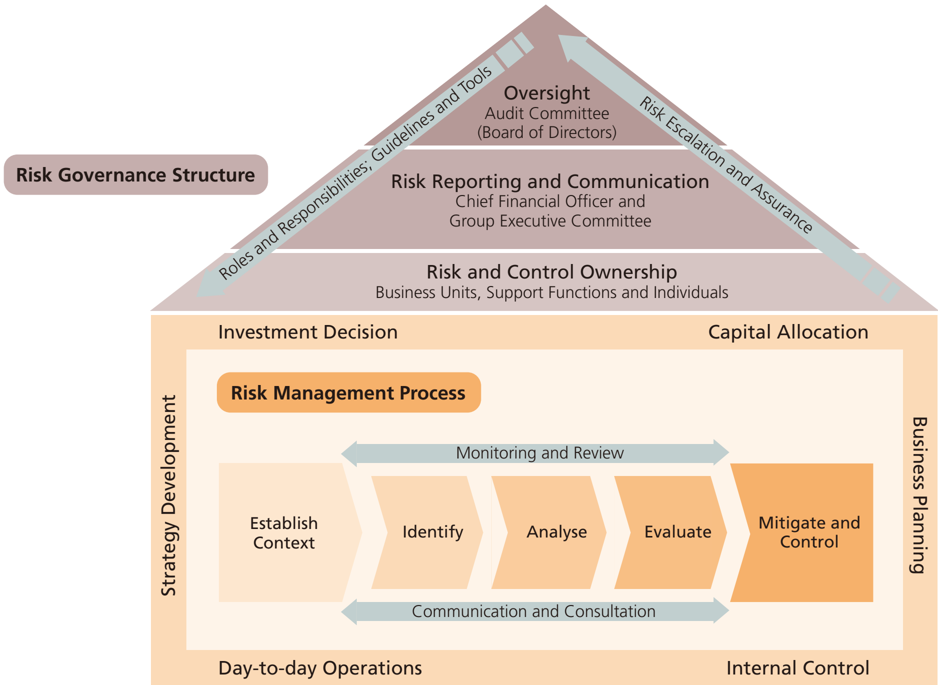
CLP's risk appetite represents the amount of risk the Group is willing to undertake in pursuit of its strategic and business objectives. In line with CLP's Value Framework and expectations of its stakeholders, CLP will only take reasonable risks that (a) fit its strategy, (b) can be understood and managed, and (c) do not expose the Group to:

- material financial loss impacting ability to execute the Group's business strategy and / or materially compromising the Group's ongoing financial viability,
- incidents affecting safety and health of our staff, contractors and the general public,
- material breach of external regulations liable for loss of critical operational / business licence and / or substantial fines,
- damage of the Group's reputation and brand name,
- business / supply interruption leading to severe impact on the community, and
- severe environmental incidents.

Based on the above, CLP has established its risk profiling criteria in the form of a risk matrix to help assess and prioritise risks at the Group level. Business units are required to adopt the same risk matrix structure in order to establish their own risk profiling criteria in determining consequence and likelihood of identified risks with reference to their own materiality and circumstances.

# CLP's Risk Management Framework

CLP's risk management framework comprises two key elements: risk governance structure and risk management process.




## CLP's Risk Governance Structure

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

### Oversight

**Audit Committee, acting on behalf of the Board**

- Oversees material risks that warrant attention and supervises risk management process as part of good corporate governance.

### Risk Reporting and Communication

**Chief Financial Officer and Group Executive Committee**

- Supported by Group Risk Management, communicate and assess the Group's risk profile and material risks at the Group level.
- Track progress of mitigation plans and activities of material risks and report on detailed examinations of specific risks as required.

### Risk and Control Ownership

**Business Units, Support Functions and Individuals**

- Facilitated and coordinated by Group Risk Management, ensure that risk management processes and mitigation plans follow good practices and guidelines established by the Group.
- Carry out risk management activities and reporting according to our risk management framework in their day-to-day operations.
- At CLP Power Hong Kong, EnergyAustralia, CLP India and China business units, Risk Management Committees or parallel Executive Committees oversee their risk management frameworks and activities. Group Risk Management participates in these committees or reviews risk reports of the business units.
- In other business and functional units, executives meet regularly to review their risk profiles and risk management activities.
- Risk managers or coordinators at business and functional units have been appointed to facilitate communication, experience sharing and risk reporting.

| CLP's Risk Management Process | |
|---|---|
| • Is embedded in our strategy development, business planning, capital allocation, investment decisions, internal control and day-to-day operations.<br>• Is in line with leading industry standards and practices, including ISO31000:2009 Risk Management – Principles and Guidelines.<br>• Involves establishing the context, identifying risks, assessing their consequences and likelihood, evaluating risk level, control gaps and priorities, and developing control and mitigation plans. This is a continuous process with periodic monitoring and review in place. | |
| Quarterly Risk Review Process at Group Level | • Every quarter, our business and functional units are required to submit their material risks identified through their risk management process to Group Risk Management.<br>• Group Risk Management, through aggregation, filtering and prioritising processes, compile a Quarterly Group Risk Management Report for discussion at the Group Executive Committee, chaired by the CEO. The Committee reviews and scrutinises the material risks and ensures the appropriate controls and mitigation measures are in place or in progress. Emerging risks, which might have a material impact on the Group over a longer timeframe, are monitored and discussed at the Committee.<br>• Following review by the Group Executive Committee, the Quarterly Group Risk Management Report is submitted to the Audit Committee with a summary of the material risks circulated to the Board. "Deep dive" presentations on selected risks are presented to the Audit Committee for more detailed review. |
| Risk Review Process for Investment Decisions | • All new investments must be endorsed by the CLP Holdings Investment Committee, chaired by the CEO, before seeking approval from the Board or Finance & General Committee.<br>• We adopt a multi-gated system of periodic project appraisals during their development and investment cycles both prior to and after a final investment decision is made. These ongoing reviews provide feedback to the CLP Group's capital allocation decisions, creating a more streamlined approach across business units and facilitating learnings from project to project and across different regions.<br>• We require independent multi-disciplinary review of any investment proposal before submission to the Investment Committee. Group Risk Management sign-off is part of the investment review process.<br>• Group Risk Management facilitates the project owner to conduct a detailed project risk assessment with proper documentation. Detailed checklists and worksheets are used for identifying risks / mitigations and assessing risk level. Material risks and associated mitigations are highlighted and discussed at the Investment Committee. |
| Risk Management Integrated with Internal Control Systems | • Risk management is closely linked to CLP's Integrated Framework of Internal Control. Key controls are subject to testing in order to assess their effectiveness. Details on Internal Control are set out in the Corporate Governance Report on pages 126 to 129. |
| Risk Management in the Business Planning Process | • In our annual business planning process, business units are required to identify all material risks that may impact their achievement of business objectives. Identified risks are evaluated based on the same set of risk profiling criteria as the quarterly risk review process. Plans to mitigate the identified risks are developed for implementation and budget purposes. The material risks set out on pages 136 to 139 of this Annual Report have been extracted from our 2014 business planning process. |

## Major Risk Management Initiatives in 2014

- CLP Holdings strengthened the governance of its Investment Committee, concentrating on project investments and associated financial and resource commitments through the publication of revised Investment Committee Guidelines. The updated Investment Committee Guidelines seek to introduce a multi-gated review of projects under development up to and following a final investment decision being made. In addition, the new Guidelines have extended the scope of the Investment Committee's review to include other non-standard contractual commitments proposed by any business within the CLP Group, as well as anything which may give rise to substantial non-standard off-balance sheet or on-balance sheet commitments.
- CLP Holdings provided feedback to the Hong Kong Stock Exchange consultation paper on its proposed amendments to the Corporate Governance Code and Corporate Governance Report (the Stock Exchange Code) relating to Risk Management and Internal Control. The proposed amendments to the Stock Exchange Code will become effective for accounting periods from 1 January 2016.
- The Quarterly Group Risk Management Report was further improved for better communication with the Board and the Audit Committee.
- CLP Power Hong Kong conducted an internal assessment and review of Business Continuity Management to ensure consistency with the requirements of ISO22301:2012 Business Continuity Management.
- CLP India updated its Enterprise Risk Management Framework and Procedures, including risk profiling criteria used for assessing financial consequences.
- CLP's China business unit initiated risk assessment programmes for Fangchenggang and Jiangbian focusing on extreme weather events.
- EnergyAustralia strengthened its energy risk management capability via the implementation of a separate trading book structure for generation, retail and strategic value. This maintains the benefits of integrating trading strategy across the value chain and provides flexibility to respond to market changes.
- EnergyAustralia continues to develop ownership and accountability of business-unit-specific risk profiles with monthly reporting that includes a specific view on risks and opportunities impacting the business plan. The roll-up and reporting of enterprise-wide risks is managed centrally with a focus on financial equivalence of key risk exposures and key risk indicators providing insights into the movement of risk.

## Material Risks of the Group

Our 2014 business planning process has identified the following as material risks of the Group.

| Risk Description | Changes in 2014 | Key Risk Mitigations |
|---|---|---|
| **Regulatory Risks** | | |
| **Regulatory & political risk of Hong Kong business**<br>Medium-term risk of adverse changes to the post-2018 regulatory structure exists. A public consultation on electricity market development is expected to be launched by the Government in the first half of 2015.<br>*Note: Challenge of tariff increase has been separately reported.* | ⇦ ⇨<br>*Fuel mix consultation ended with further action or decision by Government pending* | • Implement comprehensive stakeholder engagement plan to facilitate sensible and informed discussion on the post-2018 regulatory regime.<br>• Focus on brand building, customer service and operating performance to reinforce CLP's performance and commitment to the community and our customers. |
| **Uncertain regulatory outcomes impacting EnergyAustralia's profitability**<br>May include pricing deregulation or re-regulation in Australian states and changes to the Renewable Energy Target (RET), particularly as EnergyAustralia has a large inventory of green energy and certificates under the RET. | ⇧<br>*RET review completed with decision by Government pending* | • Strategic review of assets and portfolio for future positioning on the value chain.<br>• Stakeholder and Government engagement to advocate our position on regulatory changes. |
| **Market Risks** | | |
| **Significant energy market changes impacting EnergyAustralia's stability**<br>Overall market demand reduction, reduced pool prices and increasing retail competition, compounded by loss of compensation (offset by no tax on emissions) from carbon tax repeal. | ⇧<br>*Carbon tax repealed* | • Strategic review of assets and portfolio for future positioning on the value chain.<br>• Investments (self-funded) in future revenue streams in addition to cost, productivity and marketing initiatives. |
| **Electricity volume risk affecting China portfolio**<br>Volume risk due to resource variability, supply-demand imbalances and grid constraints / curtailments in certain areas.<br>In 2014, Fangchenggang's generation output was impacted by two typhoons and increased hydro generation from rainfall. | *New* | • Review of operations and development strategy.<br>• Proactively engage with Government and grid companies advocating for more dispatch.<br>• Monitor impact of new generation capacity. |

⇧ Risk level increased ⇩ Risk level decreased ⇦ ⇨ Risk level remains broadly the same

| Risk Description | Changes in 2014 | Key Risk Mitigations |
|---|---|---|
| **Financial Risks** | | |
| **Potential further downgrade of EnergyAustralia's credit ratings**<br>Improving business prospects for 2015 remains a key challenge for EnergyAustralia. A potential further downgrade would trigger additional interest charges on drawn and undrawn funds, and credit support required by counterparties. | ⬅➡<br>*Maintained BBB- with Negative Outlook in 2014* | • Review business strategies, revisit capital structure and lock in long-term funding to ensure liquidity.<br>• Sufficient undrawn debt facilities to meet calls for credit support by counterparties in case of a further downgrade. |
| **Group's liquidity risk of inadequate funding**<br>Inability to obtain adequate and cost-effective funding on time. | ⬅➡<br>*CLP Holdings has maintained sufficient liquidity after funding CAPCO / PSDC acquisitions* | • Maintain current dividend practices, good investment grade credit ratings, and adequate liquidity.<br>• Solicit adequate and cost-effective funding in advance and maintain an appropriate mix of committed credit facilities.<br>• Ensure funding diversification (sources, instruments and tenor).<br>• Maintain good, long-lasting relationship with lenders. |
| **Foreign currency risk associated with the Group's investments**<br>The Group is exposed to transaction and translation (exchange rate) risks, particularly Rupee, RMB and AUD, and the associated financial cost risks. Group level earnings may also be impacted by marked-to-market fair value gains / losses as some of the economic hedges are classified as "ineffective" according to Hong Kong Financial Reporting Standards. | ⬅➡<br>*Currency volatility has become a market norm* | • Hedge currency exposures in line with Group Treasury Policy.<br>• Natural hedge by matching currency of revenue, cost and debt.<br>• Project level debts to be denominated in and / or swapped into functional currency where possible. |
| **Default of Group's financial counterparties**<br>Inability to enforce financial derivatives for hedging CLP's economic obligations. Exposures relating to unrecoverable amounts from financial counterparties. | ⬅➡<br>*Event risks overhanging despite improvement in global financial markets* | • Transact only with creditworthy and pre-approved financial institutions.<br>• Allocate exposure limits based on bank's credit standing to avoid over-concentration while maintaining meaningful competition.<br>• No recourse to CLP Holdings for counterparties of subsidiaries and affiliates. |

⬆ Risk level increased ⬇ Risk level decreased ⬅➡ Risk level remains broadly the same

| Risk Description | Changes in 2014 | Key Risk Mitigations |
|---|---|---|
| **Commercial Risks** | | |
| **Major commercial disputes with offtakers over Power Purchase Agreements (PPAs) in India**<br>Paguthan's Deemed Generation Incentive litigation is pending a Supreme Court hearing. An adverse judgment may require CLP India to pay all previously time barred amounts in addition to amounts already paid.<br>*(See contingent liabilities disclosure on pages 258 to 259.)*<br>Jhajjar's disputes with offtakers over applicable tariff, energy charges, and availability penalty are pending dispute resolution through adjudication. | *Pending court hearing / adjudication* | Paguthan's Deemed Generation Incentive litigation<br>• No further mitigations anticipated.<br>Jhajjar's disputes with offtakers<br>• Dispute resolution through adjudication process of Central Electricity Regulatory Commission (CERC).<br>• Provisions to be made as appropriate. |
| **Risk of PPA renegotiation / extension at Paguthan**<br>Continuing non-availability of gas at affordable prices. | *PPA revised to provide relief to the offtaker* | • Monitor gas supply situation and try to obtain domestic contracts when available.<br>• Paguthan's development options upon PPA expiry being reviewed. |
| **Rising costs of Hong Kong business and challenges of tariff increases**<br>Increases in fuel cost resulting from tightening emission requirements may be challenged. | *The 2015 Tariff Review concluded smoothly with increase lower than projected level in the 2014 -18 Development Plan* | • Implement optimal fuel mix strategy.<br>• Mitigate gas price volatility with supply diversification.<br>• Exercise stringent cost management.<br>• Help customers mitigate tariff impact.<br>• Continue to enhance energy efficiency and conservation initiatives.<br>• Step up stakeholder engagement efforts. |
| **Counterparty risk of Indian distribution companies** | *Experiencing some delays in receivables only* | • Monitor the credit ratings and financial health of State utilities with particular focus on their implementation of approved debt restructuring package and payment records.<br>• Follow up with utilities at a commercial level and escalate to senior level when required. |

Risk level increased    Risk level decreased    Risk level remains broadly the same

| Risk Description | Changes in 2014 | Key Risk Mitigations |
|---|---|---|
| **Industrial / Operational Risks** | | |
| **Major accident at construction or operating plants**<br>With new construction sites in China and India, there is increased incidence risk of contractors' safety management. | ⬆<br>*A fatal accident occurred involving a contractor worker at Tejuva Wind Farm site* | • Implement CLP Group Health, Safety, Security and Environment (HSSE) Management System and related standards and guidelines, including the Critical Risk Standards, to enhance the awareness of both employees and contractors. (see more details on pages 93 to 94) |
| **Potential stabilisation issues after integration of Ausgrid customers into EnergyAustralia's system**<br>Ausgrid customer data migration was completed (end-November 2014). Post migration stabilisation support and monitoring procedures have been established. | ⬇<br>*Shifted from delivery risk of customer integration programme to its stabilisation* | • Post migration support from Ausgrid.<br>• Planned and completed a "Hyper Care" process post migration, providing a heightened level of support and rapid resolution of issues.<br>• Less critical system stabilisation issues are on track to be completed. |
| **Uncertainty in Jhajjar's plant performance**<br>Current concerns include capability of the plant to operate in a trouble-free manner if it has to run on 100% domestic coal instead of blending with imported coal. | ⬅ ➡<br>Plant availability increased with coal supply much improved | • Identify and maintain critical spare parts<br>• Develop local vendors for equipment repair and fabrication.<br>• Develop a long-term maintenance plan.<br>• Implement CLP benchmark practices with a group-wide collaboration effort. |
| **Performance risk of wind power projects across the Group**<br>Continuing low wind resource and grid constraints in both India and China. | ⬅ ➡<br>Expanded from India wind resource risk to performance risk of wind projects across the Group | • Improve wind yield estimation and operational data analysis.<br>• Conduct forensic analysis.<br>• Proactively engage with Government and grid companies advocating for more dispatch.<br>• Seek contractual protection by warranty, plant availability guarantee and power curve performance guarantee. |

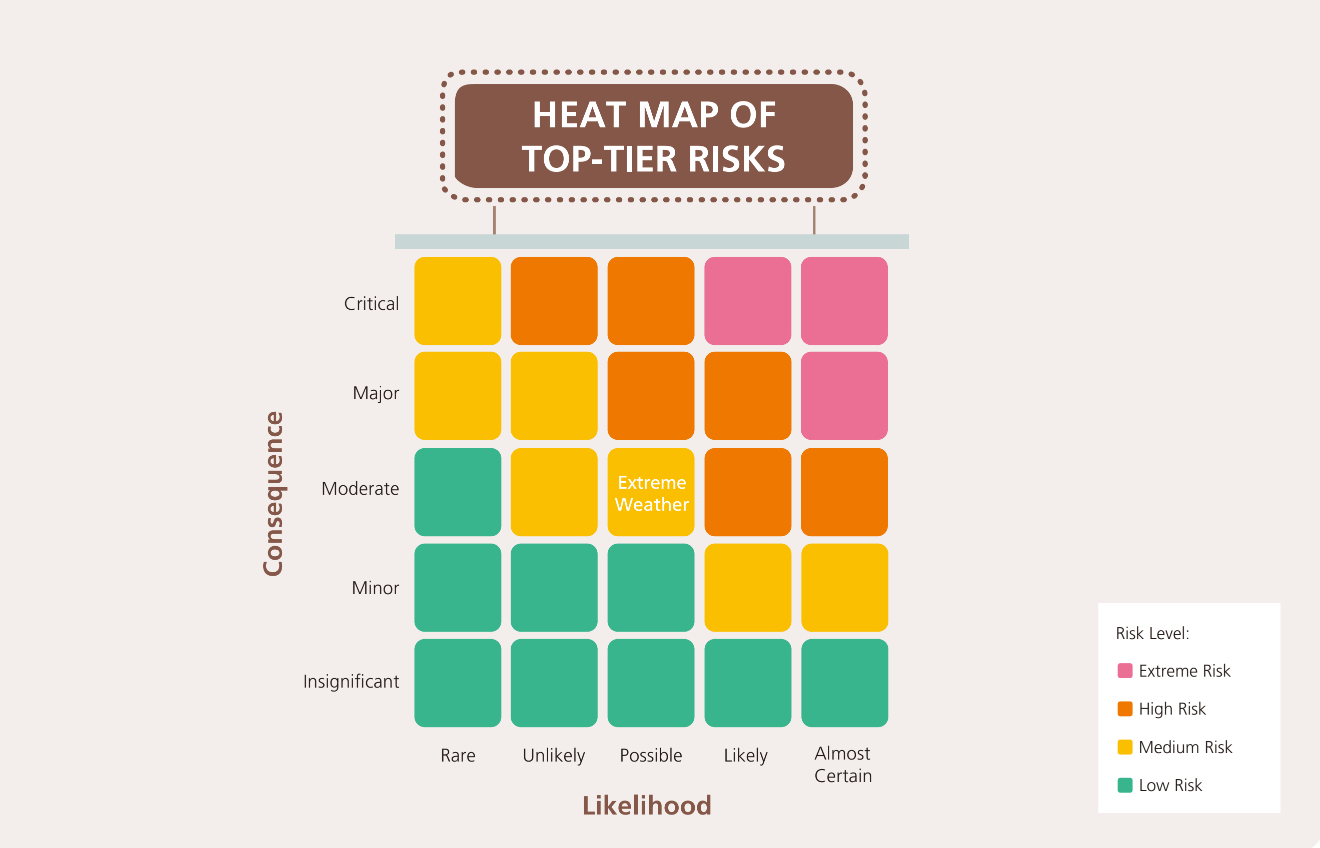
**Other Industrial and Operational Risks**

- CLP is continually focusing on preventive measures and remediation relating to safety, emissions compliance, fuel supply, plant performance, human capital, data privacy, cyber-attacks and increasing occurrence of extreme weather events.

⬆ Risk level increased ⬇ Risk level decreased ⬅ ➡ Risk level remains broadly the same

## Emerging Risk: Increasing Occurrence of Extreme Weather Events

Extreme weather events such as the increase in intensity of tropical cyclones, flooding and drought may adversely affect our assets and operations across the Group. In 2014, various assets in Mainland China were affected by significant extreme weather events (Jiangbian, Huaiji and Fangchenggang) resulting in generation losses for extended periods.




### Key Mitigations:

- Climate adaptation studies conducted for existing power plants, starting with our fossil fuel power plants and recently moving on to our renewable portfolio.
- Currently reviewing how this climate adaptation assessment can be incorporated as part of the plant design phase for new projects.
- Mitigating actions that have been implemented include:
  - reinforcing structures to withstand damage from stronger typhoons;
  - dealing with self-ignition of coal and bushfires during extreme high temperature scenarios;
  - installation of flood barriers, gates and alarms for flood-prone plant rooms and substations;
  - pumps and piping in place to cater for flood risk of the coal mine of EnergyAustralia;
  - emergency response plans and business continuity plans with regular drills; and
  - insurance policies covering property and revenue loss where appropriate.

## Outlook and Major Initiatives for 2015

- Continue to enhance CLP's group-wide risk management framework and its implementation in line with the Stock Exchange Code and industry best practices.
- Continue to assist business units in the roll-out of their own frameworks in line with group-wide framework and guidelines.
- CLP Power Hong Kong to finalise its company-wide Risk Management Framework and Guidelines in order to reinforce its effective and consistent implementation across its units.
- China business unit to continue to roll out its risk management framework and procedures across subsidiary and majority-owned entities. To drive risk ownership and accountability, each China asset will establish a dedicated team focusing on risk assessment and reporting. Risk awareness training is being planned for all China assets.
- EnergyAustralia to continue to focus on both awareness and ownership of risks across its units. Refinement of Enterprise Risk Reporting will continue to focus on alignment with the business planning process. Risk team is also working to improve key controls and revamp the investment governance process.

CLP is facing a wide range of current and emerging risks which demand continuous and close attention based on an effective risk management framework. It should be acknowledged that our risk management framework is designed to manage rather than eliminate the risk of failure in achieving our strategic and business objectives, and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

Benjamin Lau

**Benjamin Lau**
Acting Chief Financial Officer
Hong Kong, 26 February 2015

# AUDIT COMMITTEE REPORT

The Audit Committee is appointed by CLP Holdings' Board of Directors and has four members, all of whom are Independent Non-executive Directors. The Chairman, Mr Vernon Moore, and Mr Nicholas Allen have appropriate professional qualifications, including membership of the Hong Kong Institute of Certified Public Accountants (HKICPA), and experience in financial matters. 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.

The Board has given the Committee written terms of reference prepared by reference to the HKICPA's "A Guide for Effective Audit Committees" and the Hong Kong Stock Exchange's Appendix 14 to the Listing Rules "Corporate Governance Code and Corporate Governance Report" (the Stock Exchange Code). Its terms of reference are set out in the CLP Code on Corporate Governance (CLP Code) and on CLP's and the Stock Exchange's websites.

In 2014 the Committee increased the number of regular meetings from five to six per annum. The additional meeting is held in January to review likely critical judgmental issues of the CLP Group in advance of the Committee's review of the Financial Statements in February. Special meetings may be called by its Chairman or at the request of the CEO or Director – Group Internal Audit to review significant control or financial issues. There is an open invitation between the Committee and the EnergyAustralia Audit & Risk Committee for members to attend the others' meetings. Individual attendance of members at the meetings held in 2014 is set out in the Corporate Governance Report on page 120. In 2014, the Chairman of the Committee participated in three EnergyAustralia Audit & Risk Committee meetings and also the meeting held in February 2015 whilst the Chairman of EnergyAustralia Audit & Risk Committee participated in the meetings of the Committee held in January and February 2015.

During the year, the Committee members visited the Penglai Wind Farm in Mainland China and Delhi in India to meet the local management and senior government officials.

## Responsibilities

The Committee is accountable to the Board, all members of which are provided the minutes of every meeting of the Committee. The Chairman reports to the Board on Committee's review of significant internal control issues and the Company's annual / interim results. In addition, the Chairman gives an annual report to the Board on the Committee's activities. The Committee's primary responsibilities are to:

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

## Summary of Work Done

Between 1 January 2014 and the date of this Report (the Relevant Period), the Audit Committee met eight times and discharged its responsibilities in its review of the interim and annual results and systems of internal control and risk management and its other duties as set out in the CLP Code. The work performed by the Committee during the Relevant Period are summarised in the following paragraphs.

### Internal Control and Risk Management

The Committee reviewed the CLP Group's internal control review approach and received regular updates on internal control testing from management. No significant areas of concern that might affect shareholders were identified during the Relevant Period.

The Committee received regular updates on its Customer Management and Billing System – Customer First (C1) and the status of customer integration from EnergyAustralia; and for the whole Group, the status of the testing of key controls and of outstanding audit issues.

The Committee received a General Representation Letter, signed jointly by the CEO and the CFO regarding compliance with internal control systems, disciplines and procedures which cover financial and relevant non-financial information for the year ended 31 December 2013 and separately for 2014 Interim as well as for the year ended 31 December 2014. This provides assurance to the Audit Committee that adequate internal controls are in place and operating.

Based on the information received from management, the external auditor and Group Internal Audit (GIA), the Committee believes that overall financial and operating controls in place for the Group during 2014 continue to be effective and adequate. Further information about control standards, checks and balances and control processes is set out in the Corporate Governance Report on pages 127 to 128. The Audit Committee confirms that it has discharged its responsibilities in accordance with the requirements of the CLP Code and is satisfied that the Group has complied with all the Code Provisions of the Stock Exchange Code with respect to internal controls.

The Committee oversees the development and implementation of the Group Risk Management Framework which has been established to improve the communication of identified risks and facilitate the implementation of a structured approach in assessing and managing the risks across the Group. The Committee also reviewed, on a quarterly basis, the Group's material risks and the associated key mitigating actions. In addition to an annual review of cyber security measures, topics of importance are brought to the Committee on an ad hoc basis for review and oversight, for instance, the Committee reviewed the electricity volume risk in the China portfolio this year.

## Accounting Principles and Reporting Practices

The Committee reviewed the CLP Group's accounting principles and practices and the impacts on accounting policies arising from revised financial reporting standards.

The Committee reviewed the 2013 and 2014 Annual Reports including the Corporate Governance Report, the Directors' Report and Financial Statements for the years ended 31 December 2013 and 2014 and the relevant annual results announcement, with a recommendation to the Board for approval. The Committee also reviewed the 2014 Interim Report including the CLP Group Interim Financial Statements for the six months ended 30 June 2014 and the interim results announcement, with a recommendation to the Board for approval.

The Audit Committee paid particular regard to judgmental issues in respect of the Company's Financial Statements for the years ended 31 December 2013 and 2014 and for the six months ended 30 June 2014. Amongst other inputs, the management reports to the Committee and the audit reports submitted by external auditor summarised significant matters of the CLP Group for the years ended 31 December 2013 and 2014 and for the six months ended 30 June 2014, such as in respect of auditing and accounting matters, taxation issues and internal controls, together with the manner in which they had been addressed.

During the Relevant Period the major judgmental issues included, by way of example, the assumptions for modelling the long-term electricity price curve in Australia, the impairment review for each major asset of the CLP Group, the impairment test for goodwill arising from the acquisition of further interest in CAPCO and the divestment of CLP's interests in CSEC Guohua and Shenmu joint ventures.

## Internal and External Auditing

The Committee reviewed the overall internal audit results for 2013 and 2014 and all the internal audit reports submitted in 2014.

During the Relevant Period, the Committee was advised that one report out of a total of 28 submitted by GIA carried an unsatisfactory audit opinion. It covered the Wholesale IT unit of EnergyAustralia. The issues arising from this audit had no significant impact on the Financial Statements and are being addressed by management.

The Committee reviewed the staffing and resources of the GIA department and the audit plans for 2014 and 2015, with areas of emphasis identified. The Committee reviewed revisions to GIA administrated policies and procedures and noted review of the GIA Charter, Anti-fraud Policy and Policy on Making Political Contributions.

The Committee reviewed the audit fees payable to the external auditor, PricewaterhouseCoopers (PwC), for the years ended 31 December 2013 and 2014 for approval by the Board, with a recommendation for their reappointment for 2014. PwC were reappointed independent auditor of the Company by shareholders at the AGM held on 8 May 2014. PwC audit all companies in the CLP Group which require statutory audit opinions. Their audit strategy for the year ended 31 December 2014 was reviewed by the Committee.

The Committee has reviewed the revisions to the Guidelines on audit, audit-related and non-audit services provided by the external auditor. It has also reviewed the proposed engagement of the external auditor in respect of permissible audit-related and non-audit services. Details of fees paid to PwC for their permissible audit-related and non-audit services are set out in the Corporate Governance Report on page 125. Having reviewed PwC's performance during 2014 and satisfied itself of their continuing independence and objectivity within the context of applicable regulatory requirements and professional standards, the Committee has recommended to the Board the reappointment of PwC as independent auditor at the forthcoming AGM. A resolution to that effect has been included in the Notice of AGM.

### Compliance

The Committee reviewed the compliance by the Company with the Stock Exchange Code throughout the years ended 31 December 2013 and 2014 and throughout the six months ended 30 June 2014. CLP complies with all the Code Provisions, with one deviation from Recommended Best Practices, which is on quarterly reporting. The reason is explained in the Corporate Governance Report on page 112 of this Annual Report.

The Committee also reviewed the Company's compliance with the Listing Rules, Companies Ordinance and Securities and Futures Ordinance throughout the years ended 31 December 2013 and 2014. No breaches were identified.

Every six months, the Committee reviewed legal cases in which CLP Holdings or any member of the CLP Group was a named defendant. Only those disclosed under Note 34 Contingent Liabilities to the Financial Statements are material.

### Corporate Governance

The terms of reference of the Audit Committee cover all of the corporate governance functions set out in the Stock Exchange Code and which may be delegated by the Board to the Audit Committee. In addition to its existing role in corporate governance, the Committee reviews:

- existing policies and practices and monitoring their effectiveness, including the Shareholders' Communication Policy, Code of Conduct, Whistleblowing Policy and Procedure for Gifts & Entertainment;
- key elements of proposed changes to CLP's Articles of Association;
- procedures to monitor connected transactions and continuing connected transactions (CCTs);
- the adequacy of training programmes and the budget of the accounting and financial reporting functions;
- new policies and practices on corporate governance matters and making recommendations to the Board;
- Code of Conduct issues identified in 2014. None of the seven breaches of the Code was material to the Group's financial statements or overall operations. None of the reported Code of Conduct violations involved senior managers;
- irregularity investigations process involving Senior Executives and Non-Senior Executives;
- management development, succession planning and training for key finance, accounting and internal audit positions;
- proposed governance arrangement following completion of CAPCO and PSDC acquisitions;
- cyber security;
- Code of Conduct response rate;
- the annual summary results of the Management's Ethical and Controls Commitment Surveys completed during the year;
- the Ethical and Controls Commitment Survey of Senior Executive Management conducted once every three years (2014); and
- the Representation Letters from management with respect to the auditor's report on the Consolidated Financial Statements for the year ended 31 December 2014, and the limited assurance opinion / report on the Group's CCTs for 2014 and on the identified sustainability information in the 2014 Sustainability Report.

## Audit Committee Effectiveness

The Company Secretary has evaluated the performance and effectiveness of the Audit Committee in 2014. The scope of the evaluation was reviewed by internal and external auditors. The CLP Holdings Board has endorsed the evaluation of the Company Secretary to the effect that the Audit Committee was performing its responsibilities in an effective manner and in accordance with its terms of reference.

**Vernon Moore**
Chairman, Audit Committee
Hong Kong, 26 February 2015

# SUSTAINABILITY COMMITTEE REPORT

The Sustainability Committee is appointed by the Board to oversee CLP's position and practices on sustainability issues. In light of the growing scope and number of sustainability-related initiatives and activities across the Group, as well as the increasing significance of ESG-related emerging risks and opportunities for the business, the Terms of Reference of the Committee were reviewed in 2014 to ensure that the roles and responsibilities of the Committee were commensurate with the changing needs and capabilities required to manage these areas. The new Terms of Reference (which are set out in the CLP Code of Corporate Governance and on the CLP's and the Stock Exchange's websites) were adopted with effect from the date of this Report with the objective to oversee management and advise the Board on matters required to enable:

- the CLP Group to operate on a sustainable basis for the benefit of current and future generations;
- sustainable growth by maintaining and enhancing CLP Group's economic, environmental, human, technological and social capital in the long term; and
- the effective management of CLP Group's sustainability risks.

The Committee is chaired by the CEO, Mr Richard Lancaster, and comprises Mr Nicholas C. Allen, Mrs Fanny Law, Ms Irene Lee, Mr Andrew Brandler and the Chief Corporate Development Officer, Ms Quince Chong. The Committee meets as frequently as required but not less than twice a year. Any Committee member may call a meeting of the Committee.

## Responsibilities

The Committee is accountable to the Board. Its primary responsibilities include the reviews of:

- CLP's sustainability standards, priorities and goals and to oversee CLP group-level strategies, policies and practices on sustainability matters to attain those standards and goals;
- the adequacy and effectiveness of CLP group-level frameworks insofar as they are related to sustainability matters;
- key international trends in legislation, regulation, litigation and public debate as regards social, environmental and ethical standards of corporate behaviour;
- sustainability risks, opportunities and performance of CLP and to recommend strategies for improvements;
- CLP's community, charitable and environmental partnerships, strategies and related group-level policies and make recommendations to the Board on any changes to those partnerships, strategies and policies; and
- CLP's public reporting as regards its performance on sustainability matters.

## Summary of Work Done

Between 1 January 2014 and 26 February 2015 (the Relevant Period), the Committee met four times and discharged its responsibilities in its review of CLP's sustainability standards, performance and reporting. The work performed by the Committee during the Relevant Period are summarised in the following paragraphs.

### Sustainability Standards

CLP's sustainability standards stem from our commitment to enable sustainable growth of the Company from generation to generation. The standards are encompassed in CLP's Value Framework, Climate Vision 2050 and other policies and statements.

The Committee reviewed the performance of the interim targets set in CLP's Climate Vision 2050 which commits CLP to a long-term goal to reduce carbon intensity of its generating portfolio by 75% by 2050. In light of stalled progress in reaching a global agreement on climate change as well as the ensuing weakening of local policy support for greenhouse gas reductions, the Committee reviewed the interim targets in the Climate Vision. It was noted that although these global factors have significantly increased the challenge of achieving the interim targets outlined in CLP's Climate Vision 2050, the long-term goal is still achievable. CLP remains committed to its Climate Vision 2050.

In 2012, CLP rolled out its Responsible Procurement Policy Statement (RePPS) across the Group in order to understand the level of sustainability awareness and current practice in its supply chain as well as to encourage its suppliers to focus on sustainability issues. In 2014, the Committee reviewed the progress of embedding the RePPS requirements into CLP's existing processes, such as in respect of the Hong Kong business risk-based Supplier Assessment System (SAS) which gathers feedback on CLP's own performance as well as that of its key suppliers.

In 2014, CLP launched a Health, Safety, Security and Environment (HSSE) Management System to ensure a more integrated approach to managing HSSE issues across the Group. The Committee reviewed the 10 critical risk standards for identified high risk activities. These standards are used by CLP's local businesses when developing their asset-based procedures to ensure that risks are well managed and that experiences and best practices from different sites are shared.

The Committee endorsed the preparation of our 2014 Sustainability Report to be in accordance with the Core level of the fourth generation Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines that were launched in 2013. The differences between the Core and Comprehensive levels of the G4 were discussed and potential areas of focus in the future to move towards Comprehensive level were also explored.

During the Relevant Period, the Committee has reviewed the reporting standards and goals for the upcoming years, as well as emerging sustainability risks and opportunities for the business.

## Sustainability Performance

CLP's sustainability performance is monitored by a Sustainability Framework which includes 15 sustainability goals, and is reflected in various investor-related sustainability ratings. The Committee reviewed the achievement of these goals which rest on an approach whereby:

- each business sets its own targets under each of the 15 goals as a contribution to the Group's sustainability objective as part of its business planning process;
- each target should make an efficient, positive contribution to business value – this aspect of CLP's activities is treated as part of everyday business operations and, as with everything we do, should increase the value of the business to its shareholders; and
- performance against the targets set during the annual business planning process are assessed at year end, at both business unit and Group level and incorporated into the overall annual CLP Group performance assessment process.

The following table highlights the 2014 performance in achieving the sustainability goals.

| Critical Area – Objective | Goals | 2014 Highlights | Examples of Relevant KPIs |
|---|---|---|---|
| **People – meet the evolving expectations of our stakeholders** | • Zero injuries in all our workplaces<br>• Support a healthy workforce<br>• Develop committed and motivated employees<br>• Meet or exceed customer expectations<br>• Earn and maintain community acceptance<br>• Operate our business ethically | • Strong safety performance tarnished by one contractor fatality in India at our Tejuva wind farm construction site, involving a truck reversing into the parking area. An independent accident investigation panel was set up to look into the root cause of the incident and the panel's recommendations have been adopted<br>• Many initiatives across the Group supporting healthy lifestyle and work life balance initiatives<br>• Relatively positive employee opinion survey results and relatively low turnover rates reflect committed and motivated employees<br>• Excellent customer service performance in Hong Kong and much improved customer service performance in Australia relative to last year<br>• Numerous and varied community engagement initiatives organised and supported throughout the Group<br>• Compliance with the Code of Conduct, including reporting seven breaches of the Code, none of which were material to the Group's financial statements or overall operations<br>• Progress on implementing responsible procurement practices in line with CLP's Procurement Policy | • Health & safety (e.g. number of fatalities, lost time injury incidence rate, total recordable injury rate)<br>• Employee turnover (e.g. voluntary turnover rates)<br>• Level of employee engagement (e.g. number of meetings with the Managing Director / General Manager events, feedback from survey)<br>• Customer satisfaction (e.g. 12-month average customer satisfaction percentage, same day reconnection percentage, percentage of calls answered within 30 seconds)<br>• Community initiative & engagement (e.g. number of engagements, number of programmes sponsored)<br>• Ethical behaviour (e.g. compliance with the Code of Conduct)<br>• Implementation of CLP's RePPS, including requirements in supplier selection and monitoring |

| Critical Area – Objective | Goals | 2014 Highlights | Examples of Relevant KPIs |
|---|---|---|---|
| **Business Performance – continually increase business value** | • Create long-term shareholder value<br>• Adapt proactively to a changing business environment<br>• Enhance individual and organisational capability | • Strong performance relative to business plans<br>• Implementation of risk management processes in accordance with the CLP Group Risk Management Policy, constructive engagement activities with government, meaningful engagement with industry stakeholders and many opportunities for new energy efficiency products and services and more advanced generation technologies pursued<br>• Several staff training initiatives pursued, training man-days targets met and succession planning initiatives implemented | • Performance against business plan metrics, primarily earnings, capital expenditure and operating expenditure<br>• Management of risk in accordance with the CLP Group Risk Management Policy, engagement with governments and major industry stakeholders and a number of partnerships / projects to support research and development of new technologies<br>• Development and training (e.g. number of training man-days, succession index) |
| **Energy Supply – deliver world-class products and services** | • Supply energy reliably<br>• Be operationally efficient<br>• Adopt emerging technology in a timely manner | • A wide variety of quantitative operational performance targets set and largely achieved across the Group<br>• Several Smart Grid pilot projects ongoing in Hong Kong and Australia and power station energy efficiency improvement programmes executed<br>• Different types of new and more efficient power generation technologies investigated and pursued | • Service performance (e.g. unplanned customer minutes lost, average service availability, average supply restoration)<br>• Operational performance of assets (e.g. equivalent forced outage rate, energy efficiency targets)<br>• Incremental efficiency improvements of existing assets; pursue new products and opportunities<br>• Contribute thought leadership to industry level discussions, expand our renewables portfolio, and investigate and consider adopting new technologies |
| **Environment – minimise environmental impacts** | • Move towards zero emissions<br>• Move towards a more sustainable rate of resource use<br>• Move towards no net loss of biodiversity | • Group carbon emissions intensity increased in 2014 relative to 2013 due mainly to acquiring additional shares for our power generation assets in Hong Kong and a general reduction in output from our renewables projects<br>• Many initiatives to decrease water use and waste production across the Group<br>• Biodiversity efforts conform to local regulations and comply with Group's Environmental Impact Assessment guidelines | • Reducing emissions (e.g. operational efficiency improvements, use of lower emitting fuel)<br>• Reducing resource use (e.g. water and waste recycling)<br>• Minimising our impact on biodiversity (e.g. including biodiversity impact assessments in environmental impact assessments, land rehabilitation) |

During the year, the Committee has reviewed the Sustainability Framework and noted management's plan to re-map CLP's 15 sustainability goals into more focused management areas with CLP's Value Framework as the foundation.

The Committee reviewed CLP's sustainability performance against external sustainability indices with a view to identifying and focusing on the potential areas of sustainability performance for further improvement.

A summary of selected 2014 sustainability ratings for CLP is shown in the following table. The scoring for the year reflects the performance of the year before.

| Index Name | 2014 Score | 2013 Score | 2012 Score | |
|---|---|---|---|---|
| **Dow Jones Sustainability Index** | 63 | 64 | 64 | CLP named to DJSI Asia Pacific and DJSI Asia Pacific 40 again in 2014. While the global electric utility industry average score decreased from 61 (2012) to 56 (2014), our score remained similar to the past. |
| **Carbon Disclosure Project (CDP)** | 95 | 94 | 92 | Performance band was "B" from 2011 - 2014. CLP included in the CDP Asia ex-Japan Climate Disclosure Leadership Index 2014, holding the top score for HK-based companies. |
| **Hang Seng Corporate Sustainability Index** | AA | AA+ | AA+ | CLP was recognised as having the best overall score in the utilities industry and the best Organisational Governance Score in the reporting universe. CLP received an "AA" rating from HKQAA for its performance. |
| **Bloomberg ESG** | Overall: 64.05 | Overall: 68.18 | Overall: 66.12 | The 2013 score reflects our 2012 performance when certain operational issues resulted in lower emissions, thus resulting in a higher environmental score compared to other years such as that for 2014. |
| **FTSE4Good** | 3.4 | 3.4 | 3.4 | CLP is still not included in FTSE4Good Index due to its nuclear investments. |

During the Relevant Period, the Committee has also reviewed the 2013 and 2014 activities as well as 2014 and 2015 plan for community initiatives of the Group and the communications and engagement strategy for post-2018 regulatory regime.

## Sustainability Reporting

In view of CLP's move towards Integrated Reporting, combined with the Environmental, Social and Governance (ESG) Reporting Guide, published by the Hong Kong Stock Exchange as Appendix 27 to the Listing Rules (the ESG Guide), CLP began in 2011 to commission independent assurance of its Sustainability Report in accordance with the International Standard on Assurance Engagements 3000, Assurance Engagements other than Audits or Reviews of Historical Financial Information (ISAE 3000). This year, for the first time, the Sustainability Report is subject to the International Standard on Assurance Engagements 3410, Assurance Engagements on Greenhouse Gas Statement, in addition to the ISAE 3000. The number of data points covered by the independent assurance this year was also expanded from 11 data points to 27 data points. The Committee reviewed the 2013 and 2014 CLP Group Sustainability Report and Sustainability Assurance findings. SR

The Committee also reviewed the ESG data management and reporting strategy for 2014 to 2016 which aims to reinforce the integrity of non-financial information disclosure. The overall scope of CLP's Sustainability Reporting, which predates the introduction of the ESG Guide, is wider than that of the ESG Guide. The ESG Guide is organised around four ESG subject areas: work place quality, environmental protection, operating practices and community involvement. Our Sustainability Reporting was constructed around the GRI Guidelines and evolved to incorporate those areas, objectives and goals which we considered most relevant to our business. This year, as endorsed by the Sustainability Committee, we have developed our Sustainability Report in accordance with the Core level of the GRI G4 Sustainability Reporting Guidelines.

There is a table, available on our Sustainability Report landing page, which refers the reader to the relevant sections of our Sustainability Report where we set out in detail the manner in which CLP has met, and in many respects exceeded, the terms of the ESG Guide. The Five-year Summary of statistics on the Group's environmental and social performance on pages 276 and 277 of this Annual Report includes cross-references to the KPIs suggested in the Hong Kong Stock Exchange's ESG Guide.

## Looking Ahead

The Sustainability Committee will continue to review its role in offering effective support to the Board and oversight to management in the development, implementation, measurement and reporting of the Group's performance on social, environmental and ethical matters as a whole with a view to enabling the CLP Group to operate on a sustainable basis for the benefit of the current and future generations.

**Richard Lancaster**
Chairman, Sustainability Committee
Hong Kong, 26 February 2015

Sustainability Report

# HUMAN RESOURCES & REMUNERATION COMMITTEE REPORT

## 1. Introduction

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

The contents of sections 6 to 9 and 11, in the highlighted boxes below, comprise the "auditable" part of the HR&RC Report and have been audited by the Company's Auditor.

## 2. Membership

A majority of the members of the HR&RC are Independent Non-executive Directors. In line with good practice, the Executive Director is not a member of the Committee. Mr Vincent Cheng, an Independent Non-executive Director, is the Chairman of the Committee. Other members of the Committee include Mr William Mocatta, Mr V. F. Moore and Mr Nicholas C. Allen.

## 3. Responsibilities and Work Done

The HR&RC considers major human resources and pay issues. It also provides forward guidance on EnergyAustralia's remuneration policy through interactions between the Committee and the EnergyAustralia Nomination & Remuneration Committee. Between 1 January 2014 and 26 February 2015 (the Relevant Period), the HR&RC approved the 2013 and 2014 HR&RC Reports, and reviewed:

- the Group performance for 2013 and 2014 and Group targets for 2014 and 2015;
- 2013 and 2014 organisation performance for CLP Power Hong Kong and CLP India and targets for 2014 and 2015;
- the base pay for 2014 and 2015 for Hong Kong payroll staff, CLP India and China;
- Executive Remuneration Policy for Senior Management;
- CEO's remuneration;
- the remuneration of Direct Reports to the CEO, including annual incentive payments for 2014 and pay review for 2015;
- the Senior Executive remuneration (Hong Kong and India), including annual incentive payments for 2013 and pay review for 2014;
- nomination of Group Senior Management and succession plan;
- approach to managing 2014 annual incentive payments for executive team in EnergyAustralia;
- update on EnergyAustralia remuneration matters;
- training and continuous professional development of Senior Management;
- update on remuneration disclosure issues in 2014 Interim and Annual Reports;
- update on organisational and human resources initiatives; and
- update on standby duties claim.

## 4. Remuneration Policies

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

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

## 5. Non-executive Directors – Principles of Remuneration

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

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

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

In light of these considerations, CLP's Non-executive Directors are paid fees in line with market practice, based on a formal independent review undertaken no less frequently than every three years. Those fees were reviewed at the beginning of 2013 (the 2013 Review). The methodology adopted in the 2013 Review is the same as that used in the previous reviews and as explained to shareholders in the CLP Code. The methodology is aligned with the recommendations of the Higgs Report and includes:

- the application of an hourly rate of HK$4,500 as an average of the partner rates charged by legal, accounting and consulting firms in providing professional services to CLP. This hourly rate of HK$4,500 has remained unchanged since the review in 2010;
- the calculation of the time spent by Non-executive Directors on CLP's affairs (including attendance at Board and Board Committee meetings, reading papers, etc.); and
- an additional fee of about 40% and 10% per annum for the Chairmen of the Board / Board Committees and the Vice Chairman of the Board respectively (reflecting the additional workload and responsibility which these offices involve).

The resulting fees were then benchmarked against those paid by leading listed companies in Hong Kong and major utility companies listed on the London Stock Exchange. The methodology and resulting fees were independently reviewed by J.S. Gale & Co, solicitors. Further to CLP's commitment to the adoption of a transparent methodology for determining Non-executive Directors' remuneration, the 2013 Review and the opinion of J.S. Gale & Co on the 2013 Review are placed on CLP's website.

It is worth noting that the methodology takes into account past and present data, rather than any forward-looking projections. For these reasons, on previous occasions the full amount of the adjustment to annual fees has taken effect upon shareholder approval at the following AGM. Whilst maintaining the same methodology, the Board recommended that, instead of taking effect of the 2013 Review in one go, the adjustment in fees should be partially deferred by being spread out over the next three years.

In line with our policy that no individual should determine his or her own remuneration, the levels of fees set out in the table below were proposed by management, reviewed by J.S. Gale & Co and approved by our shareholders at the AGM on 30 April 2013. In this respect, CLP's approach goes beyond that required by law or regulation in Hong Kong or the provisions of the Hong Kong Stock Exchange's Corporate Governance Code.

## Fees for Non-executive Directors[1]

| | Fees per annum (w.e.f. 1 May 2015) HK$ | Fees per annum (w.e.f. 1 May 2014) HK$ | Fees per annum (w.e.f. 1 May 2013) HK$ | Fees per annum (before 1 May 2013) HK$ |
|---|---|---|---|---|
| **Board** | | | | |
| Chairman | 666,900 | 629,200 | 593,600 | 560,000 |
| Vice Chairman | 524,000 | 494,300 | 466,400 | 440,000 |
| Non-executive Director | 476,400 | 449,400 | 424,000 | 400,000 |
| **Audit Committee** | | | | |
| Chairman | 463,800 | 407,700 | 358,300 | 315,000 |
| Member | 334,700 | 293,200 | 256,800 | 225,000 |
| **Finance & General Committee** | | | | |
| Chairman | 397,500 | 394,900 | 392,400 | 390,000 |
| Member | 287,400 | 284,900 | 282,400 | 280,000 |
| **Human Resources & Remuneration Committee** | | | | |
| Chairman | 85,300 | 68,900 | 55,700 | 45,000 |
| Member | 58,800 | 49,400 | 41,600 | 35,000 |
| **Sustainability Committee** | | | | |
| Chairman | 106,100 | 94,500 | 84,200 | 75,000 |
| Member | 78,400 | 69,600 | 61,900 | 55,000 |
| **Nomination Committee[2]** | | | | |
| Chairman | 14,000 | 14,000 | 14,000 | 14,000 |
| Member | 10,000 | 10,000 | 10,000 | 10,000 |
| **Provident & Retirement Fund Committee[2]** | | | | |
| Chairman | 14,000 | 14,000 | 14,000 | 14,000 |
| Member | 10,000 | 10,000 | 10,000 | 10,000 |

Notes:
1 Executive Directors and management serving on the Board and Board Committees are not entitled to any Directors' fees.
2 A nominal fee has been maintained for the Chairman and Member of the Nomination Committee and the Provident & Retirement Fund Committee.

## 6. Non-executive Directors – Remuneration in 2014

The fees paid to each of our Non-executive Directors in 2014 for their service on the CLP Holdings Board and, where applicable, on its Board Committees are set out below. There was a small increase in total Directors' fees compared to 2013. This was primarily due to an increase in the levels of Non-executive Directors' fees which took effect on 1 May 2014 and the full year service of Dr Rajiv Lall who was appointed in 2013.

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

| In HK$ | Board | Audit Committee | Nomination Committee | Finance & General Committee | HR&RC | Provident & Retirement Fund Committee | Sustainability Committee | Total 2014 | Total 2013 |
|---|---|---|---|---|---|---|---|---|---|
| **Non-executive Directors** | | | | | | | | | |
| The Hon Sir Michael Kadoorie | 617,495.88(C) | – | 14,000.00(C) | – | – | – | – | **631,495.88** | 596,553.42 |
| Mr William Mocatta[1] | 485,127.40(VC) | – | – | 394,078.09(C) | 46,835.61 | 14,000.00(C) | – | **940,041.10** | 902,761.64 |
| Mr Ronald J. McAulay | 441,049.32 | – | – | – | – | – | – | **441,049.32** | 416,109.59 |
| Mr J. A. H. Leigh | 441,049.32 | – | – | – | – | – | – | **441,049.32** | 416,109.59 |
| Mr I. D. Boyce[2] | 149,247.12 | – | – | 99,088.22 | – | – | – | **248,335.34** | 697,720.55 |
| Mr Andrew Brandler[3] | 336,501.38 | – | – | 214,445.20 | – | – | 51,805.48 | **602,752.06** | – |
| Dr Y. B. Lee | 441,049.32 | – | – | – | – | – | – | **441,049.32** | 416,109.59 |
| Mr Paul A. Theys[4] | 152,940.82 | – | – | – | – | – | – | **152,940.82** | 416,109.59 |
| Mr Peter P. W. Tse[5] | – | – | – | – | – | – | – | **–** | 131,506.85 |
| **Independent Non-executive Directors** | | | | | | | | | |
| Mr V. F. Moore | 441,049.32 | 391,458.90(C) | – | 284,078.08 | 46,835.61 | – | – | **1,163,421.91** | 1,081,215.07 |
| Professor Judy Tsui[6] | 149,247.12 | 90,853.70 | – | – | – | – | 21,876.16 | **261,976.98** | 722,086.29 |
| Sir Rod Eddington[7] | 441,049.32 | – | – | 284,078.08 | 14,759.45 | – | – | **739,886.85** | 737,150.69 |
| Mr Nicholas C. Allen | 441,049.32 | 281,232.88 | 10,000.00 | 284,078.08 | 46,835.61 | – | 67,068.49 | **1,130,264.38** | 1,053,127.39 |
| Mr Vincent Cheng | 441,049.32 | – | 10,000.00 | 284,078.08 | 64,560.27(C) | – | – | **799,687.67** | 759,902.74 |
| Mrs Fanny Law | 441,049.32 | 281,232.88 | – | – | – | – | 67,068.49 | **789,350.69** | 722,086.29 |
| Ms Irene Lee[8] | 441,049.32 | 281,232.88 | – | 284,078.08 | – | – | 45,383.02 | **1,051,743.30** | 944,065.75 |
| Dr Rajiv Lall | 441,049.32 | – | – | 284,078.08 | – | – | – | **725,127.40** | 272,883.29 |
| | | | | | | | Total | **10,560,172.34** | 10,285,498.33 |

Notes:

1 Mr William Mocatta also received HK$307,895.90 as fees for his service on the boards of CLP Power Hong Kong Limited, Castle Peak Power Company Limited and Hong Kong Pumped Storage Development Company, Limited. In 2013, he received HK$303,000 as fees for his service on the boards of these companies.

2 Mr I. D. Boyce retired as a Non-executive Director and a member of the Finance & General Committee after the conclusion of the 2014 AGM held on 8 May 2014. The fees paid to Mr Boyce were made on a pro rata basis in respect of his service up to 8 May 2014.

3 As a result of the redesignation as a Non-executive Director, Mr Andrew Brandler is entitled to receive Directors' fees from 1 April 2014 onwards for his service on the Board, Finance & General Committee and Sustainability Committee. The fees paid to Mr Brandler were made on a pro rata basis for 2014.

4 Mr Paul A. Theys resigned as a Non-executive Director following completion of the CAPCO / PSDC Acquisitions on 12 May 2014. The fees paid to Mr Theys were made on a pro rata basis in respect of his service up to 11 May 2014.

5 The fee paid to Mr Peter P. W. Tse (a former Director) is included in the table, solely for the purpose of comparing the total fees paid to Non-executive Directors in 2013 with those in 2014.

6 Professor Judy Tsui retired as an Independent Non-executive Director and a member of the Audit Committee and the Sustainability Committee after the conclusion of the 2014 AGM held on 8 May 2014. The fees paid to Professor Tsui were made on a pro rata basis in respect of her service up to 8 May 2014.

7 Sir Rod Eddington resigned as a member of HR&RC after the conclusion of the 2014 AGM held on 8 May 2014. The fees paid to Sir Rod for his service on the HR&RC were made on a pro rata basis up to 8 May 2014.

8 Ms Irene Lee was appointed as a member of the Sustainability Committee with effect from 8 May 2014. The fees paid to Ms Lee for her service on the Sustainability Committee for 2014 were made on a pro rata basis from 8 May 2014.

## 7. Change of Remuneration – 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 twelve months ended 31 December 2014 are set out in the tables on page 155 (Executive Directors) and pages 160 to 162 (Senior Management).

The amounts disclosed consist of remuneration accrued or paid for service in 2014 and, for the annual and long-term incentives, service and performance in previous years.

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 Executive Directors and Senior Management, whilst non-recurring items relate primarily to the appointment or termination of Executive Directors and Senior Management. As 2014 included three departures and two new hires, there were a significant amount of non-recurring items.

In the tables on page 155 and pages 160 to 162 the Total Remuneration column for 2014 includes the following recurring items:

(i) base compensation, allowances & benefits paid.

(ii) 2014 annual incentive accrued based on previous year 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 (the comparative figures are the long-term incentive for 2010 paid in 2013). About 8% of the amount of 2011 long-term incentive payments results from the change in CLP Holdings' share price between 2011 and 2013, with dividends reinvested.

(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.

## 8. Executive Directors – Remuneration in 2014

The remuneration paid to the Executive Directors of the Company in 2014 was as follows:

| | Recurring Remuneration Items | | | | | Non-recurring Remuneration Items | |
|---|---|---|---|---|---|---|---|
| | | Performance Bonus[1] | | | | | |
| | Base Compensation, Allowances & Benefits HK$M | Annual Incentive (2014 Accrual + 2013 Adjustment) HK$M | Long-term Incentive (Payment for 2011) HK$M | Provident Fund Contribution HK$M | Total Remuneration HK$M | Other Payments HK$M | Total HK$M |
| **2014** | | | | | | | |
| CEO | | | | | | | |
| (Mr Richard Lancaster) | 7.5 | 7.7 | 3.3 | 0.9 | 19.4 | – | 19.4 |
| Executive Director | | | | | | | |
| (Mr Andrew Brandler)[2] | 0.6 | – | – | 0.1 | 0.7 | – | 0.7 |
| | 8.1 | 7.7 | 3.3 | 1.0 | 20.1 | – | 20.1 |

| | | Performance Bonus[1] | | | | | |
|---|---|---|---|---|---|---|---|
| | Base Compensation, Allowances & Benefits HK$M | Annual Incentive (2013 Accrual + 2012 Adjustment) HK$M | Long-term Incentive (Payment for 2010) HK$M | Provident Fund Contribution HK$M | Total Remuneration HK$M | Other Payments HK$M | Total HK$M |
| 2013 | | | | | | | |
| CEO | | | | | | | |
| (Mr Richard Lancaster)[3] | 3.4 | 1.7 | – | 0.4 | 5.5 | – | 5.5 |
| Executive Director | | | | | | | |
| (Mr Andrew Brandler)[2] | 6.6 | 6.9 | 4.9 | 0.8 | 19.2 | 14.5 | 33.7 |
| Group Executive Director – Strategy | | | | | | | |
| (Mr Peter W. Greenwood)[4] | 2.2 | 5.4 | 1.1 | 0.3 | 9.0 | 4.4 | 13.4 |
| | 12.2 | 14.0 | 6.0 | 1.5 | 33.7 | 18.9 | 52.6 |

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 HR&RC.

Payment of the annual incentive and granting of the long-term incentive awards relating to 2014 performance will be made in March 2015. These payments and awards are subject to the prior approval of the HR&RC after 31 December 2014. Details of these will be published on the CLP website at the time that the 2014 Annual Report is published.

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 entitlement to annual incentive for 2013 was ceased on 30 September 2013 and fully paid out with long-term incentive in 2013. No annual incentive and long-term incentive awards were made to Mr Andrew Brandler in 2014. The other payments of HK$14.5 million in 2013 included (a) accelerated payment of long-term incentive for 2011, 2012 and 2013 (HK$14.4 million) and (b) encashment of untaken annual leave (HK$0.1 million).

3 Mr Richard Lancaster was appointed as Executive Director of the Company with effect from 3 June 2013 and was appointed as the CEO to succeed Mr Andrew Brandler with effect from 30 September 2013. The remuneration for 2013 covered the period from 3 June 2013 to 31 December 2013.

4 Mr Peter W. Greenwood retired from his position as Group Executive Director – Strategy and also as a Director of the Company on 19 May 2013. The annual incentive for the years 2012 and 2013 was HK$5.4 million. This figure included the additional discretionary annual incentive for year 2013 of HK$2.0 million. The annual incentive and long-term incentives for the year 2013 were made on a pro rata basis for his service up to 19 May 2013. The other payments of HK$4.4 million included (a) accelerated payment of long-term incentive for 2011, 2012 and 2013 (HK$4.1 million) and (b) encashment of untaken annual leave (HK$0.3 million).

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

## 9. Total Directors' Remuneration in 2014

The total remuneration of Non-executive and Executive Directors in 2014 was:

| | 2014 HK$M | 2013 HK$M |
|---|---|---|
| Fees | 11 | 10 |
| Recurring Remuneration Items | | |
| Base compensation, allowances and benefits in kind | 8 | 12 |
| Performance bonus[1] | | |
| – Annual incentive | 8 | 14 |
| – Long-term incentive | 3 | 6 |
| Provident fund contributions | 1 | 2 |
| Non-recurring Remuneration Item | | |
| Other payments | – | 19 |
| | 31 | 63 |

Note:
1 Refer to Note 1 on performance bonus on page 155.

Of the total remuneration paid to Directors, HK$6 million (2013: HK$8 million) has been charged to the SoC operation.

## 10. Senior Management – Principles of Remuneration

For the purposes of this Section, Senior Management means the managers whose details are set out on page 109.

CLP's Senior Management Remuneration Policy is an important element of the Group's strategy and an expression of its culture. It is designed to attract, retain and motivate high performing executives – who for their technical and managerial skills and their diversity in terms of origin and experience – are a key factor in support of CLP's long-term business success and the creation of value for our stakeholders.

The design of our Senior Management remuneration programmes and the pay opportunities are influenced by the characteristics of our business and the market from which we compete for executive talent.

Given the scale and life-span of CLP's investments, and the array of stakeholders impacted by our operations, CLP takes a long-term view to remunerating its executives for their contributions to the Company's sustainable, profitable growth.

Our Senior Managers are, depending on their role, responsible for a mix of businesses: a vertically-integrated regulated business in Hong Kong, a competitive wholesale and retail energy provider in Australia, and an independent power producer in Mainland China, India, Southeast Asia and Taiwan. Hence, the structure of our remuneration packages is assessed in terms of appropriateness to the role and alignment with the reference market.

The labour market for our Chief Executive Officer and most other Senior Managers extends beyond the local market. Hence, there are different reference markets for purposes of competitive remuneration assessments.

We emphasise strong management development, succession planning and job mobility to fill vacancies for executive positions, as we believe that a long-term career with the Group is an important asset to CLP and consequently external competitiveness has to be balanced with internal equity.

Our policy is based on the following principles that guide our remuneration programmes and decisions:

- appropriateness and fairness of remuneration in relation to the assigned job responsibilities and capabilities demonstrated;
- alignment with Company strategy and shareholder interests;
- competitive with respect to pay levels in the relevant reference market;
- performance based in terms of sustained results, behaviours and values; and
- governed by and compliant with the relevant regulatory frameworks.

In order to make informed decisions on competitive Total Remuneration as well as its individual components, the HR&RC takes reference from remuneration data for comparable positions at relevant local and, as appropriate, international companies that are representative of CLP's industry, size and operational characteristics and against which CLP competes for executive talent.

To assess appropriate remuneration levels for Senior Management positions, the HR&RC may give different weight to local and international company remuneration data, and target Total Remuneration reflects both market conditions and the scope and complexity of the role. The comparative analysis is carried out by taking into account specific groups of comparator companies to ensure alignment with the reference market.

The competitive assessment against comparator companies is used both for assessing CLP's relative performance and for assessing the competitiveness of the remuneration packages.

As publicly disclosed comparator information is available for only a limited number of senior management positions, we supplement peer data from published remuneration surveys.

Our Senior Management pay structure consists of fixed pay, annual incentives, deferred remuneration and a retirement arrangement, with the exception of the Managing Director – EnergyAustralia, whose pay structure is aligned with Australian market practice. The ratio between these components reflects CLP's risk management framework that does not induce excessive risk taking and is designed to promote commitment in contributing to the achievement of sustainable results.

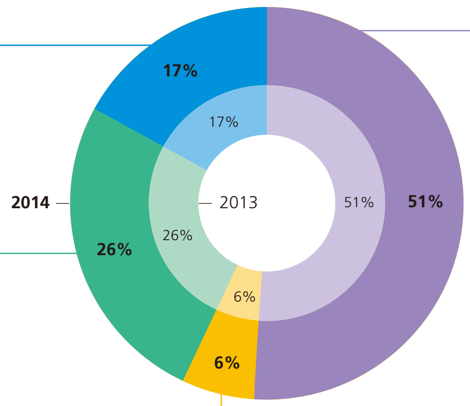
In determining incentive payments and Total Remuneration the HR&RC takes into account a broad range of performance indicators including financial (e.g. long-term growth in the share price and dividends), operational, safety, environmental, social, governance and compliance related factors. The determination of performance outcomes is not formulaic, as the Committee believes their overriding responsibility is to exercise judgment and responsibility.

In determining overall Total Remuneration the HR&RC applies a balanced overall judgment, with the intention to align Total Remuneration between the median and the upper quartile of the reference market, with overall positioning consistent with business performance and with individual positioning based on an assessment of performance, potential and the strategic impact of the individual.

An independent external remuneration consultant provides the HR&RC and top management with relevant market information and analysis, with special reference to current practices amongst our comparator companies at the local and international level.

The four components of remuneration of members of Senior Management are explained in the diagram on the following pages, including the proportion of target total remuneration which each component represented in both 2013 and 2014.

## Senior Management's Remuneration[1] (excluding Managing Director – EnergyAustralia)




### Base Compensation

Base Compensation is reviewed annually and takes into consideration the competitive position against the relevant labour market, the responsibilities assigned and individual performance.

### Pension Arrangement

The members of Senior Management are eligible to join the Group's defined contribution retirement fund. The Group's contribution to the retirement fund amounts to a maximum of 12.5% of base compensation, subject to a 5% contribution by the employee. This accounts for 6% of his / her target total remuneration in 2014.

### Annual Incentive

The Annual Incentive depends on the performance of the CLP Group for the Chief Executive Officer and Hong Kong based members of Senior Management. For the Managing Director of India and Managing Director of Australia it is based on the performance of India and Australia respectively.

Each member of Senior Management is assigned a "target" annual incentive of 50% of Base Compensation, which accounted for 26% of his / her total remuneration in 2014. The amount of annual incentive is capped at twice the "target" annual incentive (although this cap may be exceeded in exceptional cases where a discretionary additional annual incentive is awarded by the Committee), with the actual amount being determined by the overall assessment of organisational performance.

A payout was made in 2014, based on an overall assessment of the 2013 performance of the Group. The average payout to this group in 2014 was 81.9% of the Base Compensation as at 31 December compared to 79% in 2013.

### Long-term Incentive

Awards under the Long-term Incentive (LTI) plan are based on organisational performance and support the retention of Senior Management. Each of the Senior Management members is assigned a "target" LTI of 33.3% of Base Compensation, which accounts for 17% of his / her total remuneration in 2014. The composition of the LTI award:

Target LTI award set at the beginning of 2014

×

Performance multiplier (Performance for the year preceding that in which the award is made)

=

Actual LTI award:
a) A minimum of 75% of the award and up to a maximum of 100% allocated to CLP Holdings phantom shares
b) The remainder of the award up to a maximum of 25% is allocated to a notional cash deposit

Payment of LTI award will be made in 2017

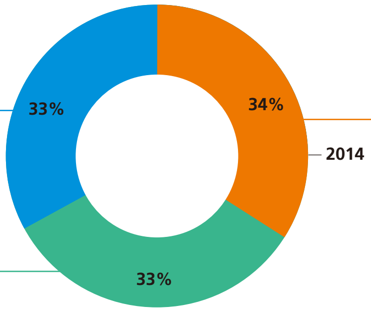
The final value of the award, at the vesting date, is based on the initial choices made and the subsequent impact of changes in share price, dividend reinvestment, exchange rate movements, and interest earned during the three-year vesting period.

Note:

1 Mrs Betty Yuen had different arrangements affecting the proportion of target total remuneration with which each component represented in 2013. The proportions of her 2013 target total remuneration were Base Compensation (61%), Annual Incentive (31%) and Pension (8%) as she did not participate in the LTI. The HR&RC approved her participation in the LTI scheme effective 1 January 2014 to reflect an increase in her responsibilities and to align with other Hong Kong based Senior Management.

The remuneration components for Ms Catherine Tanna who joined as Managing Director – EnergyAustralia on 1 July 2014 are explained below:

### Remuneration for Catherine Tanna, Managing Director – EnergyAustralia




#### Fixed Annual Remuneration (FAR)

FAR includes base salary and employer contribution to the Australian statutory superannuation scheme. It is reviewed annually taking into consideration the competitive market position compared to ASX 100 companies, market practice and individual performance.

#### Annual Incentive

Ms Tanna was assigned a "target" annual incentive of 100% of FAR, which accounted for 33% of her total remuneration in 2014. The annual incentive payout depends upon the performance of EnergyAustralia. Key measures include achievement of financial and non-financial goals.

The amount of annual incentive is capped at 150% of the "target" annual incentive i.e. 150% of FAR. The actual payout of Ms Tanna's Annual Incentive will be approved by the Board of EnergyAustralia. 70% of her actual Annual Incentive for 2014 will be paid in 2015 with the remainder of the actual Annual Incentive deferred for 2 years, payable in 2017.

#### Long-term Incentive

Ms Tanna was assigned an LTI Award of 100% of FAR, pro rata to service in 2014.

The final 2014 LTI award value to be paid will be decided by the EnergyAustralia Board, depending on the achievement of the LTI Performance Conditions.

The terms and conditions of the LTI plan are currently under review by the Nomination & Remuneration Committee of EnergyAustralia.

Upon determination of the Final Award Value, 100% of that value (subject to the discretion of the Nomination & Remuneration Committee of EnergyAustralia) will be paid to Ms Tanna in April 2017 (the Vesting Date).

## 11. Senior Management – Remuneration in 2014

Senior Management comprises the Executive Director and managers listed below. Details of their remuneration (excluding Executive Director) are set out in the table below.

| | Recurring Remuneration Items | | | | | Non-recurring Remuneration Items | |
|---|---|---|---|---|---|---|---|
| | | Performance Bonus[1] | | | | | |
| | Base Compensation, Allowances & Benefits HK$M | Annual Incentive (2014 Accrual + 2013 Adjustment) HK$M | Long-term Incentive (Payment for 2011) HK$M | Provident Fund Contribution HK$M | Total Remuneration HK$M | Other Payments HK$M | Total HK$M |
| 2014 | | | | | | | |
| Group Director & Chief Financial Officer (Mr Mark Takahashi)[2] | 1.2 | 2.5 | 3.2 | 0.2 | 7.1 | 12.2 | 19.3 |
| Group Director & Chief Financial Officer (Mr Geert Peeters)[3] | 5.5 | 3.6 | – | 0.7 | 9.8 | 10.8 | 20.6 |
| Vice Chairman – CLP Power Hong Kong (Mrs Betty Yuen)[4,5] | 3.6 | 4.5 | – | 0.4 | 8.5 | – | 8.5 |
| Managing Director – CLP Power (Mr Paul Poon)[6] | 4.6 | 4.7 | 1.9 | 0.6 | 11.8 | – | 11.8 |
| Managing Director – EnergyAustralia (Mr Richard McIndoe)[7] | 5.8 | 1.8 | 5.4 | 0.1 | 13.1 | 16.5 | 29.6 |
| Managing Director – EnergyAustralia (Ms Catherine Tanna)[8] | 6.0 | 6.3 | – | 0.1 | 12.4 | 7.1 | 19.5 |
| Group Director – Operations (Mr Peter Littlewood)[9] | 1.0 | 2.1 | 2.7 | 0.1 | 5.9 | 5.3 | 11.2 |
| Managing Director – India (Mr Rajiv Mishra)[10] | 3.3 | 2.3 | 1.9 | 0.4 | 7.9 | – | 7.9 |
| Managing Director – China (Mr Chan Siu Hung) | 3.4 | 3.4 | 1.5 | 0.4 | 8.7 | – | 8.7 |
| Group General Counsel & Chief Administrative Officer (Mr David Simmonds) | 4.2 | 4.3 | 1.8 | 0.5 | 10.8 | – | 10.8 |
| Chief Corporate Development Officer (Ms Quince Chong)[11] | 4.2 | 4.1 | – | 0.5 | 8.8 | – | 8.8 |
| Director – Group Human Resources (Mr Roy Massey) | 2.7 | 2.5 | 1.7 | 0.3 | 7.2 | – | 7.2 |
| Total | 45.5 | 42.1 | 20.1 | 4.3 | 112.0 | 51.9 | 163.9 |

Notes 1 to 11 are set out on pages 161 and 162.

| | Recurring Remuneration Items | | | | | Non-recurring Remuneration Items | |
|---|---|---|---|---|---|---|---|
| | | Performance Bonus[1] | | | | | |
| | Base Compensation, Allowances & Benefits HK$M | Annual Incentive (2013 Accrual + 2012 Adjustment) HK$M | Long-term Incentive (Payment for 2010) HK$M | Provident Fund Contribution HK$M | Total Remuneration HK$M | Other Payments HK$M | Total HK$M |
| **2013** | | | | | | | |
| Group Director & Chief Financial Officer (Mr Mark Takahashi) | 4.9 | 3.6 | 2.8 | 0.6 | 11.9 | – | 11.9 |
| Vice Chairman – CLP Power Hong Kong[4,5] | 3.5 | 3.3 | – | 0.4 | 7.2 | – | 7.2 |
| Group Director – Managing Director Hong Kong (Mr Richard Lancaster)[12,13] | 2.1 | 2.2 | 3.0 | 0.3 | 7.6 | – | 7.6 |
| Managing Director – CLP Power[6,14] | 1.1 | 0.6 | – | 0.1 | 1.8 | – | 1.8 |
| Managing Director – EnergyAustralia (Mr Richard McIndoe)[15] | 11.4 | (1.2) | 3.3 | 0.1 | 13.6 | 2.0 | 15.6 |
| Group Director – Operations | 4.1 | 3.2 | 2.3 | 0.5 | 10.1 | – | 10.1 |
| Managing Director – India | 3.2 | 2.2 | 2.0 | 0.4 | 7.8 | – | 7.8 |
| Managing Director – China[16] | 0.4 | 0.2 | – | – | 0.6 | – | 0.6 |
| Group General Counsel & Chief Administrative Officer[16] | 0.4 | 0.2 | – | 0.1 | 0.7 | – | 0.7 |
| Chief Corporate Development Officer[16] | 0.4 | 0.2 | – | 0.1 | 0.7 | – | 0.7 |
| Director – Group Human Resources[17] | 0.2 | 0.1 | – | – | 0.3 | – | 0.3 |
| Total | 31.7 | 14.6 | 13.4 | 2.6 | 62.3 | 2.0 | 64.3 |

Notes:

1 Refer to Note 1 on performance bonus on page 155.

2 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.

3 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) a sign-on award of HK$10.7 million to be made in three payments over three 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.

4 The annual incentives paid to Mrs Betty Yuen in 2014 and 2013 included additional discretionary annual incentives of HK$1.0 million for 2013 and HK$0.8 million for 2012 performance respectively.

5 HK$1.2 million of total remuneration (2013: HK$0.8 million) for Mrs Betty Yuen was charged to the Non-SoC operation.

6 HK$0.8 million of total remuneration (2013: HK$0.7 million) for Mr Paul Poon was charged to the Non-SoC operation.

7 Mr Richard McIndoe left the Company on 30 June 2014. 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. 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.

8 Ms Catherine Tanna joined the Company on 1 July 2014. The other payments of HK$7.1 million included (a) provision of relocation expenses of HK$1.8 million to be reimbursed by end of December 2015 and (b) sign-on award of HK$5.3 million including HK$2.7 million paid in July 2014 and HK$2.6 million accrued on pro rata to service basis. According to the employment contract, the sign-on award of HK$2.7 million was paid in July 2014 and the balance of HK$12.0 million will be paid in September 2016 or on pro rata to service if she leaves before that date. The sign-on award is to compensate for income lost as a result of forfeiture of incentive awards with her previous employer on joining CLP. The remuneration of Ms Catherine Tanna is denominated in Australian dollars. The month end exchange rates prevailing at the month of payment were adopted for conversion to Hong Kong dollars.

9 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.

10 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 1 HKD = 7.4 Rupees. For the remaining payments in Rupees, the month end exchange rates prevailing at the month of payment were adopted for conversion to Hong Kong dollars.

11 HK$2.9 million (2013: HK$0.1 million) of total remuneration for Ms Quince Chong was charged to the Non-SoC operation.

12 Mr Richard Lancaster has been appointed as Executive Director from 3 June 2013 and was appointed as the Chief Executive Officer from 30 September 2013. The remuneration covered the period from 1 January to 2 June 2013. The long-term incentive for year 2010 included additional discretionary long-term incentive of HK$0.7 million paid to him in 2013.

13 HK$1.0 million of total remuneration for Mr Richard Lancaster was charged to the Non-SoC operation.

14 Mr. Paul Poon has become member of Senior Management from 30 September 2013 and his remuneration covered the period from that date to 31 December 2013.

15 No accrual was made for the annual incentive for Mr Richard McIndoe for year 2013. The negative figure represents the reversal of over-accrual made in 2012. Other payments of HK$2.0 million was Australia tax equalisation for the long-term incentive for year 2010.

16 Mr Chan Siu Hung, Mr David Simmonds and Ms Quince Chong have become members of Senior Management from 19 November 2013 and their remuneration covered the period from that date to 31 December 2013.

17 Mr Roy Massey has become member of Senior Management from 9 December 2013 and his remuneration covered the period from that date to 31 December 2013.

The five highest paid individuals in the Group included one Director (2013: three Directors), two members and two former members of Senior Management (2013: one member of Senior Management and one former senior executive of the Group). The total remuneration of the five highest paid individuals in the Group is shown below:

| | 2014 HK$M | 2013 HK$M |
|---|---|---|
| Recurring Remuneration Items | | |
| Base compensation, allowances and benefits in kind | 26 | 27 |
| Performance bonus[1] | | |
| – Annual incentive | 22 | 17 |
| – Long-term incentive | 12 | 14 |
| Provident fund contributions | 2 | 2 |
| Non-recurring Remuneration Item | | |
| Other payments | 46 | 28 |
| | 108 | 88 |

Note:

1 Refer to Note 1 on performance bonus on page 155.

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

| | Number of Individuals 2014 | Number of Individuals 2013 | | Number of Individuals 2014 | Number of Individuals 2013 |
|---|---|---|---|---|---|
| HK$12,500,001 – HK$13,000,000 | – | 1 | HK$13,000,001 – HK$13,500,000 | – | 2 |
| HK$15,500,001 – HK$16,000,000 | – | 1 | HK$19,000,001 – HK$19,500,000 | 2 | – |
| HK$19,500,001 – HK$20,000,000 | 1 | – | HK$20,500,001 – HK$21,000,000 | 1 | – |
| HK$29,500,001 – HK$30,000,000 | 1 | – | HK$33,500,001 – HK$34,000,000 | – | 1 |

## 12. Continued Scrutiny and Disclosure

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

**Vincent Cheng**
Chairman, Human Resources & Remuneration Committee
Hong Kong, 26 February 2015

The Chairman and fellow Directors meet our staff at the Jhajjar Power Station

# DIRECTORS' REPORT

The Directors have pleasure in submitting their Report together with the audited Financial Statements for the year ended 31 December 2014.

## Principal Activities

The principal activity of the Company is investment holding and those of its subsidiaries are the generation and supply of electricity. The Company's principal subsidiary companies are listed under Note 14 to the Financial Statements.

## Consolidated Financial Statements

The consolidated Financial Statements incorporate the Financial Statements of the Company and its subsidiaries (collectively referred to as the Group) together with the Group's interests in joint ventures, joint operations and associate. Details of the joint ventures and associate are provided under Notes 15 and 16 to the Financial Statements.

## Earnings and Dividends

The earnings of the Group for the year are set out under the consolidated statement of profit or loss.

The Directors have declared and paid the first to third interim dividends of HK$1.62 (2013: HK$1.59) per share totalling HK$4,093 million (2013: HK$4,017 million) during the year.

The Directors declared the fourth interim dividend of HK$1.00 (2013: HK$0.98) per share totalling HK$2,526 million (2013: HK$2,476 million).

This fourth interim dividend will be paid on 24 March 2015.

## Business Review and Performance

A fair review of the business of the Company and a discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position are provided in the CEO's Strategic Review, Financial Review, Financial Capital and the Performance and Business Outlook sections respectively from pages 11 to 17, pages 28 to 41, pages 80 to 89 and pages 42 to 77 of this Annual Report. Description of the principal risks and uncertainties facing the Company can be found throughout this Annual Report, particularly in the Risk Management Report from pages 132 to 141. Particulars of important events affecting the Company that have occurred since the end of the financial year 2014, if any, can also be found in the abovementioned sections and the Notes to the Financial Statements. The outlook of the Company's business is discussed throughout this Annual Report including in the Chairman's Statement from pages 7 to 10 of this Annual Report. An account of the Company's relationships with its key stakeholders is included in the Capitals section from pages 80 to 103 of this Annual Report and the 2014 Sustainability Report available online. SR

In addition, more details regarding the Group's performance by reference to environmental and social-related key performance indicators and policies, as well as compliance with relevant laws and regulations which have a significant impact on the Company, are provided in the Sustainability Report. SR

## Share Capital

Details of the movements in the share capital of the Company during the year are set out in Note 28 to the Financial Statements. There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed shares during the year.

## Reserves

Distributable reserves of the Company amounted to HK$28,026 million as at 31 December 2014 (2013: HK$27,751 million). Movements in the reserves of the Group and the Company during the year are set out under the consolidated statement of changes in equity and Note 29 to the Financial Statements.

## Fixed Assets

Additions to the fixed assets of the Group for the year totalled HK$9,144 million, comprising HK$8,557 million in owned assets (generation, transmission and distribution equipment and buildings) and HK$587 million in leased assets. In 2013, a total addition of HK$12,049 million was recorded, made up of HK$8,547 million for owned assets and HK$3,502 million for leased assets. Details of movements in the fixed assets of the Group are shown under Note 12 to the Financial Statements.

## Bank Loans and Other Borrowings

The total borrowings of the Group as at 31 December 2014 amounted to HK$67,435 million (2013: HK$56,051 million). Particulars of borrowings are set out in Note 23 to the Financial Statements.

## Financial Assistance and Guarantees to Affiliated Companies

The financial assistance given to affiliated companies and the guarantees given for facilities granted to affiliated companies aggregated to 0.6% of the Group's total assets as at 31 December 2014.

## Finance Costs Capitalised

Finance costs amounting to HK$296 million (2013: HK$271 million) were capitalised by the Group during the year as set out in Note 7 to the Financial Statements.

## Equity-linked Agreements

For the year ended 31 December 2014, the Company has not entered into any equity-linked agreement.

## Donations

Donations by the Group for charitable and other purposes amounted to HK$12,019,000 (2013: HK$8,449,000).

## Five-year Summary

A summary of the results for the year and of the assets and liabilities of the Group as at 31 December 2014 and for the previous four financial years are on pages 274 and 275 of this Annual Report. A ten-year summary is on the CLP website.

## Senior Management

The biographical details of the Senior Management as at the date of this Report are set out on page 109 of this Annual Report. Details of their remuneration are set out in the Human Resources & Remuneration Committee Report at page 150 of this Annual Report.

## Major Customers and Suppliers

Sales to the Group's five largest customers together represented less than 30% of the Group's total turnover during the year. Purchases from the Group's five largest suppliers together accounted for 38.597% of the Group's total purchases during the year. The five largest suppliers are set out below in descending order:

1. 13.020% from Ausgrid in which the Group has no interest. EnergyAustralia pays the distribution charges to Ausgrid which owns and operates the electricity distribution network that provides services to customers located in Sydney, the Central Coast and Hunter regions of NSW. EnergyAustralia also pays charges to Ausgrid for certain core services in relation to the operation of EnergyAustralia Retail under the Transition Services Agreement between EnergyAustralia and Ausgrid.
2. 10.713% from Australian Energy Market Operator (AEMO) in which the Group has no interest. AEMO is the administrator and operator of the Australian energy market, from whom electricity is bought to supply EnergyAustralia group customers and to whom electricity is sold from EnergyAustralia group generators.
3. 6.640% from Castle Peak Power Company Limited (CAPCO) when CAPCO was 40% owned by CLP Power Hong Kong Limited (CLP Power Hong Kong). Before completion of CAPCO / PSDC Acquisitions which took place on 12 May 2014 (Completion), Mr David W. Moore, Mr William Mocatta and Mr Richard Lancaster were directors of CAPCO. After Completion, Mr David W. Moore resigned from the board of CAPCO whilst Mr William Mocatta and Mr Richard Lancaster remain on the board of CAPCO as its chairman and director respectively. CAPCO supplies electricity to CLP Power Hong Kong only and is currently 70% owned by CLP Power Hong Kong which is a wholly-owned subsidiary of the Company.
4. 4.261% from Clean Energy Regulator in which the Group has no interest. The Clean Energy Regulator is the Government body responsible for administering legislation to reduce carbon emissions and increase the use of clean energy under which EnergyAustralia is a liable entity to pay the administration fees. The Clean Energy Regulator administers the National Greenhouse and Energy Reporting (NGER) Scheme, Carbon Pricing Mechanism (abolished from 1 July 2014), Carbon Farming Initiative, and the Renewable Energy Target.
5. 3.963% from Guangdong Nuclear Investment Company, Limited in which the Group has no interest.

As at 31 December 2014, Bermuda Trust Company Limited, Guardian Limited, Harneys Trustees Limited, Lawrencium Holdings Limited, Lawrencium Mikado Holdings Limited, The Magna Foundation, Mikado Investments (PTC) Limited (formerly known as Mikado Investments Limited), The Mikado Private Trust Company Limited, New Mikado Holding Inc. (formerly known as Mikado Holding Inc.), Oak CLP Limited, Oak (Unit Trust) Holdings Limited, The Oak Private Trust Company Limited, The Hon Sir Michael Kadoorie, Lady Kadoorie, Mr Ronald J. McAulay, Mr J. A. H. Leigh and Mr R. Parsons who are substantial shareholders of the Company, had indirect interests in CAPCO, which interests arose from the Company's interest in CAPCO.

## Directors

The Directors of the Company as at the date of this Report, whose names appear on pages 106 and 107 of this Annual Report, were Directors for the whole year. Their biographical details as at the date of this Report are set out on the same pages. Details of Directors' remuneration are set out in the

Human Resources & Remuneration Committee Report at page 150 of this Annual Report.

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 (AGM) held on 8 May 2014.

Mr I. D. Boyce retired as a Non-executive Director with effect from the conclusion of the 2014 AGM held on 8 May 2014.

Mr Paul A. Theys resigned as a Non-executive Director following completion of the CAPCO / PSCD Acquisitions on 12 May 2014.

Under the existing Articles of Association of the Company, all the Directors are subject to retirement by rotation and re-election at the AGM. In accordance with Article 103 of the Company's Articles of Association, Mr William Mocatta, Mr Vernon Moore, Mr Vincent Cheng, The Hon Sir Michael Kadoorie and Mr Andrew Brandler will retire by rotation at the 2015 AGM. All the retiring Directors, being eligible, offer themselves for re-election. None of the Directors offering themselves for re-election at the AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation.

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

## Alternate Directors

As at the date of this Report, Mr Andrew Brandler is alternate to Mr Ronald J. McAulay and Mr William Mocatta (appointed with effect from 8 May 2014).

During the year ended 31 December 2014, Mr I. D. Boyce was alternate to Mr Ronald J. McAulay and Mr William Mocatta from 1 January 2014 to 8 May 2014 and Mr David William Moore was alternate to Mr Paul A. Theys from 1 January 2014 to 12 May 2014.

## Directors of Subsidiaries

The names of all directors who have served on the boards of the subsidiaries of the Company during the year ended 31 December 2014 or during the period from 1 January 2015 to the date of this Report are available on the CLP website.

## Permitted Indemnity

Pursuant to the Company's Articles of Association, subject to the statues, every Director shall be indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities which he / she may sustain or incur in the execution of his / her office or otherwise in relation thereto. The Company has taken out insurance against the liability and costs associated with defending any proceedings which may be brought against directors of the Group.

## Continuing Connected Transactions

Subsequent to the completion of acquisitions of interests in CAPCO by each of CLP Power Hong Kong and China Southern Power Grid International (HK) Co., Limited ("CSG HK") on 12 May 2014 (the "Acquisition"), CSG HK (effectively China Southern Power Grid Co., Ltd. and its subsidiaries (collectively the "CSG Group")), which holds a 30% interest in CAPCO, a non wholly-owned subsidiary of CLP Holdings, has become a connected person of CLP Holdings at the subsidiary level under Chapter 14A of the Listing Rules. The ongoing transactions entered into between members of the CSG Group and the CLP Group prior to the completion, which had been announced on 12 May 2014, together with any new transactions with CSG Group members, became connected transactions of CLP Holdings as from the completion of the Acquisition.

Since 12 May 2014, continuing connected transactions (CCTs) (including power sales contracts, power purchase agreements (PPAs), grid connection contracts (GCCs) and other associated agreements with members of the CSG Group) have been entered into / renewed / rolled-over (collectively the "Transactions") during the course of 2014. As disclosed in the 2 January 2015 announcement, these Transactions, after aggregating with the Fangchenggang I Power Purchase Agreement ("FCG I PPA") that was renewed on 1 January 2015, exceeded 1% but less than 5% of the relevant percentage ratios under the Listing Rules, and are therefore subject to the disclosure requirements under the Listing Rules.

Set out below are the details of the CCTs which are required to be disclosed pursuant to Rule 14A.49 and 14A.71 of the Listing Rules. The consideration for 2014 represents the value of the relevant CCTs for the full 12 months for 2014.

| No. | Name, date and current term of the agreement | Transaction party within the CLP Group | Transaction party within the CSG Group | Original term of the agreement | Nature and description of the transaction | Basis for determining the consideration | Consideration for 2014 |
|---|---|---|---|---|---|---|---|
| **CLP Power electricity sales to Mainland China** | | | | | | | |
| **1.** | Power Sales Contract effective from 10 February 2012, and three related supplemental agreements dated 4 July 2012, 21 November 2012 and 26 November 2014 respectively. | CLP Power, a wholly-owned subsidiary of the Company. | Guangdong Power Grid Co., Ltd. ("GPG"), a subsidiary of CSG.<br>Guangdong Guang-hua Industry Import and Export Co. Ltd, as payment agent of GPG, a subsidiary of CSG. | From 10 February 2012 to 31 December 2015 (as extended). | Sale of electricity by CLP Power to GPG. | Payment is based on the number of GWh sold as to be agreed between the parties and multiplied by an arm's length tariff negotiated between the parties. The tariff is determined after taking into account available market information and the relevant cost. | HK$185.85 million |
| **The Huaiji hydro project** | | | | | | | |
| **2.** | Zelian Hydro Station PPA and GCC<br>Date:<br>PPA: Automatically renewed on 23 July 2013 and 23 July 2014 respectively. Current period covers 23 July 2014 to 22 July 2015.<br>GCC: 30 September 2009 | Guangdong Huaiji Xinlian Hydro-electric Power Company Limited, a subsidiary of the Company. | GPG, a subsidiary of CSG. | PPA: The agreement was originally entered into in respect of the period from 23 July 2009 to 22 July 2010 and automatically extended for successive one year periods since then. Renewal is automatic unless one party gives a notice of objection to the other party at the expiry of each one year period and the parties cannot reach an agreement within 30 days of that objection in relation to continuing the contract for a further year.<br>GCC: no term is specified. As such, the GCC continues indefinitely unless and until terminated by both parties, but in practice will fall away when the PPA is terminated. | The PPA governs the sale of electricity by the relevant CLP Group company to GPG.<br>The GCC sets out the operational and technical provisions relating to grid connection and enables the flow of power from the power station to the grid. The PPA is subject to the operational GCC being in place at all relevant times. | Payment under the PPA is based on the number of GWh sold pursuant to the agreement multiplied by a state pre-determined tariff, determined by the Zhaoqing City Price Bureau. This tariff is published at Zhaoqing Price Bureau Document ZhaoJia [2012] No. 67 and is updated from time to time.<br>The above pricing also applies to Contracts 3-8.<br>No fee is payable under the GCC. | HK$4.62 million |

| No. | Name, date and current term of the agreement | Transaction party within the CLP Group | Transaction party within the CSG Group | Original term of the agreement | Nature and description of the transaction | Basis for determining the consideration | Consideration for 2014 |
|---|---|---|---|---|---|---|---|
| **3.** | Longzhongtan Hydro Station PPA and GCC<br>Date:<br>As in Contract 2 above. | Guangdong Huaiji Xinlian Hydro-electric Power Company Limited, a subsidiary of the Company. | GPG, a subsidiary of CSG. | As in Contract 2 above. | As in Contract 2 above. | As in Contract 2 above. | HK$2.73 million |
| **4.** | Jiaoping Hydro Station PPA and GCC<br>Date:<br>As in Contract 2 above. | Guangdong Huaiji Xinlian Hydro-electric Power Company Limited, a subsidiary of the Company. | GPG, a subsidiary of CSG. | As in Contract 2 above. | As in Contract 2 above. | As in Contract 2 above. | HK$2.05 million |
| **5.** | Xiazhu Hydro Station PPA and GCC<br>Date:<br>As in Contract 2 above. | Guangdong Huaiji Xinlian Hydro-electric Power Company Limited, a subsidiary of the Company. | GPG, a subsidiary of CSG. | As in Contract 2 above. | As in Contract 2 above. | As in Contract 2 above. | HK$8.36 million |
| **6.** | Shuixia Hydro Station PPA and two GCCs<br>Date:<br>PPA: Automatically renewed on 23 February 2013 and 23 February 2014 respectively. Subsequently on 28 July 2014, a new PPA was signed in respect of the period from 28 July 2014 to 27 July 2015.<br>GCCs: Entered into on 20 October 2010 with the same term as PPA. Subsequently on 28 July 2014, two new GCCs were signed and both in practice will fall away when PPA is terminated. | Guangdong Huaiji Weifa Hydro-electric Power Company Limited, a subsidiary of the Company. | GPG, a subsidiary of CSG. | PPA : The agreement was originally entered into in respect of the period from 23 February 2012 to 22 February 2013 and automatically extended for successive one year periods since then. Renewal is automatic unless one party gives a notice of objection to the other party at the expiry of each one year period and the parties cannot reach an agreement within 30 days of that objection in relation to continuing the contract for a further year. Subsequently on 28 July 2014, a new PPA was signed in replacement of the then existing PPA at the same automatic renewal terms.<br>GCCs: One agreement was originally entered into on 20 October 2010 with the same term as the PPA.<br>Subsequently on 28 July 2014, two new GCCs were signed in replacement of the then existing GCC. | As in Contract 2 above. | As in Contract 2 above. | HK$34.10 million |

| No. | Name, date and current term of the agreement | Transaction party within the CLP Group | Transaction party within the CSG Group | Original term of the agreement | Nature and description of the transaction | Basis for determining the consideration | Consideration for 2014 |
|---|---|---|---|---|---|---|---|
| **7.** | Niuqi Hydro Station Connection Contract (equivalent to a PPA) and GCC<br><br>Date:<br>PPA: Automatically renewed on 12 January 2013 and 12 January 2014 respectively. Current period covers 12 January 2014 to 11 January 2015.<br><br>GCC: 22 October 2010 and same term as the PPA. | Guangdong Huaiji Xinlian Hydro-electric Power Company Limited, a subsidiary of the Company. | GPG, a subsidiary of CSG. | PPA: The agreement was originally entered into in respect of the period from 12 January 2009 to 11 January 2010 and automatically extended for successive one year periods since then. Renewal is automatic unless one party gives a notice of objection to the other party at the expiry of each one year period and the parties cannot reach an agreement within 30 days of that objection in relation to continuing the contract for a further year.<br><br>GCC: the same term as per the PPA. | As in Contract 2 above. | As in Contract 2 above. | HK$28.57 million |
| **8.** | Baishuihe Four Hydro Stations PPA and GCC<br><br>Date:<br>PPA: Automatically renewed on 23 February 2013 and 23 February 2014 respectively. Current period covers 23 February 2014 to 22 February 2015.<br><br>GCC: 9 October 2007 | Guangdong Huaiji Changxin Hydro-electric Power Company Limited<br><br>Guangdong Huaiji Gaotang Hydro-electric Power Company Limited<br><br>Guangdong Huaiji Weifa Hydro-electric Power Company Limited<br><br>Guangdong Huaiji Xinlian Hydro-electric Power Company Limited<br><br>All of the above companies are subsidiaries of the Company. | GPG, a subsidiary of CSG. | PPA: The agreement was originally entered into in respect of the period from 23 February 2012 to 22 February 2013 and automatically extended for successive one year periods since then. Renewal is automatic unless one party gives a notice of objection to the other party at the expiry of each one year period and the parties cannot reach an agreement within 30 days of that objection in relation to continuing the contract for a further year.<br><br>GCC: no term is specified. As such, the GCC continues indefinitely unless and until terminated by both parties, but in practice will fall away when the PPA is terminated. | As in Contract 2 above. | As in Contract 2 above. | HK$175.73 million |

| No. | Name, date and current term of the agreement | Transaction party within the CLP Group | Transaction party within the CSG Group | Original term of the agreement | Nature and description of the transaction | Basis for determining the consideration | Consideration for 2014 |
|---|---|---|---|---|---|---|---|
| **9.** | Cuizhu Transmission Line Maintenance Contract<br>Date:<br>31 March 2011 | Guangdong Huaiji Gaotang Hydro-electric Power Company, a subsidiary of the Company. | GPG, a subsidiary of CSG. | Continuingly valid, but, in practice, will fall away when the relevant PPA (item 8 above) is terminated. | Asset and obligation sharing in relation to the Hydro Station for Guangdong Huaiji Gaotang Hydro-electric Power Company Limited (refer to item 8 above). | No fee is payable. | Not applicable |
| | ***Aggregated total consideration for the Huaiji hydro project*** | | | | | | HK$256.16 million |
| **The Yang_er hydro project** | | | | | | | |
| **10.** | Yang_er Hydro Project PPA and GCC<br>Date:<br>PPA: 21 April 2014 in respect of the period from 1 January to 31 December 2014.<br>GCC: Entered into on 18 April 2013 in respect of the period from 18 April 2013 to 17 April 2014 and continuingly valid. Subsequently on 9 July 2014, a new GCC was signed for a one year period. | Dali Yang_er Hydropower Development Co., Ltd ("Dali Yang_er"), a wholly-owned subsidiary of the Company. | Yunnan Power Grid Company ("Yunnan Gridco"), a subsidiary of CSG. | PPA: The agreement was originally entered into on 19 August 2009. A written agreement was last entered into on 21 April 2014 in respect of the extension for a one year period from 1 January to 31 December 2014.<br>GCC: The agreement was originally entered into in respect of the period from 18 April 2013 to 17 April 2014 and continuingly valid until signing of a new GCC. Subsequently on 9 July 2014, a new GCC was signed in replacement of the then existing GCC at the same automatic renewal terms. | The PPA governs the sale of electricity by Dali Yang_er to Yunnan Gridco.<br>The GCC sets out the operational and technical provisions relating to grid connection and enables the electricity to flow into the grid. The PPA is subject to the operational GCC being in place at all relevant times. | Payment under the PPA is based on the number of GWh sold pursuant to the agreement multiplied by a state pre-determined tariff, determined by the Yunnan Provincial Development and Reform Commission. This tariff is published at Yunnan Price Bureau Document YunJiaJiaGe [2013] No. 139 and is updated from time to time.<br>No fee is payable under the GCC. | HK$36.00 million |

| No. | Name, date and current term of the agreement | Transaction party within the CLP Group | Transaction party within the CSG Group | Original term of the agreement | Nature and description of the transaction | Basis for determining the consideration | Consideration for 2014 |
|---|---|---|---|---|---|---|---|
| **11.** | High Voltage Electricity Supply Contract<br>Date:<br>1 September 2009 | Dali Yang_er, a wholly-owned subsidiary of the Company. | Yangbi Electricity Supply Co., Ltd ("Yangbi"), a subsidiary of CSG. | The contract was originally entered into in respect of the period from 1 September 2009 to 31 August 2010. However, the contract is continuingly valid as the parties continue to perform the contract until the unilateral termination of the contract by either Dali Yang_er or Yangbi in accordance with its terms. | Electricity supply from Yangbi for use by the facilities at the main dam. | Payment is based on the number of kWh sold pursuant to the agreement multiplied by the industrial use tariff for bulk industrial users determined by the Yunnan Provincial Development and Reform Commission. This tariff is updated from time to time. | HK$0.02 million |
| **12.** | High Voltage Electricity Supply Contract<br>Date:<br>1 September 2009 | Dali Yang_er, a wholly-owned subsidiary of the Company. | Yangbi, a subsidiary of CSG. | As in Contract 11 above. | Electricity supply from Yangbi to Dali Yang_er during outages due to overhaul. | As in Contract 11 above. | HK$0.01 million |
| **13.** | High Voltage Electricity Supply Contract<br>Date:<br>4 November 2009 | Dali Yang_er, a wholly-owned subsidiary of the Company. | Yunnan Gridco, a subsidiary of CSG. | The contract was originally entered into in respect of the period from 4 November 2009 to 31 October 2012 and then was amended to take effect from 20 November 2009. The contract is continuingly valid until signing a new contract. | Electricity supply (110kV) from Yunnan Gridco during outages due to overhaul. | As in Contract 11 above. | HK$0.01 million |
| | ***Aggregated total consideration for the Yang_er hydro project*** | | | | | | HK$36.04 million |

| No. | Name, date and current term of the agreement | Transaction party within the CLP Group | Transaction party within the CSG Group | Original term of the agreement | Nature and description of the transaction | Basis for determining the consideration | Consideration for 2014 |
|---|---|---|---|---|---|---|---|
| **The Fangchenggang coal-fired project** | | | | | | | |
| **14.** | Fangchenggang Coal-fired Project PPA and GCC<br><br>Date:<br>PPA: 7 March 2014 in respect of the period from 1 January to 31 December 2014.<br><br>GCC: Automatically renewed on 30 July 2013 and 30 July 2014 respectively. Current period covers 31 July 2014 to 30 July 2015. | CLP Guangxi Fangchenggang Power Company Limited ("CLP FCG"), a majority owned joint venture of the Company. | Guangxi Power Grid Company ("Guangxi Gridco"), a subsidiary of CSG (in respect of the PPA).<br><br>CSG (in respect of the GCC). | PPA: The agreement was originally entered into in August 2007. A written agreement was last entered into on 7 March 2014 in respect of the extension for a one year period from 1 January to 31 December 2014.<br><br>GCC: The contract was originally entered into in respect of the period from 30 July 2007 to 30 July 2008 and has been automatically extended for another year if no written notice of termination is given by either party. | The PPA governs the sale of electricity by CLP FCG to Guangxi Gridco.<br><br>The GCC sets out the operational and technical provisions relating to grid connection and enables the electricity to flow into the grid. The PPA is subject to the operational GCC being in place at all relevant times. | Payment under the PPA is based on the number of GWh sold pursuant to the agreement multiplied by a state pre-determined tariff, determined by the Guangxi Price Bureau. This tariff is published at Guangxi Price Bureau Document GuiJiaGe[2014] No.108 and is updated from time to time.<br><br>No fee is payable under the GCC. | HK$2,263.73 million |
| **15.** | Fangchenggang Coal-fired Project 220kV Startup Standby Substation Grid Connection Contract<br><br>Date:<br>Automatically renewed on 1 September 2012 and 1 September 2014 respectively. Current period covers 1 September 2014 to 31 August 2016. | CLP FCG, a majority owned joint venture of the Company. | Guangxi Gridco, a subsidiary of CSG. | The contract was originally entered into on 26 December 2006. It was extended on 1 September 2008 in respect of the period from 1 September 2008 to 31 August 2010 and has been automatically extended since then for each of the subsequent terms of two year period in the absence of any notice of objection issued by either party. | The contract sets out the operational and technical provisions relating to grid connection for start up and standby purposes. | No fee is payable. | Not applicable |

| No. | Name, date and current term of the agreement | Transaction party within the CLP Group | Transaction party within the CSG Group | Original term of the agreement | Nature and description of the transaction | Basis for determining the consideration | Consideration for 2014 |
|---|---|---|---|---|---|---|---|
| **16.** | Fangchenggang High Voltage Electricity Supply Contract<br><br>Date:<br>Automatically renewed on 1 September 2012 and 1 September 2014 respectively. Current period covers 1 September 2014 to 31 August 2016. | CLP FCG, a majority owned joint venture of the Company. | Guangxi Gridco, a subsidiary of CSG. | The contract was originally entered into on 9 December 2006. It was extended on 1 September 2008 in respect of the period from 1 September 2008 to 31 August 2010 and has been automatically extended for each of the subsequent terms of two year period in the absence of any notice of objection issued by either party. | The contract governs the purchase of standby electricity by CLP FCG from Guangxi Gridco. | Payment is based on the number of GWh sold pursuant to the agreement multiplied by a state pre-determined tariff, determined by the Guangxi Price Bureau. This tariff is published at Guangxi Price Bureau Document GuiJiaGe [2013] No.99 and GuiJiaTiao [2014] No. 71 and is updated from time to time. | HK$8.43 million |
| **17.** | Fangchenggang Power Station 10kV Transmission Line Dispatch Agreement<br><br>Date:<br>Automatically renewed on 1 June 2013 and 1 June 2014 respectively. Current period covers 1 June 2014 to 31 May 2015. | CLP FCG, a majority owned joint venture of the Company. | Guangxi Gridco, a subsidiary of CSG. | The agreement was originally entered into in respect of the period from 1 June 2009 to 31 May 2011 and has been automatically extended for each of the subsequent terms of twelve month period in the absence of any notice of objection issued by either party. | The agreement governs the purchase of standby electricity by CLP FCG from Guangxi Gridco. | As in Contract 16 above. | Not applicable |
| **18.** | Fangchenggang High Voltage Electricity Supply Contract<br><br>Date:<br>Automatically renewed on 1 June 2013 in respect of the period from 1 June 2013 to 31 May 2015. | CLP FCG, a majority owned joint venture of the Company. | Guangxi Gridco, a subsidiary of CSG. | The contract was originally entered into in respect of the period from 1 June 2009 to 31 May 2011 and has been automatically extended for each of the subsequent terms of two year period after the end of aforesaid period if no written amendment or termination agreement is signed. | The contract governs the purchase of standby electricity by CLP FCG from Guangxi Gridco. | As in Contract 16 above. | HK$0.25 million |

| No. | Name, date and current term of the agreement | Transaction party within the CLP Group | Transaction party within the CSG Group | Original term of the agreement | Nature and description of the transaction | Basis for determining the consideration | Consideration for 2014 |
|---|---|---|---|---|---|---|---|
| 19. | Fangchenggang Replacement and Generation Agreement<br>Date:<br>18 November 2014, ended 31 December 2014. | CLP FCG, a majority owned joint venture of the Company. | Guangxi Gridco, a subsidiary of CSG. | New agreement entered into. | Additional capacity for sale of electricity to Guangxi Gridco and the additional generation capacity was transferred to CLP FCG from a small coal-fired generation unit, Guangxi Tiandong Power Plant that was being shut down in line with the PRC's State Council Policy. | Payment is, in line with the PRC's State Council policy on the acceleration of the shutdown of small coal-fired generation units (as per State Council Notice No.2 of 2007 dated 20 January 2007), based on the number of GWh sold pursuant to the agreement multiplied by the state pre-determined tariff which was determined by the Guangxi Price Bureau as applicable to Guangxi Tiandong Power Plant in 2008 (when the plant was shut down in line with the aforesaid State Council policy). | Nil |
| | ***Aggregated total consideration for the Fangchenggang coal-fired project*** | | | | | | HK$2,272.41 million |
| **Xicun solar project** | | | | | | | |
| 20. | Xicun Solar Project PPA and GCC<br>Date:<br>PPA: 24 September 2014 in respect of the period from 15 September 2014 to 31 December 2014.<br>GCC: 23 September 2014 and valid for one year and remains continuingly valid until signing of a new GCC in substitution. | CLP Dali (Xicun) Solar Power Co., Ltd. ("Xicun"), a wholly-owned subsidiary of the Company. | Yunnan Gridco, a subsidiary of CSG. | PPA and GCC: new agreements for this new project. | The PPA governs the sale of electricity by Xicun to Yunnan Gridco.<br>The GCC sets out the operational and technical provisions relating to grid connection and enables the electricity to flow into the grid. The PPA is subject to the operational GCC being in place at all relevant times. | Payment under the PPA is based on the number of GWh sold pursuant to the agreement multiplied by a state pre-determined tariff, determined by the National Development and Reform Commission. This tariff is published at Document FaGaiJiaGe [2013] No.1638 and is updated from time to time.<br>No fee is payable under the GCC. | HK$14.73 million |
| 21. | Xicun Solar Project Metering Technology Agreement<br>Date:<br>24 September 2014 and will remain valid so long as the PPA for this project is operational. | Xicun, a wholly-owned subsidiary of the Company. | Yunnan Gridco, a subsidiary of CSG. | As in Contract 20 above. | This agreement sets out the technical requirements in relation to the metering equipment for this project. | No fee is payable. | Not applicable |

| No. | Name, date and current term of the agreement | Transaction party within the CLP Group | Transaction party within the CSG Group | Original term of the agreement | Nature and description of the transaction | Basis for determining the consideration | Consideration for 2014 |
|---|---|---|---|---|---|---|---|
| **22.** | Xicun Solar Project Electricity Supply Contract (10kV)<br>Date:<br>11 December 2014 in respect of the three year period ending 10 December 2017. | Xicun, a wholly-owned subsidiary of the Company. | Binchuan Electricity Supply Company, a subsidiary of CSG. | New agreement for this new project. | Electricity supply via a 10kV line from a subsidiary of CSG (for all power consumption at the project site). | Payment under the Electricity Supply Contract is based on the number of GWh sold pursuant to the agreement multiplied by a state pre-determined tariff of the Yunnan Provincial Development and Reform Commission. This tariff is published at Yunnan Price Bureau Document YunJiaJiaGe[2013] No. 139. | Nil |
| | ***Aggregated total consideration for Xicun solar project*** | | | | | | HK$14.73 million |
| **Wind project (in development ) – technology related** | | | | | | | |
| **23.** | Wind Project Technology Consultancy Contract<br>Date:<br>11 September 2014, valid until successful completion of consultancy work, which has been duly completed. | Dali Yang_er, a wholly-owned subsidiary of the Company. | Yunnan Gridco, a subsidiary of CSG. | New agreement for this new wind project in development. | Consultancy services provided by Yunnan Gridco regarding grid connection system for the prospective wind project. | A fixed fee of RMB60,000 (HK$76,311.00). | HK$0.08 million |

All the Independent Non-Executive Directors of CLP Holdings have reviewed the CCTs and confirmed that the CCTs have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms; and

(iii) according to the agreement governing them on terms that are fair and reasonable and in the interests of CLP Holdings and its shareholders as a whole.

Our external auditor, PricewaterhouseCoopers, have been engaged to report on the CCTs and they have provided a letter to the Board of Directors confirming that nothing has come to their attention that caused them to believe that:

(i) the disclosed CCTs have not been approved by CLP Holdings' Board of Directors;

(ii) for those CCTs that involve provision of goods or services by the Group, the CCTs were not, in all material respects, in accordance with the pricing policies of the Group; and

(iii) the CCTs were not entered into, in all material respects, in accordance with the relevant agreements governing such CCTs.

## Related Party Transactions

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

## Interests of Directors and Chief Executive Officer

The interests / short positions of each of the Directors and Chief Executive Officer in the shares, underlying shares and debentures of the Company or any of the Company's associated corporations (within the meaning of the Securities and Futures Ordinance) as at 31 December 2014, as recorded in the register required to be kept under Section 352 of Part XV of the Securities and Futures Ordinance, are set out in the table and explanatory notes below:

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

The interests of Directors and Chief Executive Officer in the shares of the Company (other than pursuant to equity derivatives such as share options, warrants to subscribe or convertible bonds) as at 31 December 2014 were as follows:

| Directors | Capacity | Total Interests in Number of Ordinary Shares of the Company | % of the Issued Share Capital of the Company |
|---|---|---|---|
| The Hon Sir Michael Kadoorie | Note 1 | 479,372,780 | 18.97416 |
| Mr William Mocatta | Note 2 | 400,000 | 0.01583 |
| Mr Ronald J. McAulay | Note 3 | 288,811,649 | 11.43152 |
| Mr J. A. H. Leigh | Note 4 | 224,339,077 | 8.87961 |
| Mr Andrew Brandler | Note 5 | 10,600 | 0.00042 |
| Dr Y. B. Lee | Note 6 | 15,806 | 0.00063 |
| Mrs Fanny Law | Personal | 16,800 | 0.00066 |
| Mr Nicholas C. Allen | Note 7 | 12,000 | 0.00047 |
| Mr Richard Lancaster (Chief Executive Officer) | Personal | 600 | 0.00002 |

Notes:

1 The Hon Sir Michael Kadoorie was deemed (by virtue of the Securities and Futures Ordinance) to be interested in 479,372,780 shares in the Company. These shares were held in the following capacity:

(a) 1,243 shares were held by his spouse, Lady Kadoorie in a personal capacity.

(b) 70,146,655 shares were ultimately held by discretionary trusts, of which The Hon Sir Michael Kadoorie is one of the discretionary objects.

(c) 233,044,212 shares were ultimately held by a discretionary trust, of which The Hon Sir Michael Kadoorie is one of the beneficiaries and the founder.

(d) 170,180,670 shares were ultimately held by a discretionary trust, of which The Hon Sir Michael Kadoorie is one of the beneficiaries and the founder.

(e) 2,000,000 shares were ultimately held by each of three discretionary trusts, all of which The Hon Sir Michael Kadoorie is one of the beneficiaries and the founder.

For the purpose of the Securities and Futures Ordinance, the spouse of The Hon Sir Michael Kadoorie was taken to have a discloseable duty in Hong Kong in relation to the shares referred to in (b) to (e) above. The spouse of The Hon Sir Michael Kadoorie was therefore deemed to be interested in 479,372,780 shares in the Company representing approximately 18.97% of the issued share capital of the Company, of which 1,243 shares were held by her in a personal capacity and an aggregate of 479,371,537 shares were attributed to her pursuant to the Securities and Futures Ordinance for disclosure purposes. Nevertheless, she has no interest, legal or beneficial, in these 479,371,537 shares attributed to her for disclosure purposes.

2 Mr William Mocatta was deemed (by virtue of the Securities and Futures Ordinance) to be interested in 400,000 shares in the Company. These shares were held in the following capacity:

(a) 250,000 shares were held in the capacity as the founder of a discretionary trust.

(b) 150,000 shares were held by a trust of which Mr William Mocatta is one of the beneficiaries.

3 Mr Ronald J. McAulay was deemed (by virtue of the Securities and Futures Ordinance) to be interested in 288,811,649 shares in the Company. These shares were held in the following capacity:

(a) 13,141 shares were held in a personal capacity.

(b) 70,146,655 shares were ultimately held by discretionary trusts, of which Mr Ronald J. McAulay is one of the discretionary objects.

(c) 218,651,853 shares were ultimately held by a discretionary trust, of which Mr Ronald J. McAulay, his wife and members of his family are discretionary objects.

4 Mr J. A. H. Leigh was deemed (by virtue of the Securities and Futures Ordinance) to be interested in 224,339,077 shares in the Company. These shares were held in the following capacity:

(a) 125,000 shares were held in a beneficial owner capacity.

(b) 5,562,224 shares were ultimately held by a discretionary trust. Mr J. A. H. Leigh was deemed to be interested in such 5,562,224 shares in his capacity as one of the trustees of a trust which was deemed to be interested in such 5,562,224 shares.

(c) 218,651,853 shares were ultimately held by a discretionary trust. Mr J. A. H. Leigh was deemed to be interested in such 218,651,853 shares in his capacity as one of the trustees of a trust which was deemed to be interested in such 218,651,853 shares.

5 600 shares were held in a personal capacity and 10,000 shares were held in a beneficial owner capacity.

6 600 shares were held in a personal capacity and 15,206 shares were held jointly with spouse.

7 12,000 shares were held in a beneficial owner capacity and jointly with spouse.

Mr V. F. Moore, Mr Vincent Cheng, Ms Irene Lee, Sir Rod Eddington and Dr Rajiv Lall have each confirmed that they had no interests in the shares of the Company or any of its associated corporations as at 31 December 2014. None of the Directors or the Chief Executive Officer had interests in debentures, under equity derivatives or in underlying shares of the Company and its associated corporations as at 31 December 2014.

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

None of the Directors or the Chief Executive Officer had short positions in respect of shares, debentures, under equity derivatives or interests in underlying shares of the Company and its associated corporations as at 31 December 2014.

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

## Interests of Substantial Shareholders

The interests / short positions of substantial shareholders in the shares and underlying shares of the Company as at 31 December 2014, as recorded in the register required to be kept under Section 336 of Part XV of the Securities and Futures Ordinance, are set out in the table and explanatory notes below:

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

The Company had been notified of the following substantial shareholders' interests in the shares (other than pursuant to equity derivatives such as share options, warrants to subscribe or convertible bonds) as at 31 December 2014:

| Substantial Shareholders | Capacity | Total Interests in Number of Ordinary Shares of the Company | % of the Issued Share Capital of the Company |
|---|---|---|---|
| Bermuda Trust Company Limited | Trustee / Interests of controlled corporations | 544,198,166 Note 1 | 21.54 |
| Guardian Limited | Beneficiary / Interests of controlled corporations | 224,214,077 Note 8 | 8.87 |
| Harneys Trustees Limited | Interests of controlled corporations | 416,860,706 Note 3 | 16.50 |
| Lawrencium Holdings Limited | Beneficiary | 170,180,670 Note 2 | 6.74 |
| Lawrencium Mikado Holdings Limited | Beneficiary | 233,044,212 Note 2 | 9.22 |
| The Magna Foundation | Beneficiary | 233,044,212 Note 2 | 9.22 |
| Mikado Investments (PTC) Limited | Trustee / Interest of controlled corporation | 233,044,212 Note 1 | 9.22 |
| The Mikado Private Trust Company Limited | Trustee / Interests of controlled corporations | 409,224,882 Note 2 | 16.20 |
| New Mikado Holding Inc. | Trustee | 233,044,212 Note 1 | 9.22 |
| Oak CLP Limited | Beneficiary | 218,651,853 Note 4 | 8.65 |
| Oak (Unit Trust) Holdings Limited | Trustee | 218,651,853 Note 1 | 8.65 |
| The Oak Private Trust Company Limited | Trustee / Interests of controlled corporations | 233,371,475 Note 4 | 9.24 |
| The Hon Sir Michael Kadoorie | Note 5 | 479,372,780 Note 5 | 18.97 |
| Mr Ronald J. McAulay | Note 6 | 288,811,649 Note 6 | 11.43 |
| Mr J. A. H. Leigh | Notes 7 & 8 | 224,339,077 Notes 7 & 8 | 8.88 |
| Mr R. Parsons | Trustee | 224,214,077 Note 8 | 8.87 |

Notes:

1 Bermuda Trust Company Limited was deemed to be interested in the shares in which New Mikado Holding Inc., Mikado Investments (PTC) Limited, Oak (Unit Trust) Holdings Limited, The Oak Private Trust Company Limited and other companies were deemed to be interested, either in the capacity as trustee of various discretionary trusts and / or by virtue of having direct or indirect control over such companies. The interests of Bermuda Trust Company Limited in the shares of the Company include the shares held by discretionary trusts of which The Hon Sir Michael Kadoorie and / or Mr Ronald J. McAulay are among the discretionary objects as disclosed in "Interests of Directors and Chief Executive Officer".

2 The Mikado Private Trust Company Limited was deemed to be interested in the shares in which Lawrencium Holdings Limited, Lawrencium Mikado Holdings Limited and other companies were deemed to be interested, either in the capacity as trustee of various discretionary trusts and / or by virtue of having direct or indirect control over such companies. The Magna Foundation was also deemed to be interested in the shares in which Lawrencium Mikado Holdings Limited was deemed to be interested. The interests of The Mikado Private Trust Company Limited in the shares of the Company include the shares held by discretionary trusts of which The Hon Sir Michael Kadoorie is one of the beneficiaries and a founder as disclosed in "Interests of Directors and Chief Executive Officer".

3 Harneys Trustees Limited controlled The Mikado Private Trust Company Limited and another company and was therefore deemed to be interested in the shares in which such companies were deemed to be interested.

4 The Oak Private Trust Company Limited was deemed to be interested in the shares in which Oak CLP Limited and other companies were deemed to be interested, either in the capacity as trustee of various discretionary trusts and / or by virtue of having direct or indirect control over such companies. The interests of The Oak Private Trust Company Limited in the shares of the Company include the shares held by a discretionary trust of which Mr Ronald J. McAulay is one of the discretionary objects as disclosed in "Interests of Directors and Chief Executive Officer".

5 See Note 1 under "Interests of Directors and Chief Executive Officer".

6 See Note 3 under "Interests of Directors and Chief Executive Officer".

7 See Note 4 under "Interests of Directors and Chief Executive Officer".

8 Mr R. Parsons and Mr J. A. H. Leigh, in their capacities as trustees of a trust, jointly controlled Guardian Limited and therefore were deemed to be interested in the shares in which Guardian Limited was deemed to be interested. Accordingly, the 224,214,077 shares in which Guardian Limited was interested was duplicated within the interests attributed to each of Mr J. A. H. Leigh and Mr R. Parsons.

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

As at 31 December 2014, the Company had not been notified of any short positions being held by any substantial shareholder in the shares or underlying shares of the Company.

## Interests of Any Other Persons

As at 31 December 2014, the Company had not been notified of any persons other than the substantial shareholders who had interests or short positions in the shares or underlying shares of the Company, which are required to be recorded in the register required to be kept under Section 336 of Part XV of the Securities and Futures Ordinance.

## Corporate Governance

The Company's corporate governance principles and practices are set out in the Corporate Governance Report at page 110 of this Annual Report, whilst our Sustainability Report available online describes the Company's actions and initiatives with particular emphasis on the social and environmental aspects of our activities. SR

## Auditor

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

By Order of the Board

William Mocatta

**William Mocatta**
Vice Chairman
Hong Kong, 26 February 2015

# FINANCIALS

**WHAT WAS AN ACCOUNTING VIEW OF OUR FINANCIAL PERFORMANCE DURING 2014 AND HOW WE STOOD AT THE END OF THE YEAR?**

# APPROACHING OUR FINANCIAL STATEMENTS

## Financial Statements Decoded

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

### Statement of profit or loss and other comprehensive income

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

This statement comprises (a) profit or loss and (b) other comprehensive income ("OCI"). The objective of this statement is to present all income or expenses (transactions with non-owners) in a performance statement. OCI represents certain income and expenses which are not recognised in profit or loss as required or permitted by the relevant accounting standards.

An example of OCI in CLP is the exchange losses arising from the translation of our India and Australia businesses in 2014 which decreased our net assets in these two regions. Transactions with owners such as dividends are presented in the statement of changes in equity.

### Statement of financial position

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

This statement sums up the Group's economic resources (non-current assets and working capital), obligations (debts and other non-current liabilities) and owners' equity at a particular point of time, in this case, our year end at 31 December 2014. It also shows how the economic resources contributed by lenders and shareholders are used in the business. In the past, we used to call this statement a "balance sheet" because at any given time, assets must equal liabilities plus owners' equity (in other words, be in balance). The current name reflects its function more accurately.

### Statement of cash flows

**"Where the company gets its cash and how it spends it"**

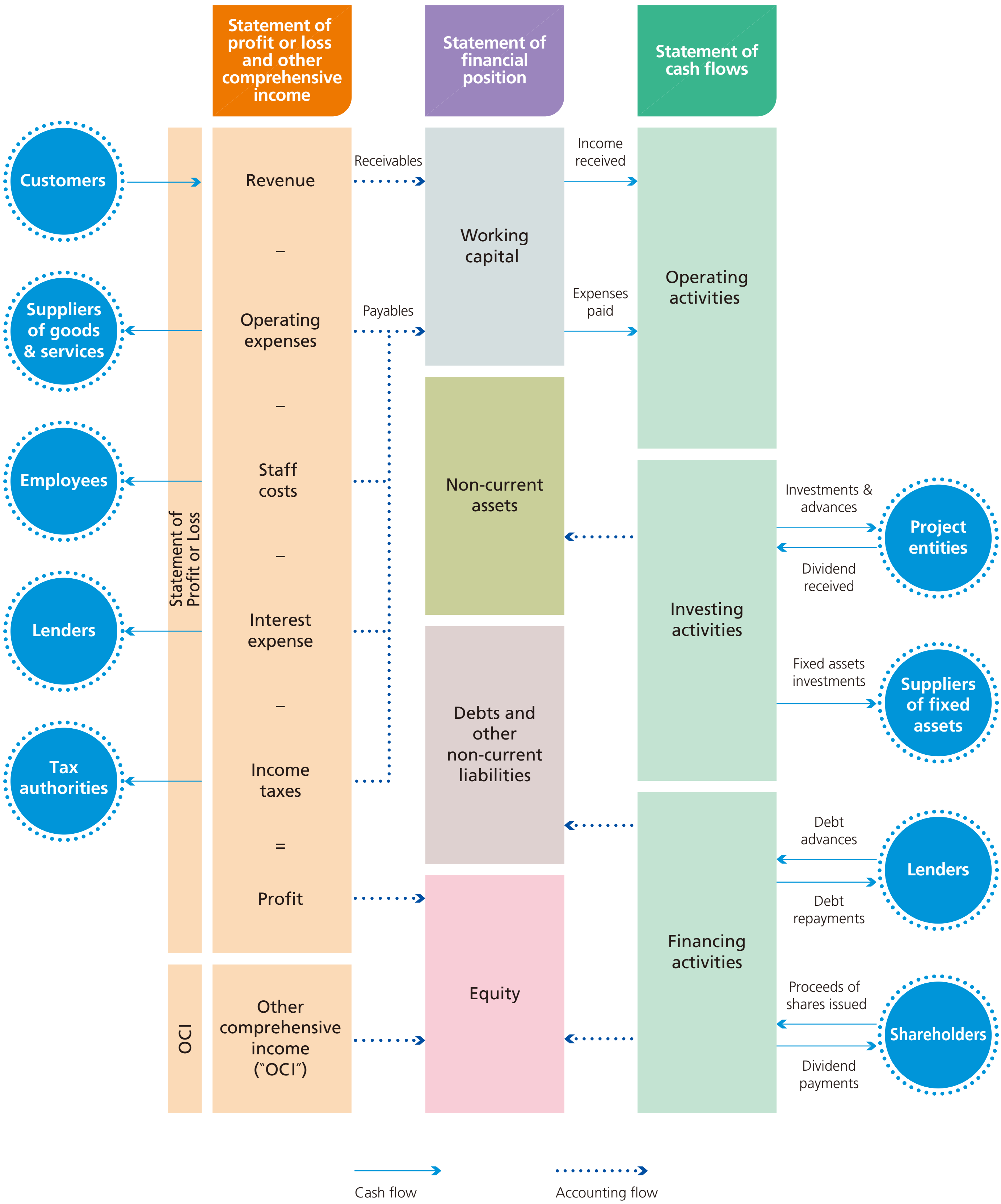
This statement divides the cash flows into operating, investing and financing cash flows. While the operating profit underlies the operating cash flows, certain non-cash charges or credits, such as depreciation, amortisation and fair value changes on derivatives, mean the operating cash flows and the operating profit are different. Investing cash flows are the cash flows arising from the purchase or disposal of non-current assets. Financing cash flows represent the cash flows between the Group, its shareholders and lenders.

## Financial Statements Illustrated

The diagram opposite illustrates the relationships between the statement of profit or loss and other comprehensive income, the statement of financial position and the statement of cash flows, as well as their links with the Group's stakeholders.

On the one hand, the Group earns revenue from customers through the deployment of non-current assets and working capital. On the other hand, it pays operating expenses to suppliers of goods and services, incurs staff and interest costs and also invests in additional non-current assets. The net balance of revenue, operating expenses and staff and interest costs is the operating profit. After deducting income taxes charged by tax authorities, this profit is available for payment to lenders and for distribution to shareholders (dividends) in return for their contribution of funds to the Group in the form of debt and equity. The Group also makes investments and advances to its project entities and receives dividend income from them in return.

# Financial Statements – An Illustration



# ACCOUNTING MINI-SERIES

Every company has its own target capital structure (i.e. debt-to-equity ratio). This involves the considerations of

1. the amount of equity issued and dilution of shareholders' interests by issuing more equity;
2. using internally generated cash flows;
3. the tax advantages of borrowing; and
4. the financial distress in case of excessive leverage.

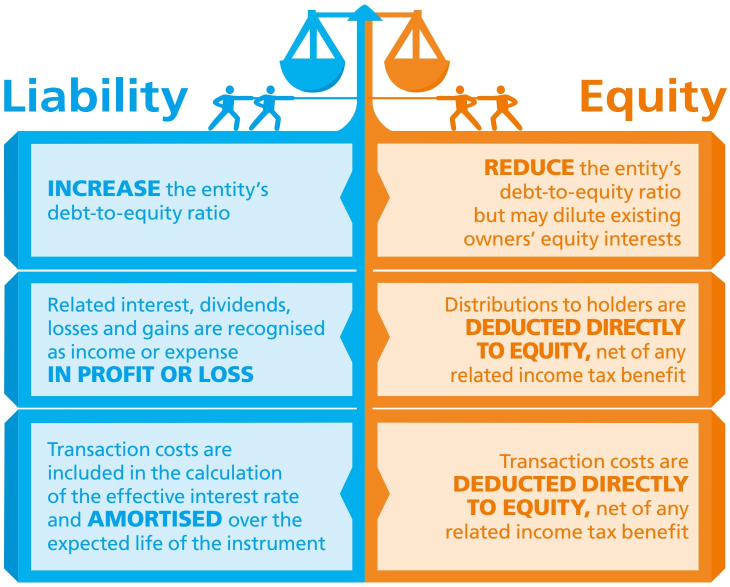
Appreciating that the power industry is a capital-intensive business, CLP has formulated its investment and financing strategies with an aim to grow its business as well as to achieve and maintain its good investment grade rating. Thus, when reviewing any investment proposals, CLP has to consider their impacts on the credit metrics. In the first half of 2014, CLP has issued perpetual capital securities to finance its funding requirement. This is a good opportunity to introduce how to account for these contemporary financial instruments and their impact on CLP's credit profile.

## Liability or equity?

When a company issues a financial instrument, it must determine its classification either as a liability (i.e. debt) or as equity. That determination has an immediate and significant effect on the company's reported earnings and debt-to-equity ratio.

The Conceptual Framework for Financial Reporting defines a liability as 'a present obligation of the entity arising from the past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits'. Specifically, HKAS 32 Financial Instruments addresses the classification of the financial instruments. HKAS 32 does not look to the legal form of instruments. Instead, it focuses on the instruments' contractual rights and obligations. A critical feature in differentiating a liability from equity is the existence of a contractual obligation of the issuer of a financial instrument to deliver cash or another financial asset to the holders. In practice, the classification is far from straightforward as some financial instruments contain both debt and equity features.

> "In constructing the terms of a financial instrument, each component clause would have an impact on the accounting classification."




To illustrate how the classification principles are applied, let's go through some common features found in most financial instruments:

### 1. Redeemable or non-redeemable

An equity instrument is usually non-redeemable. If a financial instrument has a fixed date of redemption, or which give the holders an option to redeem at some point in time, this instrument has to be classified as a liability. However, if the option to redeem the financial instrument is at the discretion of the issuer (i.e. the issuer has the right but not the obligation to pay cash to buy back the instrument), it may be classified as an equity instrument, subject to a further examination of other rights attaching to the financial instrument, especially in relation to the returns component.

### 2. Mandatory or discretionary returns

When distribution to the holders of a financial instrument is at the discretion of the issuer, the instrument is an equity instrument. If distribution is mandatory, the financial instrument has to be classified as a liability. When classifying an instrument, one should not only assess the obligations related to the principal payment, but also the coupon payment. A typical example of this is a perpetual debt instrument.

The holders of a perpetual debt instrument generally have no right to receive principal repayments. However, they usually have the contractual right to receive interest payments indefinitely. Purely looking at the non-redeemable nature of the principal may indicate that this instrument is an equity instrument. However, the obligation to pay interest indefinitely alters its classification. Though the principal will never be repaid, the value of the instrument is wholly derived from the mandatory interest payments. Therefore, the perpetual debt instrument should be classified as a liability in its entirety.

### 3. Dividend pusher and dividend stopper

Sometimes a financial instrument contains certain special provisions such as "dividend pusher" and "dividend stopper". One example of "dividend pusher" is that the holders of a financial instrument will receive a distribution automatically when a distribution is made to the ordinary shares. "Dividend stopper" is a converse situation. A distribution cannot be made to the ordinary shares unless a distribution is made on the financial instrument.

As the distribution to the ordinary shares is at the discretion of the issuer, both the dividend pusher and the dividend stopper clauses of the financial instrument do not introduce a contractual obligation to the issuer (i.e. the issuer has discretion to determine the delivery of cash or another financial asset). Thus the instrument should be classified as equity in its entirety.

> "Classifying an instrument as equity can strengthen the balance sheet by reducing the gearing ratio of an entity. This enhances the capital structure and improves credit metrics."

## What is credit rating?

A corporate credit rating is an evaluation of the credit worthiness of a company, including the company's ability to pay the principal as well as interest at the scheduled dates and the likelihood of default.

Credit ratings are not based on mathematical formulas. Instead, credit rating agencies assign ratings to companies based on their evaluation of qualitative and quantitative information of these companies. They use letter designations such as A, B, C. Higher grades are intended to represent a lower probability of default. A corporate debt is considered "investment grade" if its credit rating is BBB- or higher by Standard & Poor's or Baa3 or higher by Moody's. CLP Holdings has a corporate rating of A- from Standard & Poor's and A2 from Moody's.

The credit rating has a material impact on the yield of a debt instrument. If an issuer has a better rating than its peers, it should be able to issue debt at a lower cost than those entities having similar business parameters.

When an instrument is not a pure debt or equity, credit rating agencies assign the "equity credit" to the instrument by assessing whether the instrument is more equity-like or debt-like in terms of its effect on the issuer's corporate credibility. An equity credit of 50% means that when computing standard credit metrics, the credit rating agencies would split the principal amount of that instrument 50% equity, 50% debt. Distributions would also be split; 50% dividends, 50% interest expense. Different credit rating agencies use different methodologies to assess the weighting between equity-like or debt-like instruments; as a result different equity credits may be assigned.

| MOODY'S | RATING DESCRIPTIONS | STANDARD & POOR'S |
|---|---|---|
| Aaa | HIGHEST / EXTREMELY STRONG | AAA |
| Aa1<br>Aa2<br>Aa3 | HIGH / VERY STRONG | AA+<br>AA<br>AA- |
| A1<br>A2<br>A3 | UPPER-MEDIUM / STRONG | A+<br>A<br>A- |
| Baa1<br>Baa2<br>Baa3 | MEDIUM / ADEQUATE | BBB+<br>BBB<br>BBB- |

## How are our perpetual capital securities being accounted for and the impact on our credit metrics?

**CLP Power Hong Kong has issued an aggregate of US$750 million perpetual capital securities in 2014 with the following key contractual terms:**

- Perpetual and non-callable in the first 5.5 years.
- Subject to conditions as mentioned below, securities holders can receive distribution at a fixed rate of 4.25% per annum in the first 5.5 years, floating thereafter and with fixed step up margins at year 10.5 and at year 25.5, payable semi-annually in arrears, cumulative and compounding.
- Coupon deferrable at the discretion of CLP unless CLP Power Hong Kong declares or pays dividend to CLP Holdings within the 6-month period prior to the scheduled distribution date (Dividend Pusher) or other circumstances including distribution, payment or repurchase of junior or parity obligations.
- If CLP elects to defer distribution to the holders, CLP Power Hong Kong will also defer dividend distribution to CLP Holdings (Dividend Stopper).

**Accounting classification:**

Based on the above criteria, the perpetual capital securities are classified as equity because:

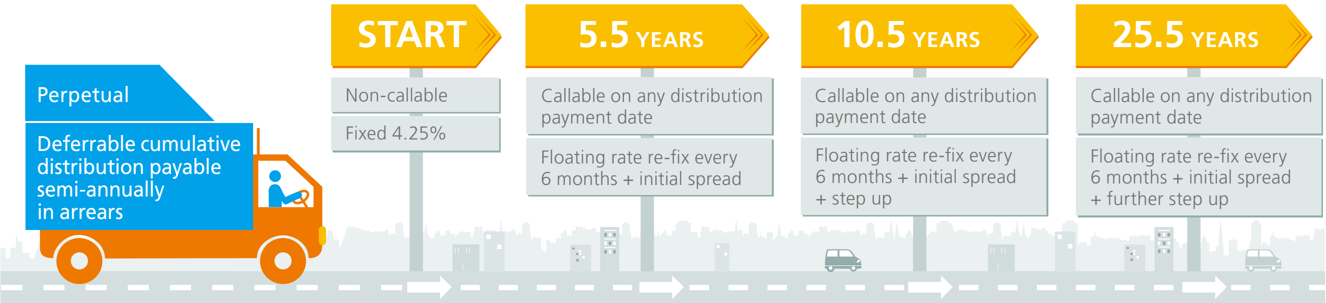
1. the securities are non-redeemable with the option to redeem at the discretion of CLP; and
2. distributions are also at the discretion of CLP.

The perpetual capital securities are presented as non-controlling interests in the consolidated financial statements and any coupon payments on the securities are deducted directly to equity.

**Impacts on credit metrics:**

The issuance of perpetual capital securities allows CLP Power Hong Kong to achieve:

- 50% equity credit for life from Moody's; and
- 50% equity credit for the first 5.5 years from issuance from Standard & Poor's.



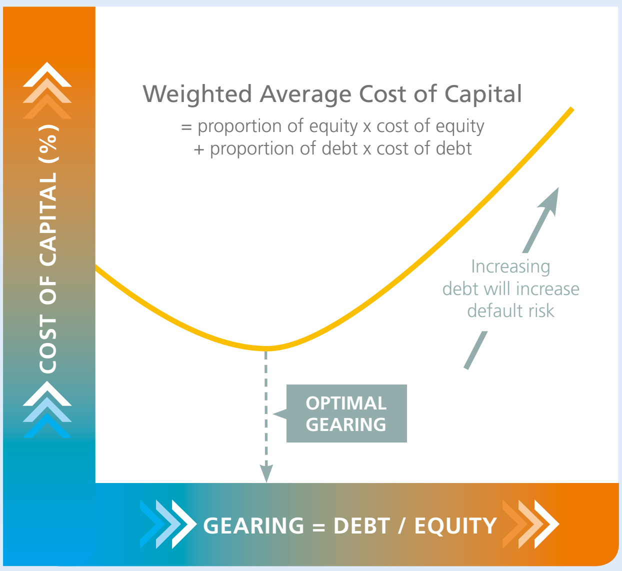

## Is there an optimal gearing for a company?

**An optimal gearing means an optimal mix of debt and equity in a company's capital structure where its cost of capital is minimised so that the company's value can be maximised.**

The cost of capital is the cost of a company's sources of funds. One must calculate both the cost of debt and the cost of equity to determine a company's cost of capital. The cost of capital is the minimum return that investors expect for providing capital to the company. A rate of return larger than the cost of capital is usually required.

Because of tax advantages on debt issuance and its priority repayment, it is usually cheaper to issue debt rather than equity. However, beyond certain leverage, the cost of issuing new debt will be greater than the cost of issuing new equity because adding more debt will increase the default risk of the company. This will increase the interest rate that the company must pay in order to borrow money. Increasing default risk due to increasing debt financing will drive up the cost of equity of the company as well.

CLP's financing strategy aims to achieve the optimal gearing by monitoring the risk profile of the Company to reduce its cost of equity and preserving strong credit metrics in order to maintain good investment grade credit ratings for its debt.



# INDEPENDENT AUDITOR'S REPORT

## To the Shareholders of CLP Holdings Limited

(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of CLP Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 188 to 270 which comprise the consolidated and company statements of financial position as at 31 December 2014, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Directors' Responsibility for the Consolidated Financial Statements

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

## Auditor's Responsibility

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

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

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

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

## Opinion

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

PricewaterhouseCoopers

**PricewaterhouseCoopers**
Certified Public Accountants
Hong Kong, 26 February 2015

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2014

| | Note | 2014 HK$M | 2013 HK$M |
|---|---|---|---|
| **Revenue** | 3 | 92,259 | 104,530 |
| Expenses | | | |
| Purchases of electricity, gas and distribution services | | (40,234) | (49,040) |
| Operating lease and lease service payments | | (3,607) | (12,963) |
| Staff expenses | | (3,980) | (3,017) |
| Fuel and other operating expenses | | (24,777) | (23,763) |
| Depreciation and amortisation | | (6,791) | (7,592) |
| | | (79,389) | (96,375) |
| Other gain | 5 | 2,025 | 751 |
| Operating profit | 6 | 14,895 | 8,906 |
| Finance costs | 7 | (4,180) | (6,522) |
| Finance income | 7 | 131 | 173 |
| Share of results, net of income tax | | | |
| Joint ventures | 15 | 1,562 | 2,671 |
| An associate | 16 | 796 | 612 |
| Profit before income tax | | 13,204 | 5,840 |
| Income tax (expense) / credit | 8 | (1,268) | 232 |
| Profit for the year | | 11,936 | 6,072 |
| **Earnings attributable to:** | | | |
| **Shareholders** | 9 | 11,221 | 6,060 |
| Perpetual capital securities holders | | 152 | – |
| Other non-controlling interests | | 563 | 12 |
| | | 11,936 | 6,072 |
| **Dividends** | 10 | | |
| First to third interim dividends paid | | 4,093 | 4,017 |
| Fourth interim dividend declared | | 2,526 | 2,476 |
| | | 6,619 | 6,493 |
| **Earnings per share, basic and diluted** | 11 | HK$4.44 | HK$2.40 |

The notes and disclosures on pages 195 to 270 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2014

| | 2014 HK$M | 2013 HK$M |
|---|---|---|
| **Profit for the year** | 11,936 | 6,072 |
| Other comprehensive income | | |
| Items that can be reclassified to profit or loss | | |
| Exchange differences on translation | (2,972) | (5,774) |
| Cash flow hedges | (638) | 128 |
| Fair value changes on available-for-sale investments | 80 | 10 |
| Reclassification adjustment upon loss of joint control of joint ventures | (422) | – |
| Reclassification adjustment upon sale of a subsidiary | – | (8) |
| Share of other comprehensive income of joint ventures | 24 | 9 |
| | (3,928) | (5,635) |
| Items that cannot be reclassified to profit or loss | | |
| Fair value gain on revaluation upon transfer from fixed asset to investment property | – | 2,055 |
| Share of other comprehensive income of joint ventures | (74) | 250 |
| | (74) | 2,305 |
| **Other comprehensive income for the year, net of tax** | (4,002) | (3,330) |
| Total comprehensive income for the year | 7,934 | 2,742 |
| **Total comprehensive income attributable to:** | | |
| **Shareholders** | 7,221 | 2,727 |
| Perpetual capital securities holders | 152 | – |
| Other non-controlling interests | 561 | 15 |
| | 7,934 | 2,742 |

This statement of profit or loss and other comprehensive income includes not only conventional profit for the year, but also "other comprehensive income". The concept of other comprehensive income is explained on page 182. Further details of other comprehensive income attributable to shareholders are presented in Note 29.

The notes and disclosures on pages 195 to 270 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2014

| | Note | 2014 HK$M | 2013 HK$M |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed assets | *12(A)* | 128,133 | 126,876 |
| Leasehold land and land use rights under operating leases | *12(B)* | 5,696 | 1,806 |
| Investment property | *12(C)* | 2,554 | 2,221 |
| Goodwill and other intangible assets | *13* | 31,129 | 23,847 |
| Interests in joint ventures | *15* | 11,176 | 19,940 |
| Interest in an associate | *16* | 786 | 1,675 |
| Finance lease receivables | *17* | 898 | 989 |
| Deferred tax assets | *25* | 3,828 | 3,084 |
| Derivative financial instruments | *18* | 3,120 | 3,118 |
| Available-for-sale investments | *19* | 1,707 | 1,263 |
| Other non-current assets | | 111 | 147 |
| | | 189,138 | 184,966 |
| **Current assets** | | | |
| Inventories – stores and fuel | | 3,618 | 1,482 |
| Renewable energy certificates | | 1,086 | 997 |
| Trade and other receivables | *20* | 15,719 | 17,953 |
| Finance lease receivables | *17* | 50 | 49 |
| Derivative financial instruments | *18* | 659 | 1,005 |
| Bank balances, cash and other liquid funds | *21* | 4,393 | 5,233 |
| | | 25,525 | 26,719 |
| **Current liabilities** | | | |
| Customers' deposits | *20(a)* | (4,653) | (4,506) |
| Trade and other payables | *22* | (21,619) | (19,325) |
| Income tax payable | | (790) | (141) |
| Bank loans and other borrowings | *23* | (9,636) | (7,118) |
| Obligations under finance leases | *24* | (1) | (2,763) |
| Derivative financial instruments | *18* | (709) | (1,279) |
| | | (37,408) | (35,132) |
| Net current liabilities | | (11,883) | (8,413) |
| **Total assets less current liabilities** | | 177,255 | 176,553 |

| | Note | 2014 HK$M | 2013 HK$M |
|---|---|---|---|
| **Financed by:** | | | |
| **Equity** | | | |
| Share capital | 28 | 23,243 | 12,632 |
| Share premium | | – | 8,119 |
| Reserves | 29 | | |
| Declared dividends | | 2,526 | 2,476 |
| Others | | 62,244 | 64,134 |
| Shareholders' funds | | 88,013 | 87,361 |
| Perpetual capital securities | 30 | 5,791 | – |
| Other non-controlling interests | | 2,155 | 120 |
| | | 95,959 | 87,481 |
| **Non-current liabilities** | | | |
| Bank loans and other borrowings | 23 | 57,799 | 48,933 |
| Obligations under finance leases | 24 | 26 | 25,213 |
| Deferred tax liabilities | 25 | 13,418 | 8,548 |
| Derivative financial instruments | 18 | 3,062 | 3,440 |
| Fuel clause account | 26 | 2,966 | 1,464 |
| Scheme of Control (SoC) reserve accounts | 27 | 1,131 | 28 |
| Asset decommissioning liabilities | 27(A) | 1,082 | 539 |
| Other non-current liabilities | | 1,812 | 907 |
| | | 81,296 | 89,072 |
| **Equity and non-current liabilities** | | 177,255 | 176,553 |

The more familiar name for the Statement of Financial Position is "Balance Sheet".

William Mocatta

**William Mocatta**
Vice Chairman
Hong Kong, 26 February 2015

**Richard Lancaster**
Chief Executive Officer

Benjamin Lau

**Benjamin Lau**
Acting Chief Financial Officer

The notes and disclosures on pages 195 to 270 are an integral part of these consolidated financial statements.

# COMPANY STATEMENT OF FINANCIAL POSITION

as at 31 December 2014

| | Note | 2014 HK$M | 2013 HK$M |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed assets | *12(A)* | 156 | 172 |
| Investments in subsidiaries | *14* | 51,271 | 52,350 |
| Advance to a subsidiary | *14* | 39 | 39 |
| Other non-current assets | | 4 | 14 |
| | | 51,470 | 52,575 |
| **Current assets** | | | |
| Trade and other receivables | *20* | 54 | 55 |
| Bank balances and cash | | 3 | 3 |
| | | 57 | 58 |
| **Current liabilities** | | | |
| Trade and other payables | *22* | (258) | (223) |
| Bank loans and other borrowings | *23* | – | (816) |
| | | (258) | (1,039) |
| Net current liabilities | | (201) | (981) |
| **Total assets less current liabilities** | | 51,269 | 51,594 |
| **Financed by:** | | | |
| **Equity** | | | |
| Share capital | *28* | 23,243 | 12,632 |
| Share premium | | – | 8,119 |
| Reserves | *29* | | |
| Declared dividends | | 2,526 | 2,476 |
| Others | | 25,500 | 27,767 |
| | | 51,269 | 50,994 |
| **Non-current liabilities** | | | |
| Bank loans and other borrowings | *23* | – | 600 |
| **Equity and non-current liabilities** | | 51,269 | 51,594 |

**William Mocatta**
Vice Chairman
Hong Kong, 26 February 2015

**Richard Lancaster**
Chief Executive Officer

**Benjamin Lau**
Acting Chief Financial Officer

The notes and disclosures on pages 195 to 270 are an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2014

| | Attributable to Shareholders | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share Capital HK$M | Share Premium HK$M | Reserves HK$M | Total HK$M | Perpetual Capital Securities HK$M | Other Non-controlling Interests HK$M | Total Equity HK$M |
| Balance at 1 January 2013 | 12,632 | 8,119 | 70,376 | 91,127 | – | 74 | 91,201 |
| Profit for the year | – | – | 6,060 | 6,060 | – | 12 | 6,072 |
| Other comprehensive income for the year | – | – | (3,333) | (3,333) | – | 3 | (3,330) |
| Sale of a subsidiary | – | – | – | – | – | 35 | 35 |
| Dividends paid | | | | | | | |
| 2012 fourth interim | – | – | (2,476) | (2,476) | – | – | (2,476) |
| 2013 first to third interim | – | – | (4,017) | (4,017) | – | – | (4,017) |
| Dividends paid to other non-controlling interests of subsidiaries | – | – | – | – | – | (4) | (4) |
| Balance at 31 December 2013 | 12,632 | 8,119 | 66,610 | 87,361 | – | 120 | 87,481 |
| Balance at 1 January 2014 | 12,632 | 8,119 | 66,610 | 87,361 | – | 120 | 87,481 |
| Profit for the year | – | – | 11,221 | 11,221 | 152 | 563 | 11,936 |
| Other comprehensive income for the year | – | – | (4,000) | (4,000) | – | (2) | (4,002) |
| Transition to no-par value regime (Note 28) | 10,611 | (8,119) | (2,492) | – | – | – | – |
| Issue of perpetual capital securities (Note 30) | – | – | – | – | 5,791 | – | 5,791 |
| Acquisitions of subsidiaries (Note 2) | – | – | – | – | – | 2,170 | 2,170 |
| Dividends paid | | | | | | | |
| 2013 fourth interim | – | – | (2,476) | (2,476) | – | – | (2,476) |
| 2014 first to third interim | – | – | (4,093) | (4,093) | – | – | (4,093) |
| Distributions to perpetual capital securities holders | – | – | – | – | (152) | – | (152) |
| Dividends paid to other non-controlling interests of subsidiaries | – | – | – | – | – | (696) | (696) |
| **Balance at 31 December 2014** | **23,243** | **–** | **64,770** | **88,013** | **5,791** | **2,155** | **95,959** |

The notes and disclosures on pages 195 to 270 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2014

| | Note | 2014 HK$M | 2014 HK$M | 2013 HK$M | 2013 HK$M |
|---|---|---|---|---|---|
| **Operating activities** | | | | | |
| Net cash inflow from operations | 31(A) | 23,431 | | 21,798 | |
| Interest received | | 130 | | 205 | |
| Income tax paid | | (1,595) | | (982) | |
| Net cash inflow from operating activities | | | 21,966 | | 21,021 |
| **Investing activities** | | | | | |
| Capital expenditure | | (9,192) | | (8,462) | |
| Capitalised interest paid | | (294) | | (236) | |
| Proceeds from disposal of fixed assets | | 105 | | 258 | |
| Additions of other intangible assets | | (1,287) | | (1,144) | |
| Acquisitions of subsidiaries / business | 2 | (8,172) | | (954) | |
| Deposits / proceeds from sales of subsidiaries | 15(A) | 283 | | 1,708 | |
| (Increase) / decrease in available-for-sale investments | | (358) | | 21 | |
| Deferred consideration paid | | – | | (339) | |
| Investments in and advances to joint ventures | | (1,835) | | (185) | |
| Dividends received from | | | | | |
| Joint ventures | | 1,105 | | 1,911 | |
| An associate | | 900 | | 803 | |
| Available-for-sale investments | | 64 | | 24 | |
| Increase in bank deposits with maturities of more than three months | | (2) | | – | |
| Net cash outflow from investing activities | | | (18,683) | | (6,595) |
| Net cash inflow before financing activities | | | 3,283 | | 14,426 |
| **Financing activities** | | | | | |
| Proceeds from long-term borrowings | | 30,305 | | 11,275 | |
| Repayment of long-term borrowings | | (23,572) | | (18,712) | |
| Repayment of obligations under finance leases | | (811) | | (2,546) | |
| Settlement of obligation under finance lease | 2 | (5,338) | | – | |
| Increase in short-term borrowings | | 1,160 | | 648 | |
| Interest and other finance costs paid | | (3,723) | | (5,612) | |
| Advances repayment to non-controlling interests | | (336) | | – | |
| Issue of perpetual capital securities | | 5,791 | | – | |
| Distributions paid to perpetual capital securities holders | | (115) | | – | |
| Dividends paid to shareholders | | (6,569) | | (6,493) | |
| Dividends paid to other non-controlling interests of subsidiaries | | (696) | | (4) | |
| Net cash outflow from financing activities | | | (3,904) | | (21,444) |
| Net decrease in cash and cash equivalents | | | (621) | | (7,018) |
| Cash and cash equivalents at beginning of year | | | 4,784 | | 11,890 |
| Effect of exchange rate changes | | | (127) | | (88) |
| **Cash and cash equivalents at end of year** | 31(B) | | 4,036 | | 4,784 |

Acquisition of subsidiary or business refers to acquisition of a business operation with or without legal entity respectively.

The notes and disclosures on pages 195 to 270 are an integral part of these consolidated financial statements.

# SIGNIFICANT ACCOUNTING POLICIES

Apart from the accounting policies presented within the corresponding notes to the financial statements, other significant accounting policies are set out below.

## 1. Basis of Preparation

The Company, CLP Holdings Limited, and its subsidiaries are collectively referred to as the Group in the consolidated financial statements.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). They have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities (including derivative financial instruments) and investment property which have been measured at fair value.

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

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise their judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are especially significant to the consolidated financial statements, are disclosed in Critical Accounting Estimates and Judgments on pages 203 to 205.

## 2. Changes in Accounting Policies

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

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

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

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

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

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

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

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

## 2. Changes in Accounting Policies (continued)

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

HKFRS 15 Revenue from Contracts with Customers replaces HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations. It establishes that revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The Group is assessing the impact of HKFRS 15.

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

## 3. Consolidation

(A) Basis of consolidation

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

The financial statements of subsidiaries acquired during the year are included in the consolidated financial statements from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group entities are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary to ensure consistency with the policies adopted by the Group, adjustments are made to the financial statements of subsidiaries, joint ventures and associates.

(B) Subsidiaries

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

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

(C) Joint ventures and associates

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

An associate is an entity over which the Group has significant influence but not control nor joint control over the financial and operating policies, generally accompanying a shareholding of between 20% and 50% of the voting rights.

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

## 3. Consolidation (continued)

(C) Joint ventures and associates (continued)

In the consolidated statement of financial position, interests in joint ventures / associates comprise the carrying amounts of the investments and its net advances made to the joint ventures / associates (where the advances are neither planned nor likely to be settled in the foreseeable future).

When the Group's share of losses of a joint venture / associate equals or exceeds its interest therein, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures / associates.

The Group determines at each reporting date whether there is any objective evidence that the investment in the joint venture or associate is impaired. If this is the case, the group calculates the amount of impairment as the difference between the recoverable amount of the joint venture / associate and its carrying value.

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

Dilution gains or losses arising in investments in joint ventures / associates are recognised in profit or loss.

(D) Joint operations

A joint operation is an arrangement in which the Group has joint control (as explained in (C) above), whereby the Group has rights to the assets, and obligations for the liabilities, relating to the arrangement.

When Group entity undertakes its activities under joint operations, the Group as a joint operator recognises its direct right to, and its share of jointly held assets, liabilities, revenues and expenses of joint operations. These have been incorporated in the financial statements under appropriate headings.

(E) Change in ownership interests

Transactions with non-controlling interests are treated as transactions with equity owners of the Group. For purchases of ownership interests from non-controlling interests, the difference between any consideration paid and the relevant share of the carrying value of net assets of a subsidiary acquired is recorded in equity. For disposal of ownership interests to non-controlling interests that do not result in loss of control, gains or losses on disposals to non-controlling interests are also recorded in equity.

If the ownership interest in a joint venture or associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

For changes in ownership interests that result in loss of control of subsidiaries, loss of joint control in joint ventures or loss of significant influence in associates, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest as a joint venture, associate or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are reclassified to profit or loss.

A quick guide to the classification of different entities:

Control → Subsidiary
Joint Control → Joint Venture or Joint Operation
Significant Influence → Associate
Less than Significant Influence → Available-for-sale Investment

## 4. Impairment of Non-Financial Assets

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

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

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

Indefinite useful life ≠ Infinite useful life

An indefinite useful life only means that there is no foreseeable limit to the period over which an asset is expected to generate cash flows to the Group. It does not necessarily mean that it will generate such cash flows forever.

Readers who would like to revisit our expanded discussion on impairment assessment can find this on our website as part of our accounting "mini-series".

## 5. Derivative Financial Instruments and Hedging Activities

A derivative is initially recognised at fair value on the date a derivative contract is entered into and is subsequently remeasured at its fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either fair value hedges, which are hedges of the fair value of recognised financial assets or financial liabilities or firm commitments (e.g. fixed interest rate loans and foreign currency trade receivables) or cash flow hedges, which are hedges of the cash flows of recognised financial assets or financial liabilities or highly probable forecast transactions (e.g. floating interest rate loans, future purchases of fuels denominated in US dollar).

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

(A) Fair value hedges

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

(B) Cash flow hedges

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

## 5. Derivative Financial Instruments and Hedging Activities (continued)

(B) Cash flow hedges (continued)

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged items affect profit or loss. Such reclassification from equity will offset the effect on profit or loss of the corresponding hedged item to achieve the overall hedging result. However, when the highly probable forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset at the time of acquisition. The deferred amounts are ultimately recognised in cost of goods sold in the case of inventory or in depreciation in the case of fixed assets.

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

(C) Derivatives not qualifying for hedge accounting or held for trading purposes

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

The Group enters into sale and purchase transactions for commodities within the ordinary course of business. Transactions that take the form of contracts that are within the scope of HKAS 39 are fair valued at the end of each reporting period. Contracts that were entered into and continue to be held for the purpose of receipt or delivery of commodities in accordance with the Group's expected sale, purchase or usage requirements are not within the scope of HKAS 39 but need to be assessed at inception to determine if they contain embedded derivatives.

An embedded derivative is one or more implicit or explicit terms in a contract that affect the cash flows of the contract in a manner similar to a stand-alone derivative instrument. Any embedded derivative that meets the separation criterion shall be separated from its host contract and measured as if it were a stand-alone derivative if its economic characteristics are not closely related to those of the host contract.

## 6. Inventory

Inventory comprises stores and fuel and is stated at the lower of cost and net realisable value. Cost is calculated on the weighted average basis for stores, coal and gas. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

## 7. Renewable Energy Products

(A) Renewable Energy Schemes

Renewable energy and energy efficiency schemes operate through the creation, trade and surrender of energy products. The major national schemes affecting the Group's Australia business require the surrender of certificates including Large Scale Generation Certificates (LGCs) and Small-Scale Technology Certificates (STCs). The Group's Australia business is also required to surrender certificates under various State based schemes.

Forward purchased renewable energy products are designated as held for trading or own use to satisfy relevant regulatory requirements. Renewable energy products that are held for trading are held at fair value through profit or loss.

The renewable and efficiency products held for own use are accounted for on an accrual basis. That is, when a buy or sell contract is entered into, no recording is made until legal title transfers.

## 7. Renewable Energy Products (continued)

(B) Carbon Units

Under the Clean Energy Legislation Package in Australia, the Group was entitled to transitional assistance in the form of free carbon units and cash. This scheme has since been repealed and no carbon units have been received by the Group in the current financial year. In the prior year, carbon compensation in the form of cash received and free carbon units received through transitional assistance were initially recognised at fair value as a government grant and subsequently released to profit or loss on a systematic basis being a straight line method over the relevant period.

The carbon tax liability at each reporting date was recognised based on the expected weighted average price of carbon units for the obligation period. Purchased carbon units were measured at cost on initial recognition and carried at that cost.

## 8. Current and Deferred Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised either in other comprehensive income or directly in equity. In this case, the tax is also recognised in either other comprehensive income or equity, respectively.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax is also provided on temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

## 9. Employee Benefits

(A) Retirement benefits

The Group operates and / or participates in a number of defined contribution plans in Hong Kong, including the CLP Group Provident Fund Scheme (GPFS) administered by Bank Consortium Trust Company Limited and the Mandatory Provident Fund (MPF) scheme administered by HSBC Life (International) Limited. These schemes are set up as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance. The assets of these schemes are held in separate trustee-administered funds. The pension plans are funded by payments from employees and by the participating companies of the Group, and provide benefits linked to contributions and investment returns on the plans. The Group has no further legal or constructive payment obligations if the fund does not hold sufficient assets to pay all employees the benefit relating to employee service in the current and prior periods, once the contributions have been paid.

The Group's employees outside Hong Kong are primarily covered by the respective defined contribution schemes in accordance with local legislation and practices.

Contributions to the defined contribution plans are recognised as expenses in the year to which the contributions relate, except to the extent that they are capitalised as part of the cost of qualifying assets.

## 9. Employee Benefits (continued)

(B) Incentive bonus and employee leave entitlement

Provisions are made for the estimated liability for incentive bonus and employee leave entitlement as a result of services rendered by employees up to the end of the reporting period, where there is a contractual obligation or past practice has created a constructive obligation.

## 10. Foreign Currency Translation

Items included in the financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in the Hong Kong dollar, which is the Company's functional and the Group's and the Company's presentation currency.

Foreign currency transactions are translated into the relevant functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies by using the exchange rates at the end of the reporting period are recognised in profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges or qualifying net investment hedges.

For subsidiaries, joint ventures and associates that have a functional currency different from the Group's presentation currency for the purpose of consolidation, assets and liabilities for each statement of financial position presented are translated using the closing rate at the end of the reporting period; whilst income and expenses for each statement of profit or loss presented are translated at the average exchange rate for the reporting period (unless this average rate is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the date of the transactions). All resulting exchange differences are recognised in other comprehensive income and as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated using the closing rate at the end of the reporting period.

Upon disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary / loss of joint control over a joint venture / loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in a joint venture or associate that do not result in the Group losing joint control or significant influence) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

Monetary assets and liabilities are assets to be received and liabilities to be paid in fixed money amounts. For example, a trade receivable is a monetary asset (the amount to be received is fixed) but a fixed asset is not a monetary asset because it is uncertain how much you will receive if the fixed asset is to be sold.

A company entity can have both functional currency and presentation currency; however, a consolidation group can only have presentation currency but not functional currency. This is because presentation currency is a matter of choice but functional currency is based on the different primary economic environment in which each group entity is operating.

## 10. Foreign Currency Translation (continued)

The following exchange rates have been used in the preparation of Group financial statements:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Average | Closing | Average | Closing |
| Australian dollar / Hong Kong dollar | **6.9735** | **6.3540** | 7.4429 | 6.9154 |
| Indian rupee / Hong Kong dollar | **0.1272** | **0.1227** | 0.1323 | 0.1256 |
| Renminbi (RMB) / Hong Kong dollar | **1.2573** | **1.2496** | 1.2629 | 1.2808 |

## 11. Leases

Leases of assets in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under an operating lease and the corresponding cumulative lease income / expense is amortised on a straight-line basis over the term of the lease to profit or loss.

Leases of assets where the lessee has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at their commencement at the lower of the fair value of the leased asset and the present value of the minimum lease payments. A fixed asset held under a finance lease is depreciated over the shorter of its useful life or the lease term. The corresponding rental obligations, net of finance charges, are included as obligations under finance leases in current and non-current liabilities. Where assets are leased out under a finance lease, the present value of the lease receipts is recognised as a receivable.

For a finance lease, each lease receipt / payment is allocated between the receivable / liability and finance income / charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the lease receipt / payment is recognised in profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the receivable / liability for each period.

In the case of an energy supply or a power purchase contractual arrangement, where the fulfilment of the arrangement is dependent on the use of specific assets and the arrangement conveys a right to use these assets, such a contractual arrangement is accounted for as containing a finance or an operating lease. Payments for services and the cost of inputs of the arrangement are excluded from the calculation of the minimum lease payments and are recognised as lease service income / payment. In respect of the power purchase arrangement between CLP Power Hong Kong Limited (CLP Power Hong Kong) and Castle Peak Power Company Limited (CAPCO) prior to acquisition of CAPCO as a subsidiary (Note 2), the effective interest rate of the finance lease obligation was a variable rate akin to a price index which moved with reference to the return allowed under the SoC Agreement and accordingly, the finance charge had been treated as contingent rent. Contingent rent was recognised as an expense in the period in which it was incurred.

# CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

In preparing the consolidated financial statements, management are required to exercise significant judgments in the selection and application of accounting principles, as well as in making key estimates and assumptions. The following is a review of the more significant judgments and uncertainties made, in respect of which different amounts may be reported under a different set of conditions or using different assumptions.

## 1. Deferred Tax

At 31 December 2014 a deferred tax asset of HK$2,913 million (2013: HK$2,542 million) in relation to unused tax losses (Note 25) was recognised in the consolidated statement of financial position. Estimating the deferred tax asset to be recognised requires a process that involves determining appropriate tax provisions, forecasting future years' taxable income and assessing our ability to utilise tax benefits through future earnings. In cases where the actual future profits generated are less than expected, a material reversal of the deferred tax asset may arise, which would be recognised in profit or loss for the period in which such a reversal takes place. The Group's deferred tax asset arises mainly from tax losses in our Australia and India businesses. The current financial models indicate that the tax losses can be utilised in the foreseeable future, taking into account that there are no expiry date for utilising losses in Australia, and in India the expiry ranges from eight years to no expiry. Management believe that any reasonable changes in the model assumptions would not affect management's view as at the close of 2014. However, any unexpected changes in assumptions and estimates and in tax regulations could affect the recoverability of this deferred tax asset in future.

## 2. Asset Impairment

The Group has made substantial investments in fixed assets, joint ventures and associate. The Group conducts impairment reviews of these assets whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. The Group also tests annually whether goodwill has suffered any impairment in accordance with the relevant accounting standards.

Determining whether an asset or a cash generating unit is impaired requires an estimation of the value in use, which requires the Group to estimate the future cash flows, a growth rate (that reflects the economic environments in which the Group operates) and a pre-tax discount rate (that reflects the current market assessments of the time value of money and the risks specific to the asset) in order to calculate the present value. Where the expected cash flows are less than the asset's carrying amount, an impairment loss may arise. During 2014, after reviewing the business environment as well as the Group's strategies and past performance of the investments, management concluded that there were impairment for Narrabri Coal Seam Gas Project in Australia of HK$2,254 million (Note 13(b)), fixed assets and goodwill of Dali Yang_er Hydropower Development Co., Ltd. totalled HK$197 million and investment in a joint venture in Australia of HK$59 million (2013: EnergyAustralia Holdings Limited (EnergyAustralia)'s generation assets of HK$4,347 million, investments in CSEC Guohua International Power Company Limited (CSEC Guohua) and CLP Guohua Shenmu Power Company Limited (Shenmu) totalled HK$297 million and finance lease receivables of Paguthan Plant (Paguthan) of HK$519 million).

Apart from the assets impaired, the generation assets in Australia as explained in No. 3 below and the sensitivity analysis set out in Note 13(a), the latest annual impairment models for other relevant assets indicated that sufficient headroom (meaning the excess of the recoverable amount over carrying value) existed. Management believe that any reasonably possible changes in the assumptions used in the models would not affect management's view on impairment at 2014 year end.

## 3. Assessment of the Carrying Value of Generation Assets in Australia

The recoverable amount assessment for the generation asset cash generating units in Australia is based on value in use calculations, applying a discounted cash flow methodology. The value in use calculations use cash flow projections as at 31 December 2014 based on the Group's Business Plan covering a period of ten years. Projections for a period of greater than five years have been used on the basis that a longer projection period represents the long dated nature of our generation assets and a more appropriate reflection of future cash flows from anticipated legislative, regulatory and structural changes in the industry.

The aggregated carrying value of the cumulative assets to which this assessment relates, amounted to HK$12,416 million (A$1,954 million) at 31 December 2014.

The key assumptions used in the value in use calculation are as follows:

### National Energy Market (NEM) modelling

Critical judgment exists in estimating forward electricity pool prices (the forward curve), generation volumes, retail volumes and gas prices. The forward curve has a significant impact on the accounting for certain items including value in use calculations for impairment purposes. Given the continued structural changes in the National Energy Market and an imbalance in the supply and demand equilibrium, risk is introduced in market modelling which heightens the criticality of this judgment area. As part of making these critical judgments, risks do exist in the assumptions made around supply and demand in regards to the Group's generation assets in Australia. Where contraction of demand and supply side response vary from the assumptions made, significant reductions in the value of the assets could eventuate.

### Operating and fuel costs

Operating costs are escalated by relevant cost drivers using activity-based costing principles. Non-contracted fuel costs are based on management's estimate of the future fuel prices.

### Discount rate

Discount rates reflect the current market assessments of the time value of money and are based on the estimated cost of capital. The pre-tax discount rates are calculated based on the post-tax discount rate applicable to each cash generating unit adjusted for the relevant impact and timing of tax cash flows. The pre-tax discount rates used ranged from 10.9% to 13.0%.

### Terminal growth rate

Terminal value growth rates have been utilised in estimating cash flows beyond a period of ten years. The terminal growth rate for the current period is 2.5% (2013: 2.5%) primarily reflecting inflation.

Changes in any or all of the key assumptions outlined above could result in a material reduction in the carrying value of these generation assets.

## 4. Asset Retirement Obligations

CLP Power Hong Kong and CAPCO have been investing in the transmission and distribution network and power stations respectively to supply electricity to the customers in its supply area in Hong Kong. CLP Power Hong Kong and CAPCO expect that the land currently used for its transmission and distribution network and generation facilities will continue to be used for generation and distribution of electricity supply in order to maintain the electricity supply to customers for the foreseeable future. It is considered remote that the transmission and distribution network and the power stations would be removed from the existing land sites. As such, an asset retirement obligation has not been recognised upfront in the respective accounts of CLP Power Hong Kong and CAPCO in accordance with the requirements of accounting standards.

## 5. SoC-related Accounts

As stipulated in the SoC, the balances in the Tariff Stabilisation Fund and the Rate Reduction Reserve shall represent liabilities in the financial statements of CLP Power Hong Kong and shall not accrue to the benefit of its shareholders save as provided for by the SoC. CLP Power Hong Kong also has the obligation to maintain the Fuel Clause Account, which represents the difference between an agreed standard cost of fuel and the actual fuel costs. The Group considers that CLP Power Hong Kong is required under the SoC to discharge its obligations arising from the SoC upon the expiry of the SoC Agreement to customers such that these account balances meet the definition of a liability.

## 6. Lease Accounting

The application of HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease" has resulted in finance lease accounting being applied to CLP Power Hong Kong as lessee (for its Electricity Supply Contract with CAPCO) prior to acquisition of CAPCO as a subsidiary (Note 2), whilst being applied to CLP India Private Limited (CLP India) as lessor (for the Power Purchase Agreement (PPA) with its off-taker). In determining whether an arrangement contains a lease, the Group considers the right to use an asset is conveyed if the purchaser has the ability or right to operate the asset or to control physical access to the underlying assets while obtaining or controlling more than an insignificant amount of the output of the asset, or that it is remote that parties other than the purchaser will take more than an insignificant amount of the output and the price paid is neither contractually fixed per unit of output nor equal to the current market price per unit of output as of the time of delivery. In addition, to apply finance lease accounting, a number of assumptions in the lease models have been made, such as the determination of minimum lease payments, implicit interest rates and residual values of the power plants at the end of contract periods. For the power purchase arrangement between CLP Power Hong Kong and CAPCO, in determining the minimum lease payments, the assumption had been made that the return contained in the lease was a variable rate return which moved with reference to the return allowed under the SoC and accordingly, the finance charge had been treated as contingent rent. Any future changes to these assumptions will affect the value of the lease assets and liabilities recognised and the corresponding lease income and expenses.

## 7. Revenue Recognition

The Group records revenue for retail and wholesale energy sales under the accrual method. Retail electricity and gas revenues are recognised when the commodity is provided to customers on the basis of periodic cycle meter readings and include an estimated accrual for the value of the commodity consumed from the meter reading date to the end of the reporting period. The unbilled revenue is calculated at the end of the reporting period based on estimated daily consumption after the meter reading date to the end of the reporting period. Estimated daily consumption is derived using historical customer profiles adjusted for weather, long unbilled customers and other measurable factors affecting consumption. Unbilled revenue of the Group (included in trade and other receivables) totalled HK$5,118 million at 31 December 2014 (2013: HK$7,216 million).

## 8. Contingent Liabilities

Please refer to Note 34 for the Group's contingent liabilities and the judgments made.

## 9. Fair Value Estimation of Derivative Financial Instruments and Investment Property

Please refer to "Financial Risk Management" No. 2 Fair Value Estimation and Hierarchy of Financial Instruments on pages 266 to 268 for derivative financial instruments. For fair value estimation of investment property, please refer to Note 12(C).

# NOTES TO THE FINANCIAL STATEMENTS

## 1. General Information

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

The financial operations of the Company's major subsidiaries, CLP Power Hong Kong and CAPCO, (collectively referred as SoC Companies) are governed by a SoC entered with the Hong Kong Government. Our electricity business in Hong Kong is therefore also referred to as the SoC business. The main features of the SoC Agreement are summarised on pages 271 and 272, which are unaudited by PricewaterhouseCoopers.

These financial statements have been approved for issue by the Board of Directors on 26 February 2015.

## 2. Business Combination

**Accounting Policy**

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

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised either in profit or loss or other comprehensive income as appropriate. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

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

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

On 12 May 2014 the Group completed the acquisition of a further 30% interest in 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 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.

## 2. Business Combination (continued)

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 |

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).

## 2. Business Combination (continued)

The following tables summarise the fair value of assets acquired and liabilities assumed from the acquisitions of CAPCO and PSDC respectively and the illustration of the acquisition method of accounting and the calculation of goodwill:

CAPCO

Fair value 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 |

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.

## 2. Business Combination (continued)

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 to December 2014 contributed by CAPCO and PSDC was HK$2,072 million. Had CAPCO and PSDC been consolidated from 1 January 2014, the consolidated statement of profit or loss would have included profit of HK$3,096 million.

# 3. Revenue

### Accounting Policy

Revenue primarily represents sales of electricity and gas, engineering and maintenance service fees, other electricity-related revenue such as temporary electricity supply works and reconnection fees and adjustments stipulated under the SoC. It is measured at the fair value of the consideration received or receivable, net of applicable tax, discounts and rebates.

Sales of electricity and gas are based on actual and accrued consumption or the amount billed in accordance with the terms of the contractual agreements where applicable during the year. Other revenue is recognised when services are rendered or sales are completed.

Lease service income comprises servicing income and fuel costs received from lessees with respect to the leased assets. Finance lease income represents the interest element of the lease receipts on lease receivables and is recognised over the lease period using the effective interest method. Operating lease income is recognised on a straight-line basis over the term of the lease. Interest income is recognised on a time proportion basis using the effective interest method.

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

| | 2014 HK$M | 2013 HK$M |
|---|---|---|
| Sales of electricity | **79,034** | 88,555 |
| Sales of gas | **7,976** | 8,388 |
| Operating lease income under PPA | **3,334** | 2,778 |
| Lease service income under PPA | **456** | 626 |
| Finance lease income under PPA | **151** | 252 |
| Other revenue (note) | **2,328** | 3,290 |
| | **93,279** | 103,889 |
| Transfer for SoC (from) / to revenue (Note 27) | **(1,020)** | 641 |
| | **92,259** | 104,530 |

Note: Including carbon compensation in the form of cash assistance and free carbon units totalling HK$924 million (A$130 million) (2013: HK$1,923 million (A$259 million)) received by EnergyAustralia under the Energy Security Fund (ESF) with respect to Yallourn Power Station up to 30 June 2014 when the ESF was terminated after the carbon tax repeal. The compensation received was recognised as revenue over the relevant period on a systematic basis.

The operating lease income under PPA relates to Jhajjar, whose PPA has been accounted for as an operating lease.

The lease service income and finance lease income under PPA relate to Paguthan. In accordance with HK(IFRIC)-Int 4 and HKAS 17, servicing income and fuel costs received by Paguthan from the lessee with respect to the leased assets are not part of the minimum lease payments and are recognised as lease service income.

## 4. Segment Information

**Accounting Policy**

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive Officer, who is the chief operating decision-maker of the Group. In accordance with the Group's internal organisation and reporting structure, the operating segments are based on geographical regions.

Segment revenue is based on the geographical region in which the electricity is generated and / or services are rendered. Segment capital additions represent the total costs incurred during the year to acquire fixed assets and other segment assets that are expected to be used for more than one year. Unallocated items comprise mainly corporate expenses, corporate assets, and the Company's liquid funds and borrowings.

The Group operates, through its subsidiaries, 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.

This year the segment information format includes the presentation of EBITDAF and one-off items (definitions see below). This is in accordance with changes in internal reporting made during the year.

EBITDAF = Earnings before interest, taxes, depreciation and amortisation, and fair value adjustments. For this purpose, fair value adjustments include fair value gains or losses on derivative financial instruments relating to transactions not qualifying as hedges and ineffectiveness of cash flow hedges.

One-off items refer to unusual and infrequent events such as acquisition / disposal, impairment of non-current assets, property valuation gain / loss, change in law or natural catastrophe. They are considered irrelevant for assessing the underlying performance of the Group and are separately disclosed to allow a better understanding and comparison of the financial results. Details of the one-off items can be found on page 34.

# 4. Segment Information (continued)

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 |
|---|---|---|---|---|---|---|---|
| **For year ended 31 December 2014** | | | | | | | |
| Revenue | 35,623 | 909 | 4,821 | 8 | 50,895 | 3 | 92,259 |
| EBITDAF of subsidiaries | 17,926 | 501 | 1,934 | (27) | 1,292 | (542) | 21,084 |
| Share of results, net of income tax | | | | | | | |
| Joint ventures | 411 | 891 | – | 321 | (61) | – | 1,562 |
| An associate | – | 796 | – | – | – | – | 796 |
| EBITDAF of the Group | 18,337 | 2,188 | 1,934 | 294 | 1,231 | (542) | 23,442 |
| Depreciation and amortisation | (3,923) | (412) | (567) | – | (1,845) | (44) | (6,791) |
| Fair value adjustments | (18) | – | – | – | 620 | – | 602 |
| Finance costs | (1,954) | (211) | (920) | – | (1,019) | (76) | (4,180) |
| Finance income | 9 | 9 | 42 | 3 | 28 | 40 | 131 |
| Profit / (loss) before income tax | 12,451 | 1,574 | 489 | 297 | (985) | (622) | 13,204 |
| Income tax (expense) / credit | (1,807) | (102) | (219) | – | 860 | – | (1,268) |
| Profit / (loss) for the year | 10,644 | 1,472 | 270 | 297 | (125) | (622) | 11,936 |
| Earnings attributable to | | | | | | | |
| Perpetual capital securities holders | (152) | – | – | – | – | – | (152) |
| Other non-controlling interests | (549) | (14) | – | – | – | – | (563) |
| Earnings / (loss) attributable to shareholders | 9,943 | 1,458 | 270 | 297 | (125) | (622) | 11,221 |
| Excluding: One-off items | (2,198) | 158 | – | – | 881 | – | (1,159) |
| Operating earnings | 7,745 | 1,616 | 270 | 297 | 756 | (622) | 10,062 |
| Capital additions | 7,940 | 537 | 461 | – | 1,777 | 18 | 10,733 |
| Impairment provisions | | | | | | | |
| Fixed assets and leasehold land and land use rights under operating leases | – | 195 | – | – | 67 | – | 262 |
| Goodwill and other intangible assets | – | 2 | – | – | 2,223 | – | 2,225 |
| Interests in joint ventures | – | – | – | – | 59 | – | 59 |
| Receivables and others | 30 | – | 27 | – | 720 | – | 777 |
| **At 31 December 2014** | | | | | | | |
| Fixed assets | 97,372 | 5,364 | 11,259 | – | 13,982 | 156 | 128,133 |
| Goodwill and other intangible assets | 5,545 | 5,471 | 29 | – | 20,084 | – | 31,129 |
| Interests in joint ventures | 18 | 9,177 | – | 1,723 | 258 | – | 11,176 |
| Interest in an associate | – | 786 | – | – | – | – | 786 |
| Deferred tax assets | – | 95 | 6 | – | 3,727 | – | 3,828 |
| Other assets | 15,819 | 5,024 | 5,341 | 70 | 12,251 | 1,106 | 39,611 |
| Total assets | 118,754 | 25,917 | 16,635 | 1,793 | 50,302 | 1,262 | 214,663 |
| Bank loans and other borrowings | 40,644 | 3,516 | 8,656 | – | 14,619 | – | 67,435 |
| Current and deferred tax liabilities | 12,322 | 1,483 | 403 | – | – | – | 14,208 |
| Obligations under finance leases | – | – | – | – | 27 | – | 27 |
| Other liabilities | 24,571 | 1,611 | 724 | 3 | 9,909 | 216 | 37,034 |
| Total liabilities | 77,537 | 6,610 | 9,783 | 3 | 24,555 | 216 | 118,704 |

## 4. Segment Information (continued)

The difference between total assets and total liabilities represents shareholders' financing.

| | 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 |
|---|---|---|---|---|---|---|---|
| For year ended 31 December 2013 | | | | | | | |
| Revenue | 34,172 | 991 | 4,371 | 14 | 64,976 | 6 | 104,530 |
| EBITDAF of subsidiaries | 14,768 | 620 | 1,109 | (26) | 321 | (386) | 16,406 |
| Share of results, net of income tax | | | | | | | |
| Joint ventures | 1,235 | 1,188 | – | 262 | (14) | – | 2,671 |
| An associate | – | 612 | – | – | – | – | 612 |
| EBITDAF of the Group | 16,003 | 2,420 | 1,109 | 236 | 307 | (386) | 19,689 |
| Depreciation and amortisation | (4,412) | (213) | (424) | – | (2,506) | (37) | (7,592) |
| Fair value adjustments | 83 | – | 5 | – | 4 | – | 92 |
| Finance costs | (3,685) | (205) | (957) | – | (1,620) | (55) | (6,522) |
| Finance income | 11 | 4 | 80 | 5 | 44 | 29 | 173 |
| Profit / (loss) before income tax | 8,000 | 2,006 | (187) | 241 | (3,771) | (449) | 5,840 |
| Income tax (expense) / credit | (1,010) | (151) | 78 | – | 1,315 | – | 232 |
| Profit / (loss) for the year | 6,990 | 1,855 | (109) | 241 | (2,456) | (449) | 6,072 |
| Earnings attributable to other non-controlling interests | – | (12) | – | – | – | – | (12) |
| Earnings / (loss) attributable to shareholders | 6,990 | 1,843 | (109) | 241 | (2,456) | (449) | 6,060 |
| Excluding: One-off items | – | 372 | 293 | – | 2,582 | – | 3,247 |
| Operating earnings | 6,990 | 2,215 | 184 | 241 | 126 | (449) | 9,307 |
| Capital additions | 9,292 | 483 | 1,243 | – | 2,139 | 39 | 13,196 |
| Impairment provisions | | | | | | | |
| Fixed assets and leasehold land and land use rights under operating leases | – | 38 | – | – | 3,862 | – | 3,900 |
| Goodwill and other intangible assets | – | – | – | – | 773 | – | 773 |
| Interests in joint ventures | – | 297 | – | – | – | – | 297 |
| Receivables and others | – | 3 | 716 | – | 897 | – | 1,616 |
| 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 |

## 5. Other Gain

| | 2014 HK$M | 2013 HK$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 | – |
| Gain on bargain purchase of Mount Piper and Wallerawang (note) | – | 751 |
| | 2,025 | 751 |

Note: In 2013, the gain on bargain purchase arose from the acquisitions of Mount Piper Power Station and Wallerawang Power Station that underpin the Delta Western GenTrader contracts previously acquired.

## 6. Operating Profit

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

| | 2014 HK$M | 2013 HK$M |
|---|---|---|
| **Charging** | | |
| Staff costs | | |
| Salaries and other costs | 3,684 | 2,715 |
| Retirement benefits costs (a) | 296 | 302 |
| Auditor's remuneration | | |
| Audit | 37 | 34 |
| Permissible audit related and non-audit services (b) | 7 | 12 |
| Operating lease expenditure on the agreement with Ecogen | 276 | 311 |
| Net loss on disposal of fixed assets | 282 | 173 |
| Impairment of * | | |
| Fixed assets and leasehold land and land use rights under operating leases | 262 | 150 |
| Goodwill and other intangible assets | 2,225 | 176 |
| Inventories – stores and fuel | 41 | – |
| Finance lease receivables | – | 519 |
| Impairment and other provisions for EnergyAustralia's generation assets | – | 4,437 |
| 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 | (331) | (437) |
| Fuel and other operating expenses | (167) | (201) |
| Transactions not qualifying as hedges | (602) | (91) |
| Ineffectiveness of cash flow hedges | – | (1) |
| Net exchange loss / (gain) | 126 | (73) |
| **Crediting** | | |
| Revaluation gain on investment property | (245) | – |
| Gain on termination of an energy agreement in Australia | (216) | – |
| Net rental income from properties | (47) | (7) |

* Excluding the impairment of EnergyAustralia's generation assets in 2013

## 6. Operating Profit (continued)

Notes:

(a) The retirement benefit plans for staff employed by the Group entities in Hong Kong are regarded as defined contribution schemes. The current scheme, GPFS, provides benefits linked to contributions and investment returns on the scheme. Contributions paid to defined contribution schemes, including GPFS and MPF as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, totalled HK$222 million (2013: HK$218 million), of which HK$64 million (2013: HK$62 million) was capitalised.

Staff employed by the Group entities outside Hong Kong are primarily covered by defined contribution schemes in accordance with local legislation and practices. Total contributions amounted to HK$161 million (2013: HK$189 million).

(b) Permissible audit-related and non-audit services comprise Sustainability Report assurance, audits of CLP's provident funds, auditor's attestation and accounting / tax advisory services for business development.

## 7. Finance Costs and Income

**Accounting Policy**

Borrowing costs are recognised as an expense in the year in which they are incurred, except to the extent that they are capitalised when they are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use.

| | 2014 HK$M | 2013 HK$M |
|---|---|---|
| Finance costs | | |
| Interest expenses on | | |
| Bank loans and overdrafts | 1,430 | 1,537 |
| Other borrowings | | |
| Wholly repayable within five years | 265 | 253 |
| Not wholly repayable within five years | 872 | 917 |
| Tariff Stabilisation Fund [(a)] | 1 | 1 |
| Customers' deposits, fuel clause over-recovery and others | 110 | 31 |
| Finance charges under finance leases [(b)] | 922 | 2,753 |
| Other finance charges | 372 | 444 |
| Net fair value loss / (gain) on financing related derivative financial instruments | | |
| Cash flow hedges, reclassified from equity | 677 | 895 |
| Fair value hedges | (666) | 1,027 |
| Not designated as hedges | (1) | (3) |
| Ineffectiveness of cash flow hedges | 33 | 18 |
| Loss / (gain) on hedged items in fair value hedges | 658 | (992) |
| Other net exchange gain on financing activities | (197) | (88) |
| | 4,476 | 6,793 |
| Less: amount capitalised [(c)] | (296) | (271) |
| | 4,180 | 6,522 |
| Finance income | | |
| Interest income on short-term investments and bank deposits | 131 | 173 |

Notes:

(a) CLP Power Hong Kong is required to credit, to a Rate Reduction Reserve in its financial statements, a charge of the average of one-month Hong Kong interbank offered rate on the average balance of the Tariff Stabilisation Fund under the SoC (Note 27).

(b) Finance charges under finance leases primarily related to contingent rent in respect of the power purchase arrangement between CLP Power Hong Kong and CAPCO accounted for as finance lease in accordance with HK(IFRIC)-Int 4 and HKAS 17 prior to acquisition of CAPCO as a subsidiary (Note 2).

(c) Finance costs have been capitalised at average interest rates of 1.33% – 9.80% (2013: 3.17% – 10.68%) per annum.

## 8. Income Tax Expense / (Credit)

Accounting Policy No. 8

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

| | 2014 HK$M | 2013 HK$M |
|---|---|---|
| Current income tax | | |
| Hong Kong | 1,303 | 534 |
| Outside Hong Kong | 268 | 305 |
| | 1,571 | 839 |
| Deferred tax | | |
| Hong Kong | 503 | 473 |
| Outside Hong Kong | (806) | (1,544) |
| | (303) | (1,071) |
| | 1,268 | (232) |

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

The income tax on the Group's profit before income tax differs from the theoretical amount that would arise using the Hong Kong profits tax rate as follows:

| | 2014 HK$M | 2013 HK$M |
|---|---|---|
| Profit before income tax | 13,204 | 5,840 |
| Less: Share of results of joint ventures and associate, net of income tax | (2,358) | (3,283) |
| | 10,846 | 2,557 |
| Calculated at an income tax rate of 16.5% (2013: 16.5%) | 1,790 | 422 |
| Effect of different income tax rates in other countries | (217) | (501) |
| Income not subject to tax | (393) | (182) |
| Expenses not deductible for tax purposes | 204 | 178 |
| Revenue adjustment for SoC not subject to tax (Note 27) | 168 | (105) |
| Over-provision in prior years | (645) | (53) |
| Derecognition of deferred tax assets | 360 | – |
| Tax losses not recognised | 1 | 9 |
| Income tax expense / (credit) | 1,268 | (232) |

## 9. Earnings Attributable to Shareholders

Earnings attributable to shareholders have been dealt with in the financial statements of the Company to the extent of HK$6,844 million (2013: HK$7,384 million).

CLP Holdings is the investment holding company. Its earnings were mainly derived from dividends of subsidiaries.

## 10. Dividends

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | HK$ per share | HK$M | HK$ per share | HK$M |
| First to third interim dividends paid | **1.62** | **4,093** | 1.59 | 4,017 |
| Fourth interim dividend declared | **1.00** | **2,526** | 0.98 | 2,476 |
| | **2.62** | **6,619** | 2.57 | 6,493 |

At the Board meeting held on 26 February 2015, the Directors declared the fourth interim dividend of HK$1.00 per share (2013: HK$0.98 per share). The fourth interim dividend is not reflected as dividends payable in the financial statements, but as a separate component of the shareholders' funds at 31 December 2014.

## 11. Earnings per Share

The earnings per share are computed as follows:

| | 2014 | 2013 |
|---|---|---|
| Earnings attributable to shareholders (HK$M) | **11,221** | 6,060 |
| Weighted average number of shares in issue (thousand shares) | **2,526,451** | 2,526,451 |
| Earnings per share (HK$) | **4.44** | 2.40 |

Basic and fully diluted earnings per share are the same as the Company did not have any dilutive equity instruments throughout the year ended 31 December 2014 (2013: nil).

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

## Accounting Policy

### (A) Fixed assets and leasehold land and land use rights under operating leases

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the fixed asset. Cost may also include transfer from equity of any gains / losses on qualifying cash flow hedges of foreign currency purchases of fixed assets. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. For any asset replacement, the carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as expenses in the period in which they are incurred.

Fixed assets employed for the electricity business in Hong Kong, also referred to as SoC fixed assets, represent a major portion of the assets of the Group. Depreciation of fixed assets and amortisation of leasehold land is on a straight-line basis using the rates authorised under the SoC which reflect the pattern in which the assets' economic benefits are consumed.

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

Fixed assets used for the non-SoC business primarily relate to the electricity businesses located outside Hong Kong. Amortisation of leasehold land and depreciation of fixed assets are calculated, using the straight-line method, to allocate their costs to their estimated residual values over the unexpired term of the lease or their estimated useful lives, as appropriate. Their estimated useful lives are similar to those of the SoC fixed assets and are set out below:

## 12. Fixed Assets, Leasehold Land and Land Use Rights under Operating Leases and Investment Property (continued)

**Accounting Policy (continued)**

(A) Fixed assets and leasehold land and land use rights under operating leases (continued)

| | |
|---|---|
| Leasehold land | unexpired term of the lease |
| Buildings | 10 – 60 years |
| Generating plant | 15 – 35 years |
| Switchgear and transformers | 17 – 45 years |
| Gas storage plant | 25 years |
| Other equipment | 10 – 30 years |
| Computers, furniture and fittings and office equipment | 3 – 15 years |
| Motor vehicles | 3 – 10 years |
| Freehold land | not depreciable |

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period. For plant under construction, no depreciation is provided until the construction is completed and the assets are ready for their intended use. Leasehold land commences amortisation from the time when the land interest becomes available for its intended use. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

(B) Investment Properties

Investment properties include properties that are being constructed or developed for future use as investment properties. Land held under operating leases is accounted for as an investment property when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment properties are measured initially at cost, including related transaction costs. Subsequent to initial recognition, investment properties are measured at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Any gains and losses arising from changes in the fair value or from the retirement or disposal of an investment property are recognised in profit or loss in the period in which they arise.

If an item of owner occupied property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised directly in revaluation reserve within equity.

# 12. Fixed Assets, Leasehold Land and Land Use Rights under Operating Leases and Investment Property (continued)

Fixed assets, leasehold land and land use rights under operating leases and investment property totalled HK$136,383 million (2013: HK$130,903 million), which included assets under construction with book value of HK$13,776 million (2013: HK$11,597 million). Movements in the accounts are as follows:

## (A) Fixed Assets

Group

| | Land | | Buildings | | Plant, Machinery and Equipment | | |
|---|---|---|---|---|---|---|---|
| | Freehold HK$M | Leased HK$M | Owned HK$M | Leased (note) HK$M | Owned HK$M | Leased (note) HK$M | Total HK$M |
| Net book value at 1 January 2013 | 865 | 538 | 13,242 | 5,617 | 84,760 | 27,441 | 132,463 |
| Acquisition of business | 62 | – | – | – | 17 | – | 79 |
| Sale of a subsidiary | – | – | (74) | – | (1,578) | (178) | (1,830) |
| Additions | 41 | – | 964 | 363 | 7,542 | 3,139 | 12,049 |
| Revaluation surplus | – | 2,055 | – | – | – | – | 2,055 |
| Transfers and disposals | (34) | (2,073) | (190) | (7) | 5,012 | (5,422) | (2,714) |
| Depreciation | – | (14) | (323) | (358) | (3,825) | (2,127) | (6,647) |
| Impairment charge | – | – | (75) | – | (3,807) | – | (3,882) |
| Exchange differences | (108) | – | (71) | – | (4,058) | (460) | (4,697) |
| Net book value at 31 December 2013 | 826 | 506 | 13,473 | 5,615 | 84,063 | 22,393 | 126,876 |
| Cost | 842 | 601 | 17,462 | 12,219 | 135,460 | 48,126 | 214,710 |
| Accumulated depreciation and impairment | (16) | (95) | (3,989) | (6,604) | (51,397) | (25,733) | (87,834) |
| Net book value at 31 December 2013 | 826 | 506 | 13,473 | 5,615 | 84,063 | 22,393 | 126,876 |
| Net book value at 1 January 2014 | 826 | 506 | 13,473 | 5,615 | 84,063 | 22,393 | 126,876 |
| Acquisition of subsidiaries (Note 2) | – | – | 5,544 | (5,477) | 22,333 | (22,206) | 194 |
| Additions | – | – | 1,178 | 18 | 7,379 | 569 | 9,144 |
| Transfers and disposals | (79) | (6) | 251 | (41) | (527) | (65) | (467) |
| Depreciation | – | (14) | (482) | (115) | (4,432) | (678) | (5,721) |
| Impairment charge | (1) | – | (180) | – | (80) | – | (261) |
| Exchange differences | (34) | – | (132) | – | (1,465) | (1) | (1,632) |
| **Net book value at 31 December 2014** | **712** | **486** | **19,652** | **–** | **107,271** | **12** | **128,133** |
| Cost | 727 | 592 | 30,932 | – | 186,235 | 30 | 218,516 |
| Accumulated depreciation and impairment | (15) | (106) | (11,280) | – | (78,964) | (18) | (90,383) |
| **Net book value at 31 December 2014** | **712** | **486** | **19,652** | **–** | **107,271** | **12** | **128,133** |

Note: 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.

Company

The net book value of fixed assets of the Company was HK$156 million (2013: HK$172 million), comprising mainly office furniture, fittings and equipment. The additions, disposals and depreciation for the year were HK$29 million (2013: HK$39 million), HK$1 million (2013: HK$1 million) and HK$44 million (2013: HK$37 million) respectively.

## 12. Fixed Assets, Leasehold Land and Land Use Rights under Operating Leases and Investment Property (continued)

### (B) Leasehold Land and Land Use Rights under Operating Leases

Group

| | 2014 HK$M | 2013 HK$M |
|---|---|---|
| Net book value at 1 January | 1,806 | 1,866 |
| Acquisition of subsidiaries (Note 2) | 3,811 | – |
| Additions | 214 | 3 |
| Amortisation | (131) | (48) |
| Impairment charge | (1) | (18) |
| Exchange differences | (3) | 3 |
| **Net book value at 31 December** | 5,696 | 1,806 |
| Cost | 6,258 | 2,237 |
| Accumulated amortisation and impairment | (562) | (431) |
| **Net book value at 31 December** | 5,696 | 1,806 |

### (C) Investment Property

Group

| | 2014 HK$M | 2013 HK$M |
|---|---|---|
| At 1 January | 2,221 | – |
| Additions | 88 | – |
| Revaluation surplus | 245 | – |
| Transfers | – | 2,221 |
| **At 31 December** | 2,554 | 2,221 |

The Group's investment property is located at Argyle Street, Kowloon. It was revalued at 31 December 2014 and the valuations of the property were with reference to an independent valuation prepared by DTZ Debenham Tie Leung Limited ("DTZ") based on the highest and best use approach. In formulating the optimal development of the property, DTZ has taken into account the development constraints stipulated on the covenants of the Government Leases and subsequent modifications. DTZ has adopted the residual valuation method, which is a modification of income approach based on discounted cash flows, by making reference to the development potential of the subject property after deduction of costs for completion of the development. The valuation relies upon a series of assumptions which produce an estimation of the expected current market value of the property held for development or redevelopment. These assumptions include the statutory and non-statutory restrictions associated with development that may be imposed by the Government. Comparable transactions of similar development in the locality were gathered for gross development value assessment. The valuations are performed and reported twice a year, in line with the Group's reporting dates, to management.

The recurring fair value measurement of the Group's investment property is categorised within Level 3 of the fair value hierarchy at 31 December 2014. The significant unobservable input used other than assumptions made in relation to development potential of the property is discount rate, cost of development and estimated return in the future for the property. The discount rate used is 5% (2013: 4%) and the higher the rate, the lower the fair value of the property.

# 12. Fixed Assets, Leasehold Land and Land Use Rights under Operating Leases and Investment Property (continued)

### (D) Tenure of Leasehold Land and Land Use Rights

The tenure of leasehold land and land use rights (under finance or operating leases) and investment property of the Group is as follows:

| | 2014<br>HK$M | 2013<br>HK$M |
|---|---|---|
| Held in Hong Kong | | |
| On long-term leases (over 50 years) | 2,671 | 2,341 |
| On medium-term leases (10 – 50 years) | 5,935 | 2,063 |
| On short-term leases (less than 10 years) | 5 | 6 |
| | 8,611 | 4,410 |
| Held outside Hong Kong | | |
| On medium-term leases (10 – 50 years) | 125 | 123 |
| | 8,736 | 4,533 |

# 13. Goodwill and Other Intangible Assets

**Accounting Policy**

(A) Goodwill

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

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

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

(B) Other intangible assets

Intangible assets other than goodwill are measured initially at cost or, if acquired in a business combination, fair value at the acquisition date. An intangible asset with a finite useful life is amortised on a straight-line basis over its useful life of 1 – 34 years or using the unit of production method and carried at cost less accumulated amortisation and accumulated impairment losses.

## 13. Goodwill and Other Intangible Assets (continued)

| | Goodwill [(a)] HK$M | Licences [(b)] HK$M | Capacity Right [(c)] HK$M | Others [(d)] HK$M | Total HK$M |
|---|---|---|---|---|---|
| Net carrying value at 1 January 2013 | 22,225 | 2,506 | – | 3,748 | 28,479 |
| Sale of a subsidiary | – | – | – | (112) | (112) |
| Additions | – | 177 | – | 967 | 1,144 |
| Amortisation | – | (5) | – | (892) | (897) |
| Impairment charge | – | (33) | – | (740) | (773) |
| Exchange differences | (3,116) | (365) | – | (513) | (3,994) |
| Net carrying value at 31 December 2013 | 19,109 | 2,280 | – | 2,458 | 23,847 |
| Cost | 19,109 | 2,458 | – | 5,500 | 27,067 |
| Accumulated amortisation and impairment | – | (178) | – | (3,042) | (3,220) |
| Net carrying value at 31 December 2013 | 19,109 | 2,280 | – | 2,458 | 23,847 |
| Net carrying value at 1 January 2014 | 19,109 | 2,280 | – | 2,458 | 23,847 |
| Acquisition of subsidiaries (Note 2) | 5,545 | – | 5,607 | – | 11,152 |
| Additions | – | 198 | 8 | 1,081 | 1,287 |
| Write-off | – | – | – | (16) | (16) |
| Amortisation | – | (3) | (181) | (755) | (939) |
| Impairment charge | (2) | (2,223) | – | – | (2,225) |
| Exchange differences | (1,548) | (252) | – | (177) | (1,977) |
| **Net carrying value at 31 December 2014** | **23,104** | **–** | **5,434** | **2,591** | **31,129** |
| Cost | 23,106 | 2,223 | 5,615 | 6,090 | 37,034 |
| Accumulated amortisation and impairment | (2) | (2,223) | (181) | (3,499) | (5,905) |
| **Net carrying value at 31 December 2014** | **23,104** | **–** | **5,434** | **2,591** | **31,129** |

Notes:

(a) Goodwill mostly arose from the previous acquisitions of energy retail business in Australia of HK$17,350 million (2013: HK$18,883 million) and the acquisition of CAPCO (Note 2) under Hong Kong electricity business of HK$5,545 million (2013: nil) in current year. In accordance with the Group's accounting policies, the Group has assessed the recoverable amount of goodwill for the corresponding cash generating units and determined that such goodwill has not been impaired. The recoverable amount of the cash generating units tested for impairment has been determined based on value in use calculations. The value in use calculations use cash flow projections as at 31 December 2014 based on an approved Business Plan which has a forecast covering a period of ten years and necessary updates. Projections for a period of greater than five years have been used on the basis that a longer projection period represents the long dated nature of our generation and electricity supply assets and a more appropriate reflection of future cash flows from anticipated legislative, regulatory and structural changes in the industry.

The key assumptions used in the value in use calculations are as follows:

Energy retail business in Australia

- Electricity pool prices, generation volumes, dispatch levels and gas prices were derived using modelling of the electricity wholesales market. The modelling is prepared internally, where possible, using observable inputs. Given recent changes in market dynamics associated with increased supply, lower customer demand and lower wholesale prices, as a result, various scenarios exist in the long term regarding grid based demand and the potential supply side response. This can have a significant impact on the valuation (refer to "Critical Accounting Estimates and Judgments" No. 3 Assessment of the Carrying Value of Generation Assets in Australia). The modelling used of the electricity wholesale and gas markets is based on past experience and observable market activity.

# 13. Goodwill and Other Intangible Assets (continued)

Notes (continued):

- Retail prices are sensitive to regulatory changes (i.e. regulation and deregulation of retail tariffs). In absence of any known or expected changes to the current pricing structure, our retail price path assumptions are based on management estimates and expectations on current market conditions and our expectation of regulatory outcomes.
- The electricity and gas volumes for purchases and sales represent the forecast projections in the EnergyAustralia Business Plan. External information was used to verify and align internal estimates.
- Electricity and gas network (distribution) cost assumptions are based on published regulated price paths. When no estimates are available, network costs are assumed to escalate by the relevant Consumer Price Index.
- Customer account numbers growth for electricity and gas aligns with the EnergyAustralia Business Plan.
- Terminal value growth rates have been utilised in estimating cash flows beyond a period of ten years. The terminal growth rate for the current period is 3.0% (2013: 3.0%).
- The cash flow projections are discounted using a pre-tax discount rate of 12.1% (2013: 12.8%). The discount rates reflect the current market assessments of the time value of money and are based on the estimated cost of capital.

It is estimated that adverse changes in key assumptions, in isolation, would lead to the following decreases in recoverable value within the Retail cash generating unit in Australia:

| | Recoverable Amount HK$M |
|---|---|
| Reduction in tariff (1%) (note) | (2,160) |
| Reduction in retail gross margin (2.5%) (note) | (1,620) |
| Increase in discount rate (50 basis points) | (1,874) |

Note: The reduction in tariff and retail gross margin has only been applied to residential customers only and no change to Commercial and Industrial (C&I) customers.

The sensitivities above are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The recoverable amount of the Retail cash generating unit exceeds its carrying value when applying each of the sensitivities above in isolation.

Hong Kong electricity business

- Goodwill arose from the CAPCO acquisition has been allocated to the CLP Power Hong Kong and CAPCO combined cash generating unit as the acquisition is considered to benefit the whole SoC business.
- The electricity tariff for the supply of electricity in meeting the demand of customers in Hong Kong over the forecast periods is determined with reference to the rate-setting mechanism under the SoC.
- The forecast for electricity demand is based on the load forecast to support local infrastructure development and meeting customer load requirements, maintaining safety and supply reliability, and meeting environmental requirements.
- Expenditure for the supply of electricity in meeting the forecast demand are based on committed purchase contracts where applicable, and inputs on costs trend as specific to the electricity business in Hong Kong. Such forecast aligns with the projection in the Business Plan for our Hong Kong electricity business, with capital expenditures for the period 2014 to 2018 aligning with those forecasted in the approved development plan.
- Terminal value of the cash generating unit is adopted to estimate the cash flows to be generated for the periods beyond ten years. This is expressed as a multiple of net asset values which corresponds to our return model based on fixed assets investment. The terminal value is a multiple of 1.2 times of the net asset values forecasted as at the end of 2024.
- The cash flow projections are discounted using a pre-tax discount rate of 12.05%, or a post-tax discount rate of 9.99% which reflects the SoC return rate applicable to the electricity business in Hong Kong.

(b) The Group has a 20% working level interest in certain petroleum licences giving the Group the right to exploration, extraction and production of petroleum within the licence area located near the town of Narrabri, New South Wales (the Narrabri Coal Seam Gas Project). During the year, additional drilling data and analysis has become available in relation to the Narrabri Coal Seam Gas Project. The key changes from this additional information included delays in the estimated date of output commencing, a reduction in the estimated total gas reserves and a fall in estimated daily production.

These factors, in combination, have caused a substantial decline in value of this investment based on a value in use calculation incorporating a pre-tax weighted average cost of capital of 13.0%. As a result, an impairment provision of HK$2,223 million (A$350 million) (2013: nil) has been recognised. Together with provisions for other related assets, impairment provision for Narrabri Coal Seam Gas Project amounted to HK$2,254 million (A$355 million) or HK$1,578 million (A$248 million) after tax (2013: nil).

(c) Capacity right represents the right to use 50% of the pumped storage capacity of Phase 1 of the Guangzhou Pumped Storage Power Station in Conghua, Guangzhou and the corresponding right to use the associated transmission facilities until 2034. Such right was acquired through the PSDC acquisition in May 2014 (Note 2).

(d) The balance includes contracted customers and other identifiable intangible assets from EnergyAustralia.

A more detailed discussion and explanation on goodwill can be found on our website as part of our accounting "mini-series".

## 14. Investments in and Advances to Subsidiaries

**Accounting Policy No. 3(B)**

| | 2014 HK$M | 2013 HK$M |
|---|---|---|
| Unlisted shares, at cost | 23,635 | 23,635 |
| Provision for impairment losses | (100) | (100) |
| Advances to subsidiaries, less provisions (note) | 27,736 | 28,815 |
| | 51,271 | 52,350 |

Note: The advances to subsidiaries are unsecured, interest-free and have no fixed repayment terms (Note 33(D)). These advances are considered equity in nature.

Apart from the above advances to subsidiaries which are considered equity in nature, the Company has also made an advance to CLP Engineering Limited of HK$39 million (2013: HK$39 million), which is interest-free and due on or after 30 June 2016 upon demand. This advance is classified as a long-term receivable in the Company's financial statements.

The table below lists the principal subsidiaries of the Group at 31 December 2014:

| Name | Issued Share Capital / Registered Capital | % of Ownership Interest at 31 December 2013 and 2014 | Place of Incorporation / Business | Principal Activity |
|---|---|---|---|---|
| CLP Power Hong Kong Limited | HK$20,400,007,269.65 divided into 2,488,320,000 ordinary shares | 100 | Hong Kong | Generation and Supply of Electricity |
| Castle Peak Power Company Limited | HK$50,000,000 divided into 500,000 ordinary shares | 70 (a),(b) | Hong Kong | Generation and Sale of Electricity |
| Hong Kong Pumped Storage Development Company, Limited | HK$10,000,000 divided into 100,000 ordinary shares | 100 (a),(b) | Hong Kong / Mainland China | Provision of Pumped Storage Services |
| Hong Kong Nuclear Investment Company Limited | HK$300,000,000 divided into 300,000 ordinary shares | 100 | Hong Kong / Mainland China | Power Projects Investment Holding |
| CLP Engineering Limited | HK$49,950,000 divided into 4,995 ordinary shares | 100 | Hong Kong | Engineering Services |
| CLP Power Asia Limited | 1,000 ordinary shares of US$1 each | 100 | British Virgin Islands / International and Mainland China | Power Projects Investment Holding |
| CLP Power China Limited | 192,000,000 ordinary shares of US$1 each | 100 (b) | British Virgin Islands / Mainland China and Hong Kong | Power Projects Investment Holding |
| CLP Power International Limited | 692,000 ordinary shares of US$1,000 each | 100 (b) | British Virgin Islands / International | Power Projects Investment Holding |
| CLP Properties Limited | HK$150,000,000 divided into 15,000,000 ordinary shares | 100 | Hong Kong | Property Investment Holding |

## 14. Investments in and Advances to Subsidiaries (continued)

| Name | Issued Share Capital / Registered Capital | % of Ownership Interest at 31 December 2013 and 2014 | Place of Incorporation / Business | Principal Activity |
|---|---|---|---|---|
| CLP Research Institute Limited | 1 ordinary share of US$1 each | 100 | British Virgin Islands / Hong Kong | Research and Development |
| EnergyAustralia Holdings Limited | 533,676,005 ordinary shares of A$1 each | 100 (b) | Australia | Energy Business Investment Holding |
| EnergyAustralia Yallourn Pty Ltd | 15 ordinary shares of A$1 each | 100 (b) | Australia | Generation and Supply of Electricity |
| EnergyAustralia Pty Ltd | 3,368,686,988 ordinary shares of A$1 each | 100 (b) | Australia | Retailing of Electricity and Gas |
| EnergyAustralia NSW Pty Ltd | 2 ordinary shares of A$1 each | 100 (b) | Australia | Generation of Electricity |
| CLP India Private Limited | 2,842,691,612 equity shares of Rs.10 each | 100 (b) | India | Generation of Electricity and Power Projects Investment Holding |
| Jhajjar Power Limited | 20,000,000 equity shares of Rs.10 each; 2,324,882,458 compulsory convertible preference shares of Rs.10 each | 100 (b) | India | Generation of Electricity |
| CLP Sichuan (Jiangbian) Power Company Limited (c) | RMB496,380,000 | 100 (b) | Mainland China | Generation of Electricity |
| Guangdong Huaiji Changxin Hydro-electric Power Company Limited (d) | RMB69,098,976 | 84.9 (b) | Mainland China | Generation of Electricity |
| Guangdong Huaiji Gaotang Hydro-electric Power Company Limited (d) | RMB249,430,049 | 84.9 (b) | Mainland China | Generation of Electricity |
| Guangdong Huaiji Weifa Hydro-electric Power Company Limited (d) | US$13,266,667 | 84.9 (b) | Mainland China | Generation of Electricity |
| Guangdong Huaiji Xinlian Hydro-electric Power Company Limited (d) | RMB141,475,383 | 84.9 (b) | Mainland China | Generation of Electricity |

Notes:

(a) Acquired as subsidiaries in May 2014 (Note 2). Prior to the acquisitions, the Group held 40% and 49% interest in CAPCO and PSDC respectively.

(b) Indirectly held through subsidiaries of the Company

(c) Registered as a wholly foreign owned enterprise under People's Republic of China (PRC) law

(d) Registered as Sino-Foreign Cooperative Joint Ventures under PRC law

## 14. Investments in and Advances to Subsidiaries (continued)

Summarised financial information for the year ended 31 December 2014 of CAPCO, which has material non-controlling interests, is set out below:

| | HK$M |
|---|---|
| Results for the year | |
| Revenue | 15,510 |
| Profit for the year | 3,115 |
| Other comprehensive income for the year | (2) |
| Total comprehensive income for the year | 3,113 |
| Dividends paid to non-controlling interests | 683 |
| Net assets | |
| Non-current assets | 29,262 |
| Current assets | 5,820 |
| Current liabilities | (28,926) |
| Non-current liabilities | (5,186) |
| | 970 |
| Cash flows | |
| Net cash inflow from operating activities | 3,346 |
| Net cash outflow from investing activities | (20) |
| Net cash outflow from financing activities | (3,326) |
| Net change in cash and cash equivalents | – |

## 15. Interests in Joint Ventures

Accounting Policy No. 3(C)

| | 2014 HK$M | 2013 HK$M |
|---|---|---|
| Share of net assets | 10,121 | 10,186 |
| Goodwill | 47 | 162 |
| Carrying amounts | 10,168 | 10,348 |
| Advances [(a)] | 103 | 9,592 |
| Loan [(b)] | 905 | – |
| | 11,176 | 19,940 |

Notes:

(a) Advances to joint ventures are unsecured, interest-free and have no fixed repayment terms. These advances are considered equity in nature.

(b) Loan to a joint venture is unsecured, carries interest at 90% of the People's Bank of China's over five years Renminbi benchmark lending rate (2013: nil) and with final maturity in September 2022. The current portion of the loan of HK$94 million (2013: nil) was included in other receivables.

## 15. Interests in Joint Ventures (continued)

The Group's interests in joint ventures are analysed as follows:

| | | 2014 | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Share of Net Assets HK$M | Goodwill HK$M | Advances and loan HK$M | Total HK$M | Share of Net Assets HK$M | Goodwill HK$M | Advances HK$M | Total HK$M |
| CAPCO (Note 2) | | – | – | – | – | 199 | – | 9,178 | 9,377 |
| CSEC Guohua and Shenmu | (A) | 2,741 | – | – | 2,741 | 3,142 | 114 | – | 3,256 |
| ShenGang Natural Gas Pipeline Company Limited | (B) | 611 | – | 905 | 1,516 | – | – | – | – |
| CLP Guangxi Fangchenggang Power Company Limited (Fangchenggang) | (C) | 1,443 | – | – | 1,443 | 1,767 | – | – | 1,767 |
| OneEnergy Taiwan Ltd (OneEnergy Taiwan) | (D) | 1,473 | – | – | 1,473 | 1,340 | – | 192 | 1,532 |
| Shandong Zhonghua Power Company, Limited (SZPC) | (E) | 1,036 | – | – | 1,036 | 1,044 | – | – | 1,044 |
| PSDC (Note 2) | | – | – | – | – | 13 | – | 69 | 82 |
| Others | (F) | 2,817 | 47 | 103 | 2,967 | 2,681 | 48 | 153 | 2,882 |
| | | 10,121 | 47 | 1,008 | 11,176 | 10,186 | 162 | 9,592 | 19,940 |

## 15. Interests in Joint Ventures (continued)

Summarised financial information of significant joint ventures and the Group's share of results and net assets are as follows:

| | For year ended 31 December 2014 | | | | | |
|---|---|---|---|---|---|---|
| | CAPCO [(a)] HK$M | Fangcheng-gang HK$M | SZPC HK$M | OneEnergy Taiwan HK$M | Others HK$M | Total HK$M |
| Revenue | 4,539 | 2,288 | 8,403 | – | 2,249 | 17,479 |
| Depreciation and amortisation | (28) | (185) | (947) | – | (802) | (1,962) |
| Interest income | – | 16 | 6 | – | 22 | 44 |
| Interest expense | (5) | (180) | (326) | (2) | (502) | (1,015) |
| Other expenses | (3,268) | (1,333) | (5,062) | (1) | (533) | (10,197) |
| Share of results of joint ventures | – | – | – | 530 | – | 530 |
| Profit before income tax | 1,238 | 606 | 2,074 | 527 | 434 | 4,879 |
| Income tax expense | (211) | (143) | (564) | – | (67) | (985) |
| Profit for the year | 1,027 | 463 | 1,510 | 527 | 367 | 3,894 |
| Other comprehensive income | (2) | – | – | 2 | (67) | (67) |
| Total comprehensive income | 1,025 | 463 | 1,510 | 529 | 300 | 3,827 |
| Group's share | | | | | | |
| Profit for the year [(b)] | 411 | 324 | 444 | 264 | 119 | 1,562 |
| Other comprehensive income | (1) | – | – | 1 | (50) | (50) |
| Total comprehensive income | 410 | 324 | 444 | 265 | 69 | 1,512 |
| Dividends from joint ventures | 145 | 607 | 406 | 45 | 293 | 1,496 |

Notes:

(a) The share of results of CAPCO related to the period from 1 January 2014 to 12 May 2014 (prior to acquisition as a subsidiary).

(b) The Group's share of results of joint ventures included impairment provision for a joint venture in Australia of HK$59 million (2013: CSEC Guohua and Shenmu of HK$297 million).

# 15. Interests in Joint Ventures (continued)

| | For year ended 31 December 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | CAPCO HK$M | CSEC Guohua and Shenmu HK$M | Fangcheng-gang HK$M | SZPC HK$M | OneEnergy Taiwan HK$M | Others HK$M | Total HK$M |
| Revenue | 14,865 | 17,026 | 2,975 | 8,607 | – | 2,558 | 46,031 |
| Depreciation and amortisation | (83) | (859) | (181) | (914) | – | (758) | (2,795) |
| Interest income | – | 1 | 12 | 8 | – | 9 | 30 |
| Interest expense | (16) | (505) | (193) | (349) | (6) | (452) | (1,521) |
| Other expenses | (11,042) | (14,406) | (1,742) | (5,809) | (5) | (576) | (33,580) |
| Share of results of joint ventures | – | – | – | – | 456 | – | 456 |
| Profit before income tax | 3,724 | 1,257 | 871 | 1,543 | 445 | 781 | 8,621 |
| Income tax expense | (638) | (571) | – | (438) | – | (144) | (1,791) |
| Non-controlling interests | – | (679) | – | – | – | – | (679) |
| Profit for the year | 3,086 | 7 | 871 | 1,105 | 445 | 637 | 6,151 |
| Other comprehensive income | 4 | – | – | – | 5 | 276 | 285 |
| Total comprehensive income | 3,090 | 7 | 871 | 1,105 | 450 | 913 | 6,436 |
| Group's share | | | | | | | |
| Profit for the year | 1,234 | 12 | 610 | 325 | 222 | 268 | 2,671 |
| Other comprehensive income | 2 | – | – | – | 2 | 255 | 259 |
| Total comprehensive income | 1,236 | 12 | 610 | 325 | 224 | 523 | 2,930 |
| Dividends from joint ventures | 1,258 | 65 | 639 | 289 | 15 | 276 | 2,542 |

## 15. Interests in Joint Ventures (continued)

| | At 31 December 2014 | | | | | |
|---|---|---|---|---|---|---|
| | CSEC Guohua and Shenmu HK$M | Fangcheng-gang HK$M | SZPC HK$M | OneEnergy Taiwan HK$M | Others HK$M | Total HK$M |
| Non-current assets | 28,427 | 5,706 | 9,219 | 2,942 | 17,972 | 64,266 |
| Cash and cash equivalents | 17 | 444 | 481 | 4 | 1,064 | 2,010 |
| Other current assets | 3,791 | 561 | 890 | – | 1,055 | 6,297 |
| Current financial liabilities (excluding trade and other payables) | (7,913) | (261) | (2,309) | – | (1,659) | (12,142) |
| Other current liabilities | (4,224) | (1,687) | (923) | (1) | (1,103) | (7,938) |
| Non-current financial liabilities (excluding trade and other payables) | (3,116) | (2,668) | (3,796) | – | (6,101) | (15,681) |
| Other non-current liabilities | (1,378) | (33) | (37) | – | (257) | (1,705) |
| Shareholders' loans | – | – | – | – | (2,672) | (2,672) |
| Non-controlling interests | (6,469) | – | – | – | – | (6,469) |
| Net assets | 9,135 | 2,062 | 3,525 | 2,945 | 8,299 | 25,966 |
| Group's share of net assets | 2,741 | 1,443 | 1,036 | 1,473 | 3,428 | 10,121 |
| Goodwill | – | – | – | – | 47 | 47 |
| Carrying amounts | 2,741 | 1,443 | 1,036 | 1,473 | 3,475 | 10,168 |
| Advances and loan | – | – | – | – | 1,008 | 1,008 |
| | 2,741 | 1,443 | 1,036 | 1,473 | 4,483 | 11,176 |

## 15. Interests in Joint Ventures (continued)

| | At 31 December 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | CAPCO HK$M | CSEC Guohua and Shenmu HK$M | Fangcheng-gang HK$M | SZPC HK$M | OneEnergy Taiwan HK$M | Others HK$M | Total HK$M |
| Non-current assets | 28,346 | 31,834 | 5,118 | 9,915 | 3,042 | 15,466 | 93,721 |
| Cash and cash equivalents | – | 40 | 1,311 | 242 | 25 | 634 | 2,252 |
| Other current assets | 6,476 | 3,584 | 665 | 849 | 2 | 1,243 | 12,819 |
| Current financial liabilities (excluding trade and other payables) | (5,077) | (8,415) | (267) | (2,398) | – | (1,127) | (17,284) |
| Other current liabilities | (1,516) | (2,659) | (1,275) | (421) | (4) | (123) | (5,998) |
| Non-current financial liabilities (excluding trade and other payables) | (800) | (5,767) | (2,995) | (4,598) | – | (7,765) | (21,925) |
| Other non-current liabilities | (3,987) | (1,593) | (32) | (40) | – | (1,192) | (6,844) |
| Shareholders' loans | (22,946) | – | – | – | (384) | (648) | (23,978) |
| Non-controlling interests | – | (6,775) | – | – | – | – | (6,775) |
| Net assets | 496 | 10,249 | 2,525 | 3,549 | 2,681 | 6,488 | 25,988 |
| Group's share of net assets | 199 | 3,142 | 1,767 | 1,044 | 1,340 | 2,694 | 10,186 |
| Goodwill | – | 114 | – | – | – | 48 | 162 |
| Carrying amounts | 199 | 3,256 | 1,767 | 1,044 | 1,340 | 2,742 | 10,348 |
| Advances | 9,178 | – | – | – | 192 | 222 | 9,592 |
| | 9,377 | 3,256 | 1,767 | 1,044 | 1,532 | 2,964 | 19,940 |

| | 2014 HK$M | 2013 HK$M |
|---|---|---|
| Share of capital commitments | **3,999** | 1,956 |
| Share of contingent liabilities | **60** | 61 |

The Group's capital commitments in relation to its interests in joint ventures are disclosed in Note 32.

## 15. Interests in Joint Ventures (continued)

Details of the joint ventures are summarised below:

(A) CSEC Guohua, a joint stock company with 70% of its registered capital owned by China Shenhua Energy Company Limited and 30% owned by the Group, is incorporated in Mainland China. It holds interests in five coal-fired power stations, namely Beijing Yire Power Station in Beijing, Panshan Power Station in Tianjin, Sanhe Power Station in Hebei, Zhungeer Power Station in Inner Mongolia and Suizhong Power Station in Liaoning, with a combined capacity of 7,680MW.

Shenmu is incorporated in Mainland China and 49% of its registered capital is owned by the Group. This company holds an interest in a coal-fired power station, Shenmu Power Station, with an installed capacity of 220MW.

On 2 April 2014, the Group entered into a 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 was a condition under the Agreement that CLP China Tianjin would undergo an internal restructuring before completion of the disposal so that it would own 30% of the registered capital of CSEC Guohua upon completion of the internal restructuring. CLP China Shenmu owns 49% of the registered capital of Shenmu. Completion of the sale was subject to the internal shareholding restructuring which in turn required corporate and regulatory approvals, which should take place not later than 31 December 2014. According to the provisions of the Agreement, the Group considered that it lost joint control over the joint ventures of CSEC Guohua and Shenmu. Accordingly, the aggregate interests in these joint ventures were reclassified as other current assets.

Subsequently, however, as of 31 December 2014 the internal restructuring was not completed because certain regulatory registration procedures remained outstanding and no extension of the completion date of the Agreement was agreed by the Group and the purchaser. In accordance with the terms of the Agreement, the Agreement lapsed on 31 December 2014. As a result, the Group regained joint control of CSEC Guohua and Shenmu and the aggregate interests in CSEC Guohua and Shenmu of HK$2,741 million were reclassified from other current assets to interests in joint ventures with no effect on profit or loss.

The Group had received from the purchaser a deposit of US$36.5 million (HK$283 million). According to the terms of the Agreement, the Group shall refund the deposit to the purchaser without interest and without any additional liability. The deposit was subsequently refunded to the purchaser in January 2015.

(B) ShenGang Natural Gas Pipeline Company Limited is incorporated in Mainland China and 40% of its registered capital is owned by the Group. This company owns and operates a 20 km pipeline and the associated gas launching and end stations (the Hong Kong Branch Line) which transports natural gas from PetroChina's Second West-East Gas Pipeline in Shenzhen Dachan Island to Black Point Power Station in Hong Kong.

(C) Fangchenggang is incorporated in Mainland China and 70% of its registered capital is owned by the Group. This company owns and operates a 1,260MW coal-fired power station and two 660MW ultra-supercritical coal-fired units under construction in Guangxi. All power generated is for supply to the Guangxi power grid.

Under the joint venture agreement, none of the joint venture partners has unilateral control over the economic activities of Fangchenggang and hence, the Group's interest is accounted for as a joint venture.

(D) OneEnergy Taiwan is incorporated in the British Virgin Islands and 50% of its ordinary share capital is owned by each of Mitsubishi Corporation of Japan and the Group. This company owns a 40% interest in Ho-Ping Power Company.

## 15. Interests in Joint Ventures (continued)

(E) SZPC is incorporated in Mainland China and 29.4% of its registered capital is owned by the Group. This company owns four coal-fired power stations, namely Shiheng I, Shiheng II, Heze II and Liaocheng, with a combined installed capacity of 3,060MW. All power generated is for supply to the Shandong power grid.

(F) The Group's other investments include the following key projects:

- 33.3% interest in the ordinary share capital of Natural Energy Development Co., Ltd., which is incorporated in Thailand and owns a solar farm in Lopburi Province in Central Thailand, with an installed capacity of 63MW;
- 51% interest in the registered capital of Jinchang Zhenxin PV Power Company Limited, which is incorporated in Mainland China and owns Jinchang Solar Power Station, with an installed capacity of 85MW in Gansu; and
- 49% interests in the registered capital of various Chinese joint ventures at a carrying amount of HK$1,342 million (2013: HK$1,379 million) in aggregate. These joint ventures are incorporated in Mainland China and hold interests in various wind power stations in Shandong and Jilin, with a total installed capacity of 593MW.

## 16. Interest in an Associate

**Accounting Policy No. 3(C)**

The balance represents the Group's share of net assets of Guangdong Nuclear Power Joint Venture Company, Limited (GNPJVC) at the end of the reporting period.

GNPJVC is unlisted, incorporated and operates in Mainland China, and its registered capital is 25% owned by the Group and 75% owned by Guangdong Nuclear Investment Company, Limited. GNPJVC constructed and operates the Guangdong Daya Bay Nuclear Power Station and its principal activity is the generation of electricity for supply to Hong Kong and Guangdong Province.

Summarised financial information of GNPJVC and the Group's share of results and net assets are as follows:

| | 2014 HK$M | 2013 HK$M |
|---|---|---|
| Revenue | 7,165 | 6,829 |
| Profit and total comprehensive income | 3,184 | 2,447 |
| Group's share of profit and total comprehensive income | 796 | 612 |
| Dividends from an associate | 1,685 | 793 |
| Non-current assets | 3,060 | 2,204 |
| Current assets | 8,235 | 9,417 |
| Current liabilities | (4,766) | (1,731) |
| Non-current liabilities | (3,384) | (3,189) |
| Net assets | 3,145 | 6,701 |
| Group's share of net assets | 786 | 1,675 |

At 31 December 2014, the Group's share of capital commitments of its associate was HK$227 million (2013: HK$194 million).

## 17. Finance Lease Receivables

**Accounting Policy No. 11**

| | Minimum Lease Payments | | Present Value of Minimum Lease Payments | |
|---|---|---|---|---|
| | 2014 HK$M | 2013 HK$M | 2014 HK$M | 2013 HK$M |
| Amounts receivable under finance leases | | | | |
| Within one year | 177 | 187 | 50 | 49 |
| After one year but within five years | 1,234 | 1,470 | 898 | 989 |
| | 1,411 | 1,657 | 948 | 1,038 |
| Less: unearned finance income | (463) | (619) | | |
| Present value of minimum lease payments receivable | 948 | 1,038 | | |
| Analysed as: | | | | |
| Current (recoverable within 12 months) | | | 50 | 49 |
| Non-current (recoverable after 12 months) | | | 898 | 989 |
| | | | 948 | 1,038 |

The finance lease receivables, accounted for as finance lease in accordance with HK(IFRIC)-Int 4 and HKAS 17, relate to the 20-year power purchase agreement under which CLP India sells all of its electricity output of Paguthan to its off-taker, Gujarat Urja Vikas Nigam Limited (GUVNL). The effective interest rate implicit in the finance lease is approximately 13.4% for both 2014 and 2013. The carrying amounts of the finance lease receivables approximate to their fair values.

## 18. Derivative Financial Instruments

Accounting Policy No. 5

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Assets HK$M | Liabilities HK$M | Assets HK$M | Liabilities HK$M |
| Cash flow hedges (note) | | | | |
| Forward foreign exchange contracts | 855 | 55 | 1,339 | 32 |
| Foreign exchange options | 74 | – | 89 | – |
| Cross currency interest rate swaps | 2,124 | 1,310 | 1,399 | 649 |
| Interest rate swaps | 66 | 1,031 | 194 | 638 |
| Energy contracts | 22 | 112 | 176 | 263 |
| Fair value hedges | | | | |
| Cross currency interest rate swaps | 257 | 417 | 250 | 940 |
| Interest rate swaps | 18 | 122 | 18 | 192 |
| Held for trading or not qualifying as accounting hedges | | | | |
| Forward foreign exchange contracts | 79 | 62 | 104 | 18 |
| Interest rate swaps | 37 | 24 | 77 | 74 |
| Energy contracts | 247 | 638 | 477 | 1,913 |
| | 3,779 | 3,771 | 4,123 | 4,719 |
| Analysed as: | | | | |
| Current | 659 | 709 | 1,005 | 1,279 |
| Non-current | 3,120 | 3,062 | 3,118 | 3,440 |
| | 3,779 | 3,771 | 4,123 | 4,719 |

Recall our accounting "mini-series" on derivatives and hedging? Please visit our website.

Although termed "held for trading or not qualifying as accounting hedges" above, these derivatives are used as "economic hedges" or for the purpose of understanding energy price movements.

Note: Derivative financial instruments qualifying as cash flow hedges at 31 December 2014 have a maturity of up to 14 years (2013: 15 years) from the end of the reporting period.

The maturities of the derivative financial instruments used for hedging will correlate to the timing of the cash flows associated with the corresponding hedged items. As for the energy contracts that are hedges of anticipated future purchases and sales of electricity (cash flow hedge), any unrealised gains or losses on the contracts recognised are deferred in the hedging reserve (through other comprehensive income) and reclassified to profit or loss, as an adjustment to purchased electricity expense or the billed electricity revenue, when the hedged purchase or sale is recognised.

The notional principal amounts of the outstanding derivative financial instruments are as follows:

| | 2014 HK$M | 2013 HK$M |
|---|---|---|
| Forward foreign exchange contracts | 100,234 | 105,081 |
| Foreign exchange options | 692 | 752 |
| Interest rate swaps / cross currency interest rate swaps | 46,820 | 49,289 |
| Energy contracts | 12,196 | 18,003 |

The maximum exposure to credit risk at the reporting date is the carrying value of the financial instruments.

## 19. Available-for-sale Investments

### Accounting Policy

Available-for-sale investments are non-derivative financial assets that are either designated in that category or not classified in any of the other categories of financial instruments including financial assets at fair value through profit or loss, loans and receivables, and held-to-maturity financial assets. Purchases and sales of financial assets are recognised on their trade date – the date on which the Group commits to purchase or sell the asset. They are initially recognised at fair value plus transaction costs and are subsequently carried at fair value.

Changes in the fair value of monetary investments denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the investment and other changes in the carrying amount of the investment. The translation differences on monetary investments are recognised in profit or loss; translation differences on non-monetary investments are recognised in other comprehensive income. Changes in the fair value of monetary and non-monetary investments classified as available-for-sale are recognised in other comprehensive income. When an investment classified as available-for-sale is sold or impaired, the accumulated fair value adjustments recognised in equity are included in profit or loss.

Dividends on available-for-sale equity investments are recognised in profit or loss when the Group's right to receive payments is established.

The Group assesses at the end of each reporting period whether there is objective evidence that an available-for-sale investment is impaired. A significant or prolonged decline in the fair value of an equity investment below its cost is evidence that the asset is impaired. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity investments are not reversed through profit or loss.

Available-for-sale investments are classified as non-current assets unless management intend to dispose of the investment within 12 months of the end of the reporting period.

The Group's available-for-sale investments are analysed as follows:

| | **2014<br>HK$M** | 2013<br>HK$M |
|---|---|---|
| CGN Wind Power Company Limited (CGN Wind) | **1,190** | 1,190 |
| Others | **517** | 73 |
| | **1,707** | 1,263 |

In accordance with the Group's accounting policy, the unquoted investment in CGN Wind, which is denominated in Renminbi, is treated for accounting purpose as an available-for-sale investment.

Although termed "available-for-sale" by the accounting standard, investments in this category are generally held for the long-term.

## 20. Trade and Other Receivables

**Accounting Policy**

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtors, probability that the debtor will enter into bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are recognised in profit or loss.

| | Group | | Company | |
|---|---|---|---|---|
| | 2014<br>HK$M | 2013<br>HK$M | 2014<br>HK$M | 2013<br>HK$M |
| Trade receivables [(a)] | 11,040 | 13,864 | – | – |
| Deposits, prepayments and other receivables | 2,566 | 3,187 | 27 | 29 |
| Dividend receivables from [(b)] | | | | |
| Joint ventures | 1,127 | 760 | – | – |
| An associate | 785 | – | – | – |
| An available-for-sale investment | 64 | 82 | – | – |
| Current accounts with [(b)] | | | | |
| Subsidiaries | – | – | 27 | 26 |
| Joint ventures | 136 | 58 | – | – |
| An associate | 1 | 2 | – | – |
| | 15,719 | 17,953 | 54 | 55 |

Trade and other receivables attributed to overseas subsidiaries amounted to HK$11,686 million (2013: HK$14,906 million). At 31 December 2014, CLP India has obtained payment for some of its receivables from GUVNL through bill discounting with recourse amounted to HK$123 million (2013: HK$88 million) and the transactions have been accounted for as collateralised borrowings (Note 23).

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable. Further information relating to credit risk is set out under Financial Risk Management.

Notes:

(a) Trade receivables

17% (2013: 15%) and 62% (2013: 69%) of the gross trade receivables relate to sales of electricity in Hong Kong and sales of electricity and gas in Australia respectively. There is no significant concentration of credit risk with respect to these trade receivables as the customer bases are widely dispersed in different sectors and industries. The trade receivables in currencies other than Hong Kong dollar are denominated in the functional currencies of the respective overseas entities.

The Group has established credit policies for customers in each of its retail businesses. CLP Power Hong Kong's credit policy in respect of receivables arising from its principal electricity business is to allow customers to settle their electricity bills within two weeks after issue. Customers' receivable balances are generally secured by cash deposits or bank guarantees from customers for an amount not exceeding the highest expected charge for 60 days of consumption. At 31 December 2014, such cash deposits amounted to HK$4,652 million (2013: HK$4,503 million) and the bank guarantees stood at HK$883 million (2013: HK$867 million). The customer deposits are repayable on demand, bear interest at the HSBC bank savings rate and their carrying value approximates to their fair value. Impairment provisions on trade receivables are recognised on an individual basis once a receivable is more than 90 days overdue and are calculated by reference to the historical past due recovery pattern together with any customer deposits held. For subsidiaries outside Hong Kong, the credit terms for trade receivables range from about 14 to 90 days.

# 20. Trade and Other Receivables (continued)

Notes (continued):

(a) Trade receivables (continued)

EnergyAustralia determines its doubtful debt provisioning by grouping together trade receivables with similar credit risk characteristics and collectively assessing them for likelihood of recovery, taking into account prevailing economic conditions. Future cash flows for each group of trade receivables are estimated on the basis of historical loss experience, adjusted to reflect the effects of current conditions. As a result of this credit risk assessment, virtually all of the credit risk groupings have been subject to some level of impairment. Receivable balances relating to known insolvencies are individually impaired. At 31 December 2014, EnergyAustralia held cash deposits of HK$1 million (2013: HK$3 million) in relation to outstanding receivable balances.

The ageing analysis of trade receivables at 31 December based on due date is as follows:

| | 2014 | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | Not impaired HK$M | Subject to impairment HK$M | Provision for impairment HK$M | Total HK$M | Not impaired HK$M | Subject to impairment HK$M | Provision for impairment HK$M | Total HK$M |
| Not yet due | 7,618 | 727 | (56) | 8,289 | 9,412 | 1,665 | (88) | 10,989 |
| Overdue | | | | | | | | |
| 1 – 30 days | 123 | 786 | (71) | 838 | 181 | 905 | (67) | 1,019 |
| 31 – 90 days | 129 | 622 | (144) | 607 | 196 | 782 | (167) | 811 |
| Over 90 days | 745 | 1,699 | (1,138) | 1,306 | 626 | 1,481 | (1,062) | 1,045 |
| | 8,615 | 3,834 | (1,409) | 11,040 | 10,415 | 4,833 | (1,384) | 13,864 |

At 31 December 2014, trade receivables of HK$997 million (2013: HK$1,003 million) were past due but not considered impaired. These related to:

- a number of customers for whom there had been no recent history of default;
- an amount deducted by GUVNL from the past invoices of CLP India netted with refund totalled HK$406 million (Rs.3,306 million) (2013: HK$415 million (Rs.3,306 million)) (Note 34(A)) which is included in the amount aged over 90 days; and
- disputed charges between Jhajjar Power Limited (Jhajjar) and its off-takers. Total disputed amounts were HK$212 million (Rs.1,725 million) at 31 December 2014 (2013: HK$180 million (Rs.1,433 million)), of which HK$206 million (Rs.1,682 million) (2013: HK$101 million (Rs.803 million)) aged over 90 days (Note 34(C)).

According to the accounting standard requirement, when certain receivables are individually impaired, they are written off directly from the books or through the use of an allowance account. If no objective evidence of impairment exists for individual receivables, they are included in a group of receivables with similar credit risk characteristics and collectively assessed for impairment. The amounts under the caption "Subject to impairment" mainly relate to EnergyAustralia and are assessed for impairment under this collective approach.

The ageing analysis of trade receivables at 31 December based on invoice date is as follows:

| | 2014 HK$M | 2013 HK$M |
|---|---|---|
| 30 days or below | 8,596 | 11,366 |
| 31 – 90 days | 976 | 1,292 |
| Over 90 days | 1,468 | 1,206 |
| | 11,040 | 13,864 |

## 20. Trade and Other Receivables (continued)

Notes (continued):

(a) Trade receivables (continued)

Movements in the provision for impairment are as follows:

| | 2014 HK$M | 2013 HK$M |
|---|---|---|
| Balance at 1 January | 1,384 | 1,117 |
| Provision for impairment | 763 | 1,098 |
| Receivables written off during the year as uncollectable | (609) | (698) |
| Amounts reversed | (27) | (1) |
| Exchange differences | (102) | (132) |
| Balance at 31 December | 1,409 | 1,384 |

"Ageing analysis based on invoice date" is presented to meet the reporting requirements under the Listing Rules of the Hong Kong Stock Exchange, whereas "ageing analysis based on due date" is disclosed in accordance with the requirements of HKFRS.

Invoice date = Date of issue of an invoice
Due date = Invoice date + credit period granted to customers

(b) The amounts receivable from subsidiaries, joint ventures and an associate are unsecured, interest-free and have no fixed repayment terms.

## 21. Bank Balances, Cash and Other Liquid Funds

**Accounting Policy**

Cash and cash equivalents comprise cash at banks and on hand, demand deposits with banks and other financial institutions, short-term highly liquid investments that are readily convertible to cash, subjected to insignificant risk of change in value and with a maturity of three months or less from date of investment, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

| | 2014 HK$M | 2013 HK$M |
|---|---|---|
| Trust accounts restricted under TRAA (note) | 355 | 449 |
| Bank deposits | 2,424 | 3,068 |
| Bank balances and cash | 1,614 | 1,716 |
| | 4,393 | 5,233 |

Note: Pursuant to Trust and Retention Account Agreements (TRAA) of CLP India and its subsidiaries with their corresponding lenders, various trust accounts are set up for designated purposes.

The Group's bank balances, cash and other liquid funds denominated in the currencies other than the functional currency of the respective entities amounted to HK$1,185 million (2013: HK$1,869 million) which was mostly denominated in Renminbi (2013: Renminbi).

## 22. Trade and Other Payables

**Accounting Policy**

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2014 HK$M | 2013 HK$M | 2014 HK$M | 2013 HK$M |
| Trade payables [(a)] | 8,230 | 11,336 | – | – |
| Other payables and accruals | 6,222 | 5,436 | 226 | 190 |
| Advances from non-controlling interests [(b)] | 6,703 | – | – | – |
| Current accounts with [(c)] | | | | |
| Subsidiaries | – | – | 32 | 31 |
| Joint ventures | 2 | 1,474 | – | 2 |
| An associate | 139 | 55 | – | – |
| Deferred revenue [(d)] | 323 | 1,024 | – | – |
| | 21,619 | 19,325 | 258 | 223 |

Notes:

(a) The ageing analysis of trade payables at 31 December based on invoice date is as follows:

| | 2014 HK$M | 2013 HK$M |
|---|---|---|
| 30 days or below | 8,031 | 10,641 |
| 31 – 90 days | 155 | 472 |
| Over 90 days | 44 | 223 |
| | 8,230 | 11,336 |

At 31 December 2014, trade payables denominated in a currency other than the functional currency of the corresponding Group entities amounted to HK$1,254 million (2013: HK$238 million), which were mostly denominated in US dollar of HK$1,088 million (2013: HK$143 million) and Euro of HK$66 million (2013: HK$40 million).

(b) The advances from non-controlling interests represented the advances from CSG HK to CAPCO. Pursuant to the agreement between the shareholders of CAPCO, both CLP Power Hong Kong and CSG HK are required to provide shareholders' advances pro rata to their shareholdings in CAPCO. The advances are unsecured, interest free and have no fixed repayment terms. The advances are mainly denominated in US dollar.

(c) The amounts payable to subsidiaries, joint ventures and an associate are unsecured, interest-free and have no fixed repayment terms. Of these, HK$1,441 million was due to CAPCO in 2013.

(d) The balance at 31 December 2014 primarily represented the cash receipt in advance by EnergyAustralia under a gas take-or-pay arrangement. The balance at 31 December 2013 primarily represented carbon compensation received by EnergyAustralia under the ESF with respect to Yallourn Power Station. Under the ESF, the carbon compensation was provided as cash compensation for the first year (paid in June 2012) and as free carbon units available annually for four years. The ESF was terminated on 1 July 2014 following the carbon tax repeal. The compensation received was amortised to profit or loss over the relevant period (Note 3).

# 23. Bank Loans and Other Borrowings

**Accounting Policy**

Borrowings are recognised initially at fair value of proceeds received, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition or issue of a financial liability. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is amortised to profit or loss or capitalised as cost of the qualifying assets over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

| | Group | | Company | |
|---|---|---|---|---|
| | 2014 HK$M | 2013 HK$M | 2014 HK$M | 2013 HK$M |
| Current | | | | |
| Short-term bank loans | 4,908 | 1,296 | – | 816 |
| Long-term bank loans | 3,070 | 4,442 | – | – |
| Other long-term borrowings | | | | |
| Medium Term Note (MTN) programme (HKD) due 2014 and 2015 | 1,340 | 1,380 | – | – |
| MTN programme (AUD) due 2015 | 318 | – | – | – |
| | 9,636 | 7,118 | – | 816 |
| Non-current | | | | |
| Long-term bank loans | 28,320 | 19,471 | – | 600 |
| Other long-term borrowings | | | | |
| MTN programme (USD) due 2020 to 2027 | 10,731 | 10,295 | – | – |
| MTN programme (HKD) due 2016 to 2041 | 9,075 | 8,895 | – | – |
| MTN programme (JPY) due 2021 to 2026 | 2,022 | 2,289 | – | – |
| MTN programme (AUD) due 2015 to 2023 | 698 | 1,104 | – | – |
| US private placement notes (USD) due 2017 to 2027 | 6,953 | 6,879 | – | – |
| | 57,799 | 48,933 | – | 600 |
| Total borrowings | 67,435 | 56,051 | – | 1,416 |

Total borrowings included secured liabilities (bank loans and collateralised borrowings) of HK$11,969 million (2013: HK$11,782 million), analysed as follows:

| | 2014 HK$M | 2013 HK$M |
|---|---|---|
| CLP India and its subsidiaries [a] | 8,656 | 8,325 |
| Subsidiaries in Mainland China [b] | 3,313 | 3,457 |
| | 11,969 | 11,782 |

## 23. Bank Loans and Other Borrowings (continued)

Notes:

(a) Bank loans for CLP India and its subsidiaries are secured by fixed and floating charges over their immovable and moveable properties with total carrying amounts of HK$13,937 million (2013: HK$14,089 million). Collateralised borrowings for CLP India were secured by trade receivables, the carrying amounts of which were HK$123 million (2013: HK$88 million).

(b) Bank loans for subsidiaries in Mainland China are secured by rights of receipt of tariff, fixed assets and land use rights, with the carrying amounts of these fixed assets and land use rights of HK$4,924 million (2013: HK$5,434 million).

Bank loans and other borrowings totalling HK$26,791 million (2013: HK$26,342 million) were attributed to overseas subsidiaries and are non-recourse to the Company.

At 31 December 2014, the Group's bank loans and other borrowings were repayable as follows:

| | Bank Loans | | Other Borrowings | | Total | |
|---|---|---|---|---|---|---|
| | **2014 HK$M** | 2013 HK$M | **2014 HK$M** | 2013 HK$M | **2014 HK$M** | 2013 HK$M |
| Within one year | **7,978** | 5,738 | **1,658** | 1,380 | **9,636** | 7,118 |
| Between one and two years | **8,273** | 5,271 | **1,000** | 1,686 | **9,273** | 6,957 |
| Between two to five years | **14,072** | 7,477 | **3,631** | 2,721 | **17,703** | 10,198 |
| Over five years | **5,975** | 6,723 | **24,848** | 25,055 | **30,823** | 31,778 |
| | **36,298** | 25,209 | **31,137** | 30,842 | **67,435** | 56,051 |

The Company had no bank loans and other borrowings at 31 December 2014 (2013: HK$816 million repayable within one year and HK$600 million repayable between one and two years).

Another presentation of the Group's liquidity risk is set out on page 265.

At 31 December 2014 and 2013, all of the Group's borrowings are either in the functional currencies of the corresponding Group entities or hedged into those currencies.

The bank loans and other borrowings of the Group are predominantly issued in or swapped into Hong Kong dollar or Australian dollar. The effective interest rates at the end of the reporting period were as follows:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | HK$ | A$ | HK$ | A$ |
| Fixed rate loans and loans swapped from variable rates | 1.7% – 4.8% | 4.8% – 5.7% | 1.8% – 4.9% | 3.5% – 9.1% |
| Variable rate loans and loans swapped from fixed rates | 0.7% – 2.1% | 4.1% – 4.3% | 0.6% – 2.1% | 4.2% – 4.8% |

The fair values of bank loans and other borrowings approximate to their carrying amounts. The fair values of long-term borrowings are determined using the expected future payments discounted at market interest rates prevailing at the year end.

At 31 December 2014, the Group had undrawn bank loans and overdraft facilities of HK$32,533 million (2013: HK$33,218 million).

## 24. Obligations under Finance Leases

Accounting Policy No. 11

| | Minimum Lease Payments 2014 HK$M | 2013 HK$M |
|---|---|---|
| Amounts payable under finance leases | | |
| Within one year | 1 | 2,763 |
| After one year but within two years | 1 | 2,752 |
| After two years but within five years | 2 | 7,906 |
| Over five years | 23 | 14,555 |
| | 27 | 27,976 |
| Analysed as: | | |
| Amount due for settlement within 12 months | 1 | 2,763 |
| Amount due for settlement after 12 months | 26 | 25,213 |
| | 27 | 27,976 |

At 31 December 2013, the Group's obligations under finance leases arose predominantly from the power purchase arrangement with CAPCO in respect of the operational generating plant and associated fixed assets of the Hong Kong electricity business. CAPCO's power purchase arrangement was accounted for as a finance lease in accordance with HK(IFRIC)-Int 4 and HKAS 17. The finance lease arrangement was settled during the acquisition of CAPCO as a subsidiary (Note 2).

## 25. Deferred Tax

Accounting Policy No. 8

Deferred tax assets and liabilities are netted off when the taxes relate to the same tax authority and where offsetting is legally enforceable. The following amounts, determined after appropriate offsetting, are shown separately on the consolidated statement of financial position:

| | 2014 HK$M | 2013 HK$M |
|---|---|---|
| Deferred tax assets | 3,828 | 3,084 |
| Deferred tax liabilities | (13,418) | (8,548) |
| | (9,590) | (5,464) |

Deferred tax asset = income tax recoverable in the future
Deferred tax liability = income tax payable in the future

An elaboration of the accounting concepts on deferred tax can be found on our website as part of our accounting "mini-series".

## 25. Deferred Tax (continued)

Substantially all deferred tax balances are to be recovered or settled after more than 12 months.

The gross movement on the deferred tax account is as follows:

| | 2014<br>HK$M | 2013<br>HK$M |
|---|---|---|
| At 1 January | (5,464) | (7,345) |
| Credited to profit or loss (Note 8) | 303 | 1,071 |
| Credited / (charged) to other comprehensive income | 207 | (135) |
| Acquisition of subsidiaries (Note 2) / business | (4,428) | 916 |
| Sale of a subsidiary | – | 56 |
| Withholding tax | 84 | 40 |
| Exchange differences | (292) | (67) |
| At 31 December | (9,590) | (5,464) |

The movement in the deferred tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction) during the year is as follows:

**Deferred tax assets (prior to offset)**

| | Tax Losses [(a)] | | Accruals and Provisions | | Others [(b)] | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2014<br>HK$M | 2013<br>HK$M | 2014<br>HK$M | 2013<br>HK$M | 2014<br>HK$M | 2013<br>HK$M | 2014<br>HK$M | 2013<br>HK$M |
| At 1 January | 2,542 | 3,797 | 1,022 | 1,093 | 1,414 | 1,880 | 4,978 | 6,770 |
| Credited / (charged) to profit or loss | 593 | (791) | 341 | 242 | (712) | 12 | 222 | (537) |
| Credited / (charged) to other comprehensive income | – | – | 32 | (106) | 48 | (1) | 80 | (107) |
| Acquisition of subsidiaries / business | – | – | – | (203) | 186 | 24 | 186 | (179) |
| Sale of a subsidiary | – | – | – | – | – | (14) | – | (14) |
| Exchange differences | (222) | (464) | (104) | (4) | (56) | (487) | (382) | (955) |
| At 31 December | 2,913 | 2,542 | 1,291 | 1,022 | 880 | 1,414 | 5,084 | 4,978 |

# 25. Deferred Tax (continued)

**Deferred tax liabilities (prior to offset)**

| | Accelerated Tax Depreciation | | Withholding/ Dividend Distribution Tax | | Unbilled Revenue | | Intangibles | | Others [b] | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2014 HK$M | 2013 HK$M | 2014 HK$M | 2013 HK$M | 2014 HK$M | 2013 HK$M | 2014 HK$M | 2013 HK$M | 2014 HK$M | 2013 HK$M | 2014 HK$M | 2013 HK$M |
| At 1 January | (7,084) | (9,440) | (327) | (368) | (998) | (1,545) | (1,126) | (1,334) | (907) | (1,428) | (10,442) | (14,115) |
| (Charged)/credited to profit or loss | (1,428) | 801 | (16) | (27) | 1,007 | 355 | 765 | 199 | (247) | 280 | 81 | 1,608 |
| (Charged)/credited to other comprehensive income | – | – | – | – | – | – | – | – | 127 | (28) | 127 | (28) |
| Acquisition of subsidiaries/business | (3,535) | 1,119 | – | – | – | – | (1,079) | – | – | (24) | (4,614) | 1,095 |
| Sale of a subsidiary | – | 57 | – | – | – | – | – | 5 | – | 8 | – | 70 |
| Withholding tax | – | – | 84 | 40 | – | – | – | – | – | – | 84 | 40 |
| Exchange differences | (17) | 379 | (20) | 28 | (9) | 192 | 75 | 4 | 61 | 285 | 90 | 888 |
| At 31 December | (12,064) | (7,084) | (279) | (327) | – | (998) | (1,365) | (1,126) | (966) | (907) | (14,674) | (10,442) |

Notes:

(a) The deferred tax asset arising from tax losses related to the electricity business in Australia of HK$2,251 million (2013: HK$2,542 million) and India of HK$662 million (2013: nil). There is no expiry on the tax losses recognised in Australia. For India, the expiry of tax losses ranging from eight years to no expiry. Apart from unrecognised tax losses arising from various capital transactions in Australia of HK$1,890 million (2013: HK$1,743 million), there are no significant unused tax losses not recognised.

(b) Others mainly relate to temporary differences arising from derivative financial instruments and lease accounting adjustments.

# 26. Fuel Clause Account

Cost of fuel consumed by CLP Power Hong Kong is passed on to the customers. The variations between the actual cost of fuel and the fuel cost billed are captured in the fuel clause account. The balance of the account (inclusive of interest) represents amounts over-recovered or under-recovered and is treated as an amount due to or from customers. Interest charged to customers on the amount under-recovered is based on the actual borrowing cost of CLP Power Hong Kong, whilst interest is credited to customers at prime rate on the amount over-recovered. The carrying amount of fuel clause account approximates to its fair value.

## 27. 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 year are:

| | 2014 HK$M | 2013 HK$M |
|---|---|---|
| Tariff Stabilisation Fund (A) | 1,058 | 19 |
| Rate Reduction Reserve (B) | 1 | 9 |
| Rent and Rates Interim Refunds (C) | 72 | – |
| | 1,131 | 28 |

The carrying amounts of the SoC reserve accounts approximate to their fair values.

The movements in SoC reserve accounts during the year are shown as follows:

(A) Tariff Stabilisation Fund

| | 2014 HK$M | 2013 HK$M |
|---|---|---|
| At 1 January | 19 | 712 |
| Transfer from Rate Reduction Reserve | 9 | – |
| Transfer under the SoC [(a)] | | |
| – transfer for SoC from / (to) revenue (Note 3) | 1,020 | (641) |
| – charge for asset decommissioning [(b)] | 10 | (52) |
| At 31 December | 1,058 | 19 |

Notes:

(a) Under the SoC, if the gross tariff revenue in Hong Kong in a period is less than or exceeds the total of the SoC operating costs, permitted return and taxation charges, such deficiency shall be deducted from, or such excess shall be added to, the Tariff Stabilisation Fund under the SoC. In any period, the amount of deduction from or addition to the Tariff Stabilisation Fund is recognised as revenue adjustment to the extent that the return and charges under the SoC are recognised in profit or loss (Note 3).

(b) Under the SoC, a periodic charge for asset decommissioning is made with corresponding deferred liabilities recognised in the statement of financial position of the SoC Companies. The balance of the asset decommissioning liabilities account of HK$1,082 million (2013: HK$539 million) recognised under the SoC represents a liability of the Group. The carrying amount of the asset decommissioning liabilities approximates to its fair value.

(B) Rate Reduction Reserve

| | 2014 HK$M | 2013 HK$M |
|---|---|---|
| At 1 January | 9 | 8 |
| Transfer to Tariff Stabilisation Fund | (9) | – |
| Interest expense charged to profit or loss (Note 7) | 1 | 1 |
| At 31 December | 1 | 9 |

## 27. SoC Reserve Accounts (continued)

(C) Rent and Rates Interim Refunds

CLP Power Hong Kong is challenging the amount of Government rent and rates levied dating back to the year of assessment 2001/02. While the original Lands Tribunal judgment and the subsequent judgment on the review of valuation matters were received in CLP Power 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 2014, a further interim refund of HK$72 million was received. These interim refunds were made by the Hong Kong Government without prejudice to the final outcome of the appeals which means that these amounts will be adjusted by reference to the decisions of the Lands Tribunal and subsequent appeals.

Based on the latest development of the case, CLP Power 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.

## 28. Share Capital

| | 2014 Number of Ordinary Shares | Amount HK$M | 2013 Number of Ordinary Shares | Amount HK$M |
|---|---|---|---|---|
| Authorised | | | | |
| Ordinary shares of HK$5 each (note) | – | – | 3,000,000,000 | 15,000 |
| Issued and fully-paid | | | | |
| At 1 January | 2,526,450,570 | 12,632 | 2,526,450,570 | 12,632 |
| Transfer from share premium and capital redemption reserve (note) | – | 10,611 | – | – |
| At 31 December | 2,526,450,570 | 23,243 | 2,526,450,570 | 12,632 |

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.

# 29. Reserves

Group

| | Capital Redemption Reserve HK$M | Translation Reserves HK$M | Hedging Reserves HK$M | Other Reserves HK$M | Retained Profits HK$M | Total HK$M |
|---|---|---|---|---|---|---|
| Balance at 1 January 2013 | 2,492 | 6,641 | 1,038 | 485 | 59,720 | 70,376 |
| Earnings attributable to shareholders | – | – | – | – | 6,060 | 6,060 |
| Other comprehensive income | | | | | | |
| Exchange differences on translation of | | | | | | |
| Subsidiaries | – | (5,929) | – | – | – | (5,929) |
| Joint ventures | – | 151 | – | – | – | 151 |
| An associate | – | 1 | – | – | – | 1 |
| Cash flow hedges | | | | | | |
| Net fair value losses | – | – | (104) | – | – | (104) |
| Reclassification to profit or loss | – | – | 257 | – | – | 257 |
| Tax on the above items | – | – | (25) | – | – | (25) |
| Available-for-sale investments | | | | | | |
| Reclassification adjustment for amount included in profit or loss upon sale | – | – | – | 10 | – | 10 |
| Fair value gain on revaluation upon transfer from fixed asset to investment property | – | – | – | 2,055 | – | 2,055 |
| Reclassification adjustment upon sale of a subsidiary | – | (8) | – | – | – | (8) |
| Share of other comprehensive income of joint ventures | – | – | 9 | 250 | – | 259 |
| Total comprehensive income attributable to shareholders | – | (5,785) | 137 | 2,315 | 6,060 | 2,727 |
| Revaluation reserve realised due to depreciation of fixed assets | – | – | – | (2) | 2 | – |
| Appropriation of reserves | | | | | | |
| Subsidiaries | – | – | – | 12 | (12) | – |
| Joint ventures | – | – | – | 52 | (52) | – |
| Dividends paid | | | | | | |
| 2012 fourth interim | – | – | – | – | (2,476) | (2,476) |
| 2013 first to third interim | – | – | – | – | (4,017) | (4,017) |
| Balance at 31 December 2013 | 2,492 | 856 | 1,175 | 2,862 | 59,225 [(a)] | 66,610 |

# 29. Reserves (continued)

Group

| | Capital Redemption Reserve HK$M | Translation Reserves HK$M | Hedging Reserves HK$M | Other Reserves HK$M | Retained Profits HK$M | Total HK$M |
|---|---|---|---|---|---|---|
| Balance at 1 January 2014 | 2,492 | 856 | 1,175 | 2,862 | 59,225 | 66,610 |
| Earnings attributable to shareholders | – | – | – | – | 11,221 | 11,221 |
| Other comprehensive income | | | | | | |
| Exchange differences on translation of | | | | | | |
| Subsidiaries | – | (2,630) | – | – | – | (2,630) |
| Joint ventures | – | (341) | – | – | – | (341) |
| An associate | – | 1 | – | – | – | 1 |
| Cash flow hedges | | | | | | |
| Net fair value losses | – | – | (1,003) | – | – | (1,003) |
| Reclassification to profit or loss | – | – | 179 | – | – | 179 |
| Tax on the above items | – | – | 186 | – | – | 186 |
| Fair value gain on available-for-sale investments | – | – | – | 80 | – | 80 |
| Reclassification adjustment upon loss of joint control of joint ventures | – | (422) | – | (146) | 146 | (422) |
| Share of other comprehensive income of joint ventures | – | – | 24 | (74) | – | (50) |
| Total comprehensive income attributable to shareholders | – | (3,392) | (614) | (140) | 11,367 | 7,221 |
| Transition to no-par value regime (Note 28) | (2,492) | – | – | – | – | (2,492) |
| Revaluation reserve realised due to depreciation of fixed assets | – | – | – | (2) | 2 | – |
| Appropriation of reserves | | | | | | |
| Subsidiaries | – | – | – | 23 | (23) | – |
| Joint ventures | – | – | – | 8 | (8) | – |
| Dividends paid | | | | | | |
| 2013 fourth interim | – | – | – | – | (2,476) | (2,476) |
| 2014 first to third interim | – | – | – | – | (4,093) | (4,093) |
| **Balance at 31 December 2014** | **–** | **(2,536)** | **561** | **2,751** | **63,994 [(a)]** | **64,770** |

## 29. Reserves (continued)

Company

| | Capital Redemption Reserve HK$M | Retained Profits HK$M | Total HK$M |
|---|---|---|---|
| Balance at 1 January 2013 | 2,492 | 26,860 | 29,352 |
| Profit and total comprehensive income for the year | – | 7,384 | 7,384 |
| Dividends paid | | | |
| 2012 fourth interim | – | (2,476) | (2,476) |
| 2013 first to third interim | – | (4,017) | (4,017) |
| Balance at 31 December 2013 | 2,492 | 27,751 [(a)] | 30,243 |
| Balance at 1 January 2014 | 2,492 | 27,751 | 30,243 |
| Profit and total comprehensive income for the year | – | 6,844 | 6,844 |
| Transition to no-par value regime (Note 28) | (2,492) | – | (2,492) |
| Dividends paid | | | |
| 2013 fourth interim | – | (2,476) | (2,476) |
| 2014 first to third interim | – | (4,093) | (4,093) |
| **Balance at 31 December 2014** | **–** | **28,026** [(a)] | **28,026** |

Note:

(a) The fourth interim dividend declared for the year ended 31 December 2014 was HK$2,526 million (2013: HK$2,476 million). The balance of retained profits after the fourth interim dividend of the Group was HK$61,468 million (2013: HK$56,749 million) and of the Company was HK$25,500 million (2013: HK$25,275 million).

At 31 December 2014, distributable reserves of the Company amounted to HK$28,026 million (2013: HK$27,751 million).

Distributable reserves of the Company do not equal to the Group's retained profits because distributable reserves refer to the amount that a company can distribute to its shareholders as a legal entity. Consolidated retained profits of the Group are irrelevant in determining the amount of distributable reserves of the Company itself.

## 30. Perpetual Capital Securities

During the year, the Group issued a total of US$750 million perpetual capital securities through its wholly owned subsidiary, CLP Power HK Finance Ltd. The securities are perpetual, non-callable in the first 5.5 years and entitle the holders to receive distributions at a distribution rate of 4.25% per annum in the first 5.5 years, floating thereafter and with fixed step up margins at year 10.5 and at year 25.5, payable semi-annually in arrears, cumulative and compounding. The distributions are at the Group's discretion, if the issuer and CLP Power 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 and for accounting purpose regarded as part of non-controlling interests.

This year's accounting "mini-series" tells you why the perpetual capital securities are treated as equity.

# 31. Notes to the Consolidated Statement of Cash Flows

(A) Reconciliation of profit before income tax to net cash inflow from operations

| | 2014 HK$M | 2013 HK$M |
|---|---|---|
| Profit before income tax | 13,204 | 5,840 |
| Adjustments for: | | |
| Finance costs | 4,180 | 6,522 |
| Finance income | (131) | (173) |
| Dividend income from available-for-sale investments | (48) | (61) |
| Share of results of joint ventures and an associate, net of income tax | (2,358) | (3,283) |
| Depreciation and amortisation | 6,791 | 7,592 |
| Impairment charge | 3,264 | 6,289 |
| Net loss on disposal of fixed assets | 282 | 173 |
| Revaluation gain on investment property | (245) | – |
| Gain on deemed disposal of previously owned interest in joint ventures | (7,363) | – |
| Loss on settlement of a pre-existing finance lease payable | 5,338 | – |
| Gain on bargain purchase of Mount Piper Power Station and Wallerawang Power Station | – | (751) |
| Loss on disposal of CLP Huanyu (Shandong) Biomass Heat and Power Company Limited | – | 23 |
| Gain on sale of interest in Waterloo Investment Holdings Pty Ltd | – | (24) |
| Fair value gain under fair value hedges and net exchange difference | (513) | (284) |
| SoC items | | |
| Increase in customers' deposits | 149 | 185 |
| Increase in fuel clause account | 1,393 | 1,770 |
| Increase / (decrease) in Rent and Rates Interim Refunds | 72 | (525) |
| Decrease in Tariff Stabilisation Fund for asset decommissioning charge for a joint venture | (13) | (52) |
| Transfer for SoC | 1,020 | (641) |
| | 2,621 | 737 |
| Decrease / (increase) in trade and other receivables | 2,212 | (1,175) |
| Decrease in finance lease receivables | 68 | 90 |
| Decrease in cash restricted for specific purposes | 94 | 687 |
| Decrease in derivative financial instruments net liabilities | (655) | (564) |
| (Decrease) / increase in trade and other payables | (3,345) | 171 |
| Increase / (decrease) in current accounts due to joint ventures and an associate | 35 | (11) |
| Net cash inflow from operations | 23,431 | 21,798 |

(B) Analysis of balances of cash and cash equivalents

| | 2014 HK$M | 2013 HK$M |
|---|---|---|
| Deposits with banks | 2,776 | 3,510 |
| Cash at banks and on hand | 1,617 | 1,723 |
| Bank balances, cash and other liquid funds (Note 21) | 4,393 | 5,233 |
| Excluding: | | |
| Cash restricted for specific purposes | (355) | (449) |
| Bank deposits with maturity of over three months | (2) | – |
| | 4,036 | 4,784 |

## 32. Commitments and Operating Lease Arrangements

(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:

| | Group | | Company | |
|---|---|---|---|---|
| | 2014 HK$M | 2013 HK$M | 2014 HK$M | 2013 HK$M |
| Contracted but not provided for | 5,859 | 5,812 | 3 | 6 |
| Authorised but not contracted for | 7,746 | 9,834 | 262 | 61 |
| | 13,605 | 15,646 | 265 | 67 |

(B) The Group has entered into a number of joint venture arrangements to develop power projects. Equity contributions required and made by the Group under each project are summarised below:

| Project Name | Total Equity Contributions Required | Amount Contributed at 31 December 2014 | Remaining Balance to be Contributed | Expected Year for Last Contribution |
|---|---|---|---|---|
| Haifang wind power project | RMB92 million | RMB18 million (HK$21 million) | RMB74 million (HK$92 million) | 2016 |
| CGN CLP Energy Services (Shenzhen) | RMB29 million | RMB14 million (HK$17 million) | RMB15 million (HK$19 million) | 2017 |

At 31 December 2014, the Group has commitments of HK$901 million (2013: HK$1,063 million) to purchase renewable energy certificates from certain joint ventures in Australia.

(C) The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2014 HK$M | 2013 HK$M | 2014 HK$M | 2013 HK$M |
| Within one year | 525 | 843 | 33 | 27 |
| Later than one year but not later than five years | 1,806 | 2,993 | 118 | 89 |
| Over five years | 1,688 | 6,148 | 59 | 65 |
| | 4,019 | 9,984 | 210 | 181 |

## 32. Commitments and Operating Lease Arrangements (continued)

Of the above amount of the Group, HK$1,992 million (2013: nil) relates to a Capacity Purchase Contract between PSDC and Guangdong Pumped Storage Company, Limited with fixed annual payments for 26 years for the use of the land, other resources and infrastructural facilities at Guangzhou Pumped Storage Power Station in Conghua, Guangzhou; and HK$1,163 million (2013: HK$1,589 million) relates to a 20-year Master Hedge Agreement between EnergyAustralia and Ecogen which ends in 2019. Under the latter Agreement, EnergyAustralia has the right to call upon electricity from the power stations at predetermined charging rates over the life of the Agreement. At 31 December 2013, HK$7,433 million related to the operating lease element of the Electricity Supply Contract between CLP Power Hong Kong and CAPCO. The commitments were terminated upon the acquisition of CAPCO as subsidiary in 2014 (Note 2). Other non-cancellable operating leases are for leases of various offices and equipment.

The operating lease commitments of the Company primarily relate to a 10-year lease of the office at Laguna Verde at Hung Hom entered with CLP Property Investment Limited, a wholly-owned subsidiary of the Company.

(D) The 25-year power purchase arrangements between Jhajjar and its off-takers are accounted for as operating leases. Under the agreements, the off-takers are obliged to purchase the output of Jhajjar power plant at predetermined prices. The future aggregate minimum lease receipts under non-cancellable operating leases are as follows:

| | 2014 HK$M | 2013 HK$M |
|---|---|---|
| Within one year | 858 | 886 |
| Later than one year but not later than five years | 3,205 | 3,315 |
| Over five years | 8,104 | 9,140 |
| | 12,167 | 13,341 |

## 33. Related Party Transactions

**Accounting Policy**

Related parties are individuals and companies, including subsidiaries, fellow subsidiaries, joint ventures, associates and key management personnel, where the individual or company has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and operating decisions. A close family member of any such individual is considered to be a related party.

Related Parties ≠ Connected Parties

They sometimes overlap but should not be confused. Accounting standards define related parties, while the Listing Rules of the Hong Kong Stock Exchange define connected parties.

## 33. Related Party Transactions (continued)

Below are the more significant transactions with related parties for the year ended 31 December:

(A) Purchases of electricity from joint ventures and an associate

Details of electricity supply contracts relating to the electricity business in Hong Kong with joint ventures and an associate are shown below:

| | 2014 HK$M | 2013 HK$M |
|---|---|---|
| Lease and lease service payment to CAPCO (a) | 5,341 | 17,324 |
| Purchases of nuclear electricity from GNPS (b) | 4,935 | 4,619 |
| Pumped storage service fee to PSDC (c) | 175 | 540 |
| | 10,451 | 22,483 |

(a) Under the Electricity Supply Contract between CLP Power Hong Kong and CAPCO, CLP Power Hong Kong is obliged to purchase all of CAPCO's generating capacity. The Electricity Supply Contract provides that the price paid by CLP Power Hong Kong to CAPCO is sufficient to cover all of CAPCO's operating expenses under the SoC, including fuel cost, depreciation, interest expenses and current and deferred taxes, as well as CAPCO's share of the return permitted under the SoC.

Pursuant to the requirements of HK(IFRIC)-Int 4 and HKAS 17, the electricity supply arrangement was assessed to contain leases and service elements. The payment made to CAPCO pursuant to the contract had been allocated to the different leases and service elements according to the requirements of the standards.

The amount was accounted for up to the date of acquisition of CAPCO as subsidiary (Note 2).

(b) Under the off-take and resale contracts, CLP Power Hong Kong is obliged to purchase the Group's 25% equity share of the output from Guangdong Daya Bay Nuclear Power Station (GNPS) and an additional 45% of GNPS's output from Guangdong Nuclear Investment Company, Limited (GNIC). The price paid by CLP Power Hong Kong for electricity generated by GNPS throughout the terms of the power purchase agreements is determined by a formula based on GNPS's operating costs and a calculation of profits. The calculation of profits was with reference to shareholders' funds and the capacity factor for periods up to 6 May 2014, and with reference to capacity factor for periods thereafter. The purchase of nuclear electricity under the arrangement was HK$4,867 million (2013: HK$4,619 million).

Under a separate purchase arrangement with GNIC and GNPJVC, the Group would purchase an approximately 10% of additional nuclear electricity from GNPS on a best endeavour basis from October 2014 to end of 2018, at the same unit price as that under the off-take and resale arrangement which amounted to HK$68 million for 2014 (2013: nil).

## 33. Related Party Transactions (continued)

(A) Purchases of electricity from joint ventures and an associate (continued)

(c) Under a capacity purchase contract, PSDC has the right to use 50% of the 1,200MW capacity of Phase 1 of the Guangzhou Pumped Storage Power Station. CLP Power Hong Kong has entered into a contract with PSDC to make use of this capacity. The price paid by CLP Power Hong Kong to PSDC is sufficient to cover all of PSDC's operating expenses and net return. PSDC's net return is based on a percentage of its net fixed assets in a manner analogous to the SoC, subject to a minimum return level.

The amount was accounted for up to the date of acquisition of PSDC as subsidiary (Note 2).

Amounts due to the related parties at 31 December 2014 are disclosed in Note 22.

(B) Rendering of services to joint ventures

In accordance with the CAPCO Operating Service Agreement between CLP Power Hong Kong and CAPCO, CLP Power Hong Kong is responsible to CAPCO for the efficient and proper construction, commissioning, operation and maintenance of the electricity generating facilities of CAPCO. In return, CAPCO reimburses CLP Power Hong Kong for all costs incurred in performance of the agreement. The charges from CLP Power Hong Kong to CAPCO during the period before the acquisition of CAPCO as a subsidiary (Note 2) amounted to HK$352 million (2013: HK$1,037 million) and a portion of the charges which was accounted for as operating expenses by CAPCO was covered under the Electricity Supply Contract referred to in (A)(a) above.

Amounts due from the related parties at 31 December 2014 are disclosed in Note 20.

No provision has been made for the amounts owed by the related parties.

(C) The advances made to joint ventures are disclosed under Note 15. At 31 December 2014, the Group did not have any guarantees which were of a significant amount given to or received from these parties (2013: nil).

(D) The Company provides necessary funding to support its subsidiaries' operations. Of the total advances of HK$27,736 million (2013: HK$28,815 million) made to its subsidiaries (Note 14), HK$19,456 million (2013: HK$20,141 million) and HK$4,359 million (2013: HK$4,932 million) were made to CLP Power Asia Limited and CLP Asia Finance Limited respectively to fund investments in overseas power projects. Advances of HK$2,186 million (2013: HK$2,040 million) and HK$941 million (2013: HK$1,623 million) were made to CLP Properties Limited for property development and to CLP Treasury Services Limited for treasury operations purpose respectively.

These advances are unsecured, interest free and have no fixed repayment terms.

## 33. Related Party Transactions (continued)

(E) Emoluments of key management personnel

Under HKAS 24 "Related Party Disclosures", key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any directors (whether executive or otherwise) of the Group. The total remuneration of the key management personnel shown below comprises the Non-executive Directors and the Senior Management Group. Members of the Senior Management Group include the Executive Director and nine (2013: ten) senior management personnel.

| | 2014 HK$M | 2013 HK$M |
|---|---|---|
| Fees | 11 | 10 |
| Recurring remuneration items (note) | | |
| Base compensation, allowances and benefits in kind | 54 | 44 |
| Performance bonus | | |
| Annual incentive | 50 | 29 |
| Long-term incentive | 23 | 19 |
| Provident fund contributions | 5 | 4 |
| Non-recurring remuneration item (note) | | |
| Other payments | 52 | 21 |
| | 195 | 127 |

Note: Refer to recurring and non-recurring remuneration items on page 154 of Human Resources & Remuneration Committee Report.

At 31 December 2014, the CLP Holdings' Board was composed of thirteen Non-executive Directors and one Executive Director. Remuneration of all Directors for the year totalled HK$31 million (2013: HK$63 million). With respect to the emoluments of the highest paid employees, the five highest paid individuals in the Group during the year included one Director (2013: three Directors), two members of Senior Management (2013: one member) and two former members of Senior Management (2013: one former senior executive) of the Group. The total remuneration of these five highest paid individuals amounted to HK$108 million (2013: HK$88 million). Further details of the remuneration of the Directors and Senior Management, on a named basis, and remuneration paid to the five highest paid individuals by bands are disclosed in sections 6 to 9 and 11 (as highlighted) of the Human Resources & Remuneration Committee Report on pages 153 to 156 and 160 to 162 respectively. These sections form the "auditable" part of the Human Resources & Remuneration Committee Report and are part of the financial statements.

# 34. Contingent Liabilities

**Accounting Policy**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

Contingent liabilities are possible obligations that arise from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events not wholly within the control of the Group. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote.

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

Under the original power purchase agreement between CLP India and its off-taker GUVNL, GUVNL was required to make a "deemed generation incentive" payment to CLP India when the plant availability 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$891 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$102 million) (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$310 million). The GERC also dismissed GUVNL's claim to recover interest on the "deemed loans".

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

## 34. Contingent Liabilities (continued)

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

Following the issue of the ATE's judgment, GUVNL deducted Rs.3,731 million (HK$458 million) from January to March 2010 invoices after adjustment for a previous deposit of Rs.500 million (HK$61 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$36 million) and interest of Rs.150 million (HK$18 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 31 December 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$1,048 million) (2013: Rs.8,543 million (HK$1,073 million)). There have been no significant developments in this case and no hearing was held during the year. The next hearing has not been scheduled.

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

The application of the accounting concepts on provision and contingent liabilities to the "deemed generation incentive" lawsuit can be found on our website as part of our accounting "mini-series".

(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 634MW 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 31 December 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.1,725 million (HK$212 million) at 31 December 2014 (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 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.

# FINANCIAL RISK MANAGEMENT

## 1. Financial Risk Factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, fair value and cash flow interest rate risks, and energy portfolio risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise the impact of exchange rate, interest rate and energy price fluctuations on the Group's financial performance. The Group uses different derivative financial instruments to manage its exposure in these areas. Other than limited energy trading activities for the purpose of understanding price movements engaged by EnergyAustralia, all derivative financial instruments are employed solely for hedging purposes.

Risk management for Hong Kong operations, predominantly the Company and its major subsidiary CLP Power Hong Kong, is carried out by the Company's central treasury department (Group Treasury) under policies approved by the Board of Directors or the Finance and General Committee of those companies. Overseas subsidiaries conduct their risk management activities in accordance with policies approved by their respective Boards. Group Treasury identifies, evaluates and monitors financial risks in close co-operation with the Group's operating units. The Group has written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and cash management.

### Foreign currency risk

The Group operates in the Asia-Pacific region and is exposed to foreign exchange risk arising from future commercial transactions, and from recognised assets and liabilities and net investments in foreign operations. This is primarily with respect to Australian dollars, Renminbi and Indian rupees. Additionally, CLP Power Hong Kong has significant foreign currency obligations relating to its foreign currency denominated debts, US dollar denominated nuclear power purchase off-take commitments and other fuel-related payments. The Group uses forward contracts and currency swaps to manage its foreign exchange risk arising from future commercial transactions, and from recognised assets and liabilities which are denominated in a currency that is not the functional currency of the respective Group entity. Hedging is only considered for firm commitments and highly probable forecast transactions.

**CLP Power Hong Kong**

Under the SoC, CLP Power Hong Kong is allowed to pass-through foreign exchange gains and losses arising from future commercial transactions and recognised liabilities which are denominated in a currency other than Hong Kong dollars, thus retaining no significant foreign exchange risk over the long term. CLP Power Hong Kong uses forward contracts and currency swaps to hedge all its debt repayment obligations denominated in foreign currencies for the full tenor, and a significant portion of its US dollar obligations on fuel and nuclear power purchases, provided that for US dollar the hedging can be accomplished at rates below the Hong Kong Government's historical target peg rate of HK$7.8: US$1. The objective is to reduce the potential impact of foreign exchange movement on electricity tariffs.

At the end of the reporting period, the fair value movement of the derivative financial instrument in a cash flow hedge relationship is recorded in equity. The extent of the impact to the hedging reserve under equity due to exchange rate movements, with all other variables held constant, is as follows:

| | 2014<br>HK$M | 2013<br>HK$M |
|---|---|---|
| Increase / (decrease) in the hedging reserve | | |
| Hong Kong dollar against US dollar | | |
| If Hong Kong dollar weakened by 0.6% (2013: 0.6%) | 292 | 364 |
| If Hong Kong dollar strengthened by 0.6% (2013: 0.6%) | (292) | (364) |
| Hong Kong dollar against Japanese yen | | |
| If Hong Kong dollar weakened by 5% (2013: 5%) | 49 | 45 |
| If Hong Kong dollar strengthened by 5% (2013: 5%) | (44) | (41) |

### Foreign currency risk (continued)

This fluctuation in equity is a timing difference as when the exchange gain or loss is realised in profit or loss, the amount is recoverable under the SoC.

**The Group's Asia-Pacific Investments**

With respect to the power project investments in the Asia-Pacific region, the Group is exposed to both foreign currency translation and transaction risks.

The Group closely monitors translation risk using a Value-at-Risk (VaR) approach but does not hedge foreign currency translation risk because translation gains or losses do not affect the project company's cash flow or the Group's annual profit until an investment is sold. At 31 December 2014, the Group's net investment subject to translation exposure was HK$53,696 million (2013: HK$51,995 million), arising mainly from our investments in Mainland China, India, Southeast Asia and Taiwan and Australia. This means that, for each 1% (2013: 1%) average foreign currency movement, our translation exposure will vary by about HK$537 million (2013: HK$520 million). All the translation exposures are recognised in other comprehensive income and therefore have no impact on our profit or loss.

We consider that the non-functional currency transaction exposures at the individual project company level, if not managed properly, can lead to significant financial distress. Our primary risk mitigation is therefore to ensure that project-level debt financings are implemented on a local currency basis to the maximum extent possible. Each overseas subsidiary and project company has developed its own hedging programme into local currency taking into consideration any indexing provision in project agreements, tariff reset mechanisms, lender requirements and tax and accounting implications.

Most foreign currency exposures of the Company and other Group entities are hedged and / or their transactions are predominantly conducted through the functional currency of the respective entity. The following analysis presents the Group's (apart from CLP Power Hong Kong) sensitivity to a reasonably possible change in the functional currencies of the Group entities against the US dollar and Renminbi, with all other variables held constant. The sensitivity rates in US dollar and Renminbi used are considered reasonable given the current level of exchange rates and the volatility observed in the different functional currencies of the Group entities. These are both on a historical basis and market expectations for future movement at the end of the reporting period and under the economic environments in which the Group operates. The extent of the impact to post-tax profit or equity due to exchange rate movements of US dollar and Renminbi against different functional currencies of Group entities, with all other variables held constant, is as follows:

| | 2014<br>HK$M | 2013<br>HK$M |
|---|---|---|
| US dollar | | |
| If US dollar strengthened by 5% / 10% (2013: 5% / 10%) (note) | | |
| Post-tax profit for the year | (103) | (92) |
| Equity – hedging reserve | (21) | (135) |
| If US dollar weakened by 5% / 10% (2013: 5% / 10%) (note) | | |
| Post-tax profit for the year | 107 | 92 |
| Equity – hedging reserve | 17 | 26 |
| Renminbi | | |
| If Renminbi strengthened by 2% (2013: 2%) | | |
| Post-tax profit for the year | 26 | 53 |
| Equity – hedging reserve | – | – |
| If Renminbi weakened by 2% (2013: 2%) | | |
| Post-tax profit for the year | (26) | (53) |
| Equity – hedging reserve | – | – |

Note: 5% against Indian rupee and 10% against Australian dollar.

# 1. Financial Risk Factors (continued)

## Energy portfolio risk

EnergyAustralia purchases and sells substantially all of its electricity energy from a competitive power pool operated by a statutory and independent corporation, the cost of which is based on spot market prices. Although EnergyAustralia has a vertically-integrated business structure, it is exposed to risk arising from the electricity generation and retail customer demand.

In addition to its physical market position, EnergyAustralia enters into trading and non-trading forward electricity contracts in accordance with EnergyAustralia's risk management policies. These policies enable EnergyAustralia to enter into contracts that are considered to be economic hedges against future retail and generation activities. It should be noted that while mark-to-market gains and losses on economic hedges are recognised in earnings in the period in which they occur, they will offset the impact of price movements on future profits relating to retail and generation activities occurring at the time of settlement.

EnergyAustralia is exposed to energy portfolio risk which is associated with the physical asset position of the company together with the trading assets. EnergyAustralia manages its energy portfolio exposure through an established risk management framework consisting of policies which place appropriate limits on overall energy market exposures, delegations of authority on trading, pre-defined product lists, regular reporting of exposures, and segregation of duties. The corporate governance process also includes the oversight by an Audit & Risk Committee which acts on behalf of the EnergyAustralia's Board.

During 2014, EnergyAustralia has switched from VaR to Earnings-at-Risk (EaR) in terms of its financial risk measurement criteria so as to improve the applicability of its risk analysis to its energy portfolio and to enable the calculation, report and control of financial risks.

EnergyAustralia uses EaR analysis to measure the potential earning variance from business plan due to the fluctuation of market prices. EaR uses Monte Carlo simulation to calculate the market risk of a portfolio using historical volatilities and correlations across a number of risk factors EnergyAustralia is exposed to. This simulation methodology includes all long (generation and bought contract) and short (retail and sold contract) positions measured over the current and next financial year. The distribution of value of these positions will vary according to the running regime of EnergyAustralia's generation assets, retail load behaviour, contract position, temperature and market price variability. This is measured by using simulated earnings distribution at a 95% confidence level.

The EaR for EnergyAustralia's energy portfolio at 31 December 2014 was HK$381 million. No comparative figures have been presented as it is impractical.

In addition to EaR analysis, EnergyAustralia also uses Volumetric Limits. The Volumetric Limits are measures of the net physical energy and capacity exposure to spot and forward markets over time in the portfolio. They are used to provide guidance on portfolio hedging against the maximum long and short volumes allowable in megawatt (MW) terms on an energy and capacity basis for the net spot and forward market exposures.

## Interest rate risk

The Group's interest rate risk arises from debt borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk, whilst borrowings issued at fixed rates expose the Group to fair value interest rate risk. The risks are managed by monitoring an appropriate mix between fixed and floating rate borrowings, and by the use of interest rate swaps.

The appropriate level of the fixed / floating mix is determined for each operating company subject to a regular review. For instance, CLP Power Hong Kong conducts an annual review to determine a preferred fixed / floating interest rate mix appropriate for its business profile. Each overseas subsidiary and project company has developed its own hedging programme taking into consideration project debt service sensitivities to interest rate movements, lender requirements, tax and accounting implications. At 31 December 2014, 58% (2013: 67%) of the Group's borrowings was at fixed rates.

The sensitivity analysis below presents the effects on the Group's post-tax profit for the year (as a result of change in interest expense on floating rate borrowings and impact of shift in yield curve on energy contracts) and equity (as a result of change in the fair value of derivative instruments which qualify as cash flow hedges). Such amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged items affect profit or loss, and offset one another in the profit or loss.

The analysis has been determined based on the exposure to interest rates for both derivative and non-derivative financial instruments at the end of the reporting period. For floating rate borrowings, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. The sensitivity to interest rates used is considered reasonable given the market forecasts available at the end of the reporting period and under the economic environments in which the Group operates, with all other variables held constant.

| | 2014 HK$M | 2013 HK$M |
|---|---|---|
| Hong Kong dollar | | |
| If interest rates were 0.65% (2013: 0.2%) higher | | |
| Post-tax profit for the year | (96) | (17) |
| Equity – hedging reserve | 4 | 2 |
| If interest rates were 0.65% (2013: 0.2%) lower | | |
| Post-tax profit for the year | 96 | 17 |
| Equity – hedging reserve | (4) | (2) |
| Indian rupee | | |
| If interest rates were 1% (2013: 1%) higher | | |
| Post-tax profit for the year | (22) | (27) |
| Equity – hedging reserve | – | – |
| If interest rates were 1% (2013: 1%) lower | | |
| Post-tax profit for the year | 22 | 27 |
| Equity – hedging reserve | – | – |
| Australian dollar | | |
| If interest rates were 1% (2013: 0.5%) higher | | |
| Post-tax profit for the year | (189) | (26) |
| Equity – hedging reserve | 49 | 23 |
| If interest rates were 1% (2013: 0.5%) lower | | |
| Post-tax profit for the year | 177 | 25 |
| Equity – hedging reserve | (49) | (24) |

# 1. Financial Risk Factors (continued)

## Credit risk

The Group has no significant concentrations of credit risk with respect to the sales of electricity and / or gas in Hong Kong and Australia as their customer bases are widely dispersed in different sectors and industries. The Group has policies in place to monitor the financial viability of counterparties. CLP Power Hong Kong has established a credit policy to allow electricity customers to settle their bills within two weeks after issue. To limit the credit risk exposure, CLP Power Hong Kong also has a policy to require cash deposits or bank guarantees from customers for an amount not exceeding the highest expected charge for 60 days determined from time to time by reference to the usage of the customers. EnergyAustralia has policies in place to ensure that sales of products and services are made to major retail customers of an appropriate credit quality. For EnergyAustralia, receivables are due for settlement no more than 14 to 30 days after issue and collectability is reviewed on an ongoing basis.

CLP India sell a majority of its electricity output to various state electricity boards in India through power purchase agreements for 13 to 25 years. Receivables are due for settlement in 15 to 60 days after billing and the management closely monitor the credit quality and collectability of receivables from those off-takers.

On the treasury side, all finance-related hedging transactions and deposits of the Company and its principal subsidiaries are made with counterparties with good credit quality in conformance to the Group treasury policies to minimise credit exposure. Good credit ratings from reputable credit rating agencies and scrutiny of the financial position of non-rated counterparties are two important criteria in the selection of counterparties. The credit quality of counterparties will be closely monitored over the life of the transaction. The Group further assigns mark-to-market limits to its financial counterparties to reduce credit risk concentrations relative to the underlying size and credit strength of each counterparty. In an attempt to forestall adverse market movement, the Group also monitors potential exposures to each financial institution counterparty, using VaR methodology. All derivatives transactions are entered into at the sole credit of the respective subsidiaries, joint ventures and associates without recourse to the Company.

The Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of each financial asset, including trade and other receivables and derivative financial instruments, as reported in the statement of financial position.

## Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and making available an adequate amount of committed credit facilities with staggered maturities to reduce refinancing risk in any year and to fund working capital, debt servicing, dividend payments, new investments and close out market positions if required. The Group maintains significant flexibility to respond to opportunities and events by ensuring that committed credit lines are available to meet future funding requirements. Management also monitor rolling forecasts of the Group's undrawn borrowing facilities and cash and cash equivalents on the expected cash flows.

The table below analyses the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities and derivative financial liabilities (both net settled and gross settled), which are based on contractual undiscounted cash flows. The Company has no bank loans and other borrowings at 31 December 2014 (2013: HK$837 million repayable within one year and HK$612 million between one and two years).

## Liquidity risk (continued)

| | Within 1 year HK$M | Between 1 and 2 years HK$M | Between 2 to 5 years HK$M | Over 5 years HK$M | Total HK$M |
|---|---|---|---|---|---|
| **At 31 December 2014** | | | | | |
| Non-derivative financial liabilities | | | | | |
| Bank loans | 8,945 | 9,254 | 15,172 | 7,140 | 40,511 |
| Other borrowings | 2,707 | 2,136 | 6,781 | 29,084 | 40,708 |
| Obligations under finance leases | 3 | 3 | 9 | 40 | 55 |
| Customers' deposits | 4,653 | – | – | – | 4,653 |
| Trade and other payables | 21,619 | – | – | – | 21,619 |
| Fuel clause account | – | – | 2,966 | – | 2,966 |
| SoC reserve accounts | – | – | 1,131 | – | 1,131 |
| Asset decommissioning liabilities | – | – | 1,082 | – | 1,082 |
| | 37,927 | 11,393 | 27,141 | 36,264 | 112,725 |
| Derivative financial liabilities | | | | | |
| Net settled | | | | | |
| Interest rate swaps | 271 | 229 | 455 | 340 | 1,295 |
| Energy contracts | 427 | 161 | 258 | 404 | 1,250 |
| Gross settled | | | | | |
| Forward foreign exchange contracts | 38,101 | 31,740 | 27,889 | 678 | 98,408 |
| Cross currency interest rate swaps | 906 | 1,839 | 5,594 | 22,713 | 31,052 |
| | 39,705 | 33,969 | 34,196 | 24,135 | 132,005 |
| At 31 December 2013 | | | | | |
| Non-derivative financial liabilities | | | | | |
| Bank loans | 6,873 | 6,226 | 9,599 | 8,822 | 31,520 |
| Other borrowings | 2,602 | 2,828 | 5,811 | 29,891 | 41,132 |
| Obligations under finance leases | 5,409 | 5,124 | 13,412 | 22,710 | 46,655 |
| Customers' deposits | 4,506 | – | – | – | 4,506 |
| Trade and other payables | 19,325 | – | – | – | 19,325 |
| Fuel clause account | – | – | 1,464 | – | 1,464 |
| SoC reserve accounts | – | – | 28 | – | 28 |
| Asset decommissioning liabilities | – | – | 539 | – | 539 |
| | 38,715 | 14,178 | 30,853 | 61,423 | 145,169 |
| Derivative financial liabilities | | | | | |
| Net settled | | | | | |
| Interest rate swaps | 283 | 218 | 294 | 263 | 1,058 |
| Energy contracts | 799 | 338 | 1,179 | – | 2,316 |
| Gross settled | | | | | |
| Forward foreign exchange contracts | 28,142 | 31,668 | 43,189 | 1,092 | 104,091 |
| Cross currency interest rate swaps | 853 | 888 | 4,238 | 24,605 | 30,584 |
| | 30,077 | 33,112 | 48,900 | 25,960 | 138,049 |

## 2. Fair Value Estimation and Hierarchy of Financial Instruments

The fair value of financial instruments traded in active markets (such as publicly traded derivatives) is based on quoted market prices at the end of the reporting period.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using appropriate valuation techniques and making assumptions that are based on market conditions existing at the end of each reporting period.

For the Group's financial instruments that are not measured at fair value, their carrying values approximate their fair values.

Financial instruments that are measured at fair value and analysed into the following fair value measurement hierarchy:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the Group's financial instruments that are measured at fair value at 31 December:

| | Level 1<br>HK$M | Level 2 [a]<br>HK$M | Level 3 [a], [b]<br>HK$M | Total<br>HK$M |
|---|---|---|---|---|
| At 31 December 2014 | | | | |
| Financial assets | | | | |
| Available-for-sale investments | 480 | – | 1,227 | 1,707 |
| Forward foreign exchange contracts | – | 934 | – | 934 |
| Foreign exchange options | – | 74 | – | 74 |
| Cross currency interest rate swaps | – | 2,381 | – | 2,381 |
| Interest rate swaps | – | 121 | – | 121 |
| Energy contracts | – | 150 | 119 | 269 |
| | 480 | 3,660 | 1,346 | 5,486 |
| Financial liabilities | | | | |
| Forward foreign exchange contracts | – | 117 | – | 117 |
| Cross currency interest rate swaps | – | 1,727 | – | 1,727 |
| Interest rate swaps | – | 1,177 | – | 1,177 |
| Energy contracts | – | 39 | 711 | 750 |
| | – | 3,060 | 711 | 3,771 |

## 2. Fair Value Estimation and Hierarchy of Financial Instruments (continued)

| | Level 1 HK$M | Level 2 [(a)] HK$M | Level 3 [(a), (b)] HK$M | Total HK$M |
|---|---|---|---|---|
| At 31 December 2013 | | | | |
| Financial assets | | | | |
| Available-for-sale investments | – | – | 1,263 | 1,263 |
| Forward foreign exchange contracts | – | 1,443 | – | 1,443 |
| Foreign exchange options | – | 89 | – | 89 |
| Cross currency interest rate swaps | – | 1,649 | – | 1,649 |
| Interest rate swaps | – | 289 | – | 289 |
| Energy contracts | – | 65 | 588 | 653 |
| | – | 3,535 | 1,851 | 5,386 |
| Financial liabilities | | | | |
| Forward foreign exchange contracts | – | 50 | – | 50 |
| Cross currency interest rate swaps | – | 1,589 | – | 1,589 |
| Interest rate swaps | – | 904 | – | 904 |
| Energy contracts | – | 280 | 1,896 | 2,176 |
| | – | 2,823 | 1,896 | 4,719 |

The Group's policy is to recognise transfers into / out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

During 2014 and 2013, there were no transfers between Level 1 and Level 2, or into or out of Level 3.

Notes:

(a) The valuation technique and inputs used in the fair value measurements within Level 2 and Level 3 are as follows:

| | Valuation technique | Significant inputs |
|---|---|---|
| Available-for-sale investments | Discounted cash flow | Discount rate |
| Forward foreign exchange contracts | Discounted cash flow | Observable exchange rates |
| Foreign exchange options | Garman Kohlhagen Model | Observable exchange rates, interest rates and volatility levels |
| Cross currency interest rate swaps | Discounted cash flow | Observable exchange rates and swap rates of respective currency |
| Interest rate swaps | Discounted cash flow | Observable swap rates of respective currency |
| Energy contracts | Discounted cash flow | Brokers' quotes and observable exchange traded swap and cap rates |

(b) Additional information about fair value measurements using significant unobservable inputs (Level 3):

| | Significant unobservable inputs |
|---|---|
| Available-for-sale investments [(i)] | Discount rate |
| Energy contracts [(ii)] | Long term forward electricity price and cap |

(i) The valuations are performed and reported twice each year, in line with the Group's reporting dates, to Group management.

(ii) The finance department of EnergyAustralia includes a team that performs the valuations of non-property assets required for financial reporting purposes, including Level 3 fair values. This team reports directly to EnergyAustralia's chief financial officer (CFO – EA) and Audit & Risk Committee (ARC – EA). The valuation of Level 3 forward energy contracts involves the use of a short term forward curve which is observable in the liquid market and a long term forward curve which is derived using unobservable inputs. This short term forward curve is reviewed at least once every six months, in line with the Group's half-yearly reporting dates. While review of the long term forward curve is performed between the CFO – EA, ARC – EA and the valuation team annually due to the lack of market liquidity. Parameter calibrations are delegated to the team with back-testing and review of parameters to be performed annually. Fair value changes analyses are performed on a monthly basis for reasonableness.

## 2. Fair Value Estimation and Hierarchy of Financial Instruments (continued)

The movements of Level 3 financial instruments for the years ended 31 December are as follows:

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | Available-for-sale Investments HK$M | Energy Contracts HK$M | Total HK$M | Available-for-sale Investments HK$M | Energy Contracts HK$M | Total HK$M |
| Opening balance | 1,263 | (1,308) | (45) | 1,263 | (2,034) | (771) |
| Total gains / (losses) recognised in | | | | | | |
| Profit or loss | – | 864 | 864 | – | (971) | (971) |
| Other comprehensive income | 3 | 29 | 32 | – | 450 | 450 |
| Purchases | – | 42 | 42 | – | 681 | 681 |
| Settlements | (39) | (219) | (258) | – | 566 | 566 |
| Closing balance | 1,227 | (592) | 635 | 1,263 | (1,308) | (45) |
| Total gains / (losses) for the year included in profit or loss and presented in fuel and other operating expenses | – | 864 | 864 | – | (971) | (971) |
| In respect of the assets and liabilities held at the end of the reporting period, the unrealised (losses) / gains for the year and presented in fuel and other operating expenses | – | (373) | (373) | – | 237 | 237 |

Changing unobservable inputs used in the Level 3 valuation to reasonable alternative assumptions would not change significantly the fair values recognised.

## 3. Offsetting Financial Assets and Financial Liabilities

The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements or similar agreements:

| | Gross amounts of recognised financial assets / liabilities | Gross amounts of recognised financial liabilities / assets set off in the consolidated statement of financial position | Net amounts of financial assets / liabilities included in the respective line of the consolidated statement of financial position | Related amounts not set off in the consolidated statement of financial position | | Net amount |
|---|---|---|---|---|---|---|
| | | | | Financial instruments | Financial collateral received / pledged | |
| | HK$M | HK$M | HK$M | HK$M | HK$M | HK$M |
| **At 31 December 2014** | | | | | | |
| Financial assets | | | | | | |
| Bank balances, cash and other liquid funds | 355 | – | 355 | (355) | – | – |
| Trade and other receivables | 4,239 | – | 4,239 | (2,142) | (2,097) | – |
| Derivative financial instruments | 1,511 | (398) | 1,113 | (748) | – | 365 |
| | 6,105 | (398) | 5,707 | (3,245) | (2,097) | 365 |
| Financial liabilities | | | | | | |
| Customers' deposits | 4,652 | – | 4,652 | (2,097) | – | 2,555 |
| Bank loans and other borrowings | 11,109 | – | 11,109 | – | (2,497) | 8,612 |
| Derivative financial instruments | 2,769 | (398) | 2,371 | (751) | – | 1,620 |
| | 18,530 | (398) | 18,132 | (2,848) | (2,497) | 12,787 |
| At 31 December 2013 | | | | | | |
| Financial assets | | | | | | |
| Bank balances, cash and other liquid funds | 449 | – | 449 | (449) | – | – |
| Trade and other receivables | 7,164 | – | 7,164 | (1,924) | (2,043) | 3,197 |
| Derivative financial instruments | 2,021 | (196) | 1,825 | (955) | – | 870 |
| | 9,634 | (196) | 9,438 | (3,328) | (2,043) | 4,067 |
| Financial liabilities | | | | | | |
| Customers' deposits | 4,506 | – | 4,506 | (2,043) | – | 2,463 |
| Bank loans and other borrowings | 11,272 | – | 11,272 | – | (2,373) | 8,899 |
| Derivative financial instruments | 3,948 | (196) | 3,752 | (955) | – | 2,797 |
| | 19,726 | (196) | 19,530 | (2,998) | (2,373) | 14,159 |

Note: For derivative financial instruments, the Group enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master agreements in which there is a set-off provision. Under certain circumstances, for example, when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, a termination value is then assessed and only a single net amount is payable in settlement of all transactions. The ISDA agreements do not meet the criteria for offsetting in the consolidated statement of financial position since the Group does not have any currently legally enforceable right to offset recognised amounts. The right to offset is enforceable only on the occurrence of future events such as a default on the bank transactions or other credit events. For other financial instruments, the rights to offset are enforceable in the event of default of payments.

# 4. Capital Management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern, maintain a strong credit rating and a healthy capital ratio to support the business and to enhance shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and business strategies. To maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders, issue new shares or raise and repay debts. The Group's capital management objectives, policies or processes were unchanged during 2014 and 2013.

The Group monitors capital using "total debt to total capital" and "net debt to total capital" ratios. These ratios are as follows:

| | 2014 HK$M | 2013 HK$M |
|---|---|---|
| Total debt [(a)] | 67,435 | 56,051 |
| Net debt [(b)] | 63,042 | 50,818 |
| Total equity [(c)] | 102,662 | 87,481 |
| Total capital (based on total debt) [(d)] | 170,097 | 143,532 |
| Total capital (based on net debt) [(e)] | 165,704 | 138,299 |
| Total debt to total capital (based on total debt) ratio (%) | 39.6 | 39.1 |
| Net debt to total capital (based on net debt) ratio (%) | 38.0 | 36.7 |

The slight increase in total debt to total capital and net debt to total capital ratios were mainly due to the moderate net impact by CAPCO and PSDC acquisitions as incremental debts was largely offset by increase in shareholder's advances from CSG HK, issuance of perpetual capital securities and incremental earnings.

Certain entities of the Group are subject to certain loan covenants. For both 2014 and 2013, there is no material non-compliance with those loan covenants.

Notes:

(a) Total debt equals to bank loans and other borrowings.

(b) Net debt equals to total debt less bank balances, cash and other liquid funds.

(c) Total equity equals to equity plus the advances from non-controlling interests.

(d) Total capital (based on total debt) equals to total debt plus total equity.

(e) Total capital (based on net debt) equals to net debt plus total equity.

# SCHEME OF CONTROL STATEMENT

## CLP Power Hong Kong Limited and Castle Peak Power Company Limited

### Overview

In Hong Kong, CLP Power Hong Kong Limited (CLP Power Hong Kong) operates a vertically-integrated electricity generation, transmission and distribution business. The generating plants in Hong Kong are owned by Castle Peak Power Company Limited (CAPCO), in which CLP Power Hong Kong owned 40% and was further increased to 70% since May 2014. CLP Power Hong Kong builds and operates CAPCO's power stations under contract and is the sole customer for CAPCO's electricity which CLP Power Hong Kong transmits and distributes to its customers in Kowloon and the New Territories. CLP Power Hong Kong owns the transmission and distribution network.

Since financial year 1964, the electricity-related operations of CLP Power Hong Kong and CAPCO (the SoC Companies) have been governed by a Scheme of Control Agreement (SoC) with the Hong Kong Government. The SoC specifies the SoC Companies' obligations to supply adequate and reliable electricity supplies to customers at the lowest reasonable cost and the mechanism for Hong Kong Government to monitor their financial affairs and operating performance. In return, CLP Power Hong Kong is allowed to charge tariffs designed to recover the operating costs (including tax) and allowed net return of the SoC Companies.

The current SoC took effect from 1 October 2008. The SoC covers a period of 10 years to 30 September 2018, with the Hong Kong Government having the right to extend by 5 years on the same terms to 30 September 2023 by giving notice before 1 January 2016. In the event that the 5 years extension option is not exercised by the Hong Kong Government, the SoC Companies will continue to earn the permitted return until 30 September 2023 on all approved investments.

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

### Tariff Setting Mechanism

For each year, CLP Power Hong Kong designs the net tariff it charges to cover the SoC Companies' operating costs and allowed net return. The net tariff consists of the following components:

(i) basic tariff rate which is derived by taking into account the annual forecast of (a), (b) and (c) below, using the formula "(a-b) / c":
   (a) the allowed net return and operating costs including the standard cost of fuel; generation, transmission, distribution and administration expenses; depreciation; interest expenses; and taxes;
   (b) 80% of the profit on electricity sale to Mainland China; and
   (c) local unit sales as determined by the load forecast.

(ii) fuel clause charge or rebate (Fuel Cost Adjustment) which represents the difference between the costs of fuel (including natural gas, coal and oil) and the standard cost recovered through the basic tariff rate.

Any difference between the actual profit for SoC operations and the permitted return for the year is transferred to or from a Tariff Stabilisation Fund. The Tariff Stabilisation Fund does not form part of distributable shareholders' funds and represents a liability in the accounts of CLP Power Hong Kong. A charge on the average balance of the Tariff Stabilisation Fund is credited to the Rate Reduction Reserve in the accounts of CLP Power Hong Kong, which balance as at the end of each year is to be transferred to the Tariff Stabilisation Fund in the following year.

## Permitted and Net Return

The permitted and net return that the SoC Companies are allowed under the SoC are calculated as follows:

- The annual permitted return under the SoC is 9.99% of the SoC Companies' average net fixed assets other than renewable energy investments; and 11% for renewable energy investments.
- The net return is the permitted return after the deduction or adjustment of the following items:
  - (a) interest up to a maximum of 8% per annum on borrowed capital arranged for financing fixed assets;
  - (b) a charge of the average one-month Hong Kong interbank offered rate on the average balance of the Tariff Stabilisation Fund under the SoC, which is credited to the Rate Reduction Reserve;
  - (c) an excess capacity adjustment of 9.99% under the SoC on the average excess capacity expenditure less an allowed interest charge up to 8% per annum on the average excess capacity expenditure;
  - (d) interest up to 8% per annum on the increase in average balance of the customers' deposits in excess of the balance as at 30 September 1998; and
  - (e) performance related incentives / penalties adjustments are in the range of -0.03% to +0.1% on the average net fixed assets with respect to customer performance, energy efficiency and renewables performance applicable to each full calendar year under the SoC.
- The rate of return on average net fixed assets of the SoC Companies for the year ended 31 December 2014 was 9.18% (2013: 9.11%).

The net return is divided between the SoC Companies in accordance with the provisions of the agreements between the SoC Companies. These provisions state that each company will receive that proportion of the total net return represented by the net return that company would receive if it were the only company under the SoC and the net return were calculated solely on the basis of its own financial statements. In year 2014, 66% (2013: 65%) of the net return was allocated to CLP Power Hong Kong and 34% (2013: 35%) to CAPCO.

The calculations shown on page 273 are in accordance with the SoC and the agreements between the SoC Companies.

**For the year ended 31 December**

| | 2014 HK$M | 2013 HK$M |
|---|---|---|
| SoC revenue | 36,092 | 33,184 |
| Expenses | | |
| Operating costs | 3,842 | 3,711 |
| Fuel | 10,375 | 9,645 |
| Purchases of nuclear electricity | 4,867 | 4,619 |
| Provision for asset decommissioning | (10) | 52 |
| Depreciation | 3,901 | 4,475 |
| Operating interest | 834 | 863 |
| Taxation | 2,048 | 1,649 |
| | 25,857 | 25,014 |
| Profit after taxation | 10,235 | 8,170 |
| Interest on borrowed capital | 856 | 887 |
| Adjustment for performance (incentives) / penalties | (49) | (48) |
| Adjustments required under the SoC (being share of profit on sale of electricity to Mainland China attributable to the SoC Companies) | (54) | (64) |
| Profit for SoC | 10,988 | 8,945 |
| Transfer (to) / from Tariff Stabilisation Fund | (1,030) | 693 |
| Permitted return | 9,958 | 9,638 |
| Deduct interest on / Adjustment for | | |
| Borrowed capital as above | 856 | 887 |
| Performance (incentives) / penalties as above | (49) | (48) |
| Tariff Stabilisation Fund to Rate Reduction Reserve | 1 | 1 |
| | 808 | 840 |
| Net return | 9,150 | 8,798 |
| Divisible as follows: | | |
| CLP Power Hong Kong | 6,070 | 5,744 |
| CAPCO | 3,080 | 3,054 |
| | 9,150 | 8,798 |
| CLP Power Hong Kong's share of net return | | |
| CLP Power Hong Kong | 6,070 | 5,744 |
| Interest in CAPCO | 1,852 | 1,222 |
| | 7,922 | 6,966 |

# FIVE-YEAR SUMMARY: CLP GROUP STATISTICS

## Economic

| | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Consolidated Operating Results, HK$M | | | | | |
| Revenue | | | | | |
| Electricity business in Hong Kong (HK) | 35,303 | 33,840 | 33,643 | 31,518 | 29,944 |
| Energy business outside HK | 56,633 | 70,352 | 70,983 | 59,906 | 28,124 |
| Others | 323 | 338 | 235 | 210 | 342 |
| Total | 92,259 | 104,530 | 104,861 | 91,634 | 58,410 |
| Operating profit | 14,895 | 8,906 | 13,101 | 13,188 | 12,397 |
| Earnings | | | | | |
| Electricity business in HK | 7,777 | 6,966 | 6,654 | 6,339 | 6,129 |
| Other investments / operations | 2,907 | 2,790 | 3,316 | 4,492 | 3,476 |
| Gains / (losses) on acquisitions / sales of investments | 1,953 | (75) | – | 876 | 356 |
| Provisions for fixed assets, joint ventures and other assets | (1,736) | (3,696) | (409) | (1,933) | (258) |
| Revaluation gains on properties | 245 | – | – | 225 | – |
| Tax consolidation benefit from Australia | – | – | 105 | – | 989 |
| Other one-off items from Australia | 697 | 524 | (790) | (192) | 97 |
| Unallocated net finance costs | (36) | (26) | (74) | (48) | (18) |
| Unallocated Group expenses | (586) | (423) | (490) | (471) | (439) |
| Total | 11,221 | 6,060 | 8,312 | 9,288 | 10,332 |
| Dividends | 6,619 | 6,493 | 6,301 | 6,063 | 5,967 |
| Capital expenditure, owned and leased assets | 9,446 | 12,052 | 11,230 | 15,798 | 20,032 |
| Depreciation & amortisation, owned and leased assets | 6,791 | 7,592 | 7,021 | 6,353 | 5,065 |
| Consolidated Statement of Cash Flows, HK$M | | | | | |
| Net cash inflow from operating activities | 21,966 | 21,021 | 23,915 | 18,062 | 16,085 |
| Consolidated Statement of Financial Position, HK$M | | | | | |
| SoC fixed assets | 101,420 | 67,057 | 63,599 | 60,142 | 57,247 |
| Other fixed assets | 34,963 | 63,846 | 70,730 | 70,240 | 60,213 |
| Goodwill and other intangible assets | 31,129 | 23,847 | 28,479 | 27,369 | 9,150 |
| Interests in joint ventures | 11,176 | 19,940 | 19,197 | 18,226 | 20,476 |
| Interests in associates | 786 | 1,675 | 1,856 | 1,465 | 2,378 |
| Other non-current assets | 9,664 | 8,601 | 7,742 | 9,791 | 11,177 |
| Current assets | 25,525 | 26,719 | 37,153 | 27,055 | 18,714 |
| Total assets | 214,663 | 211,685 | 228,756 | 214,288 | 179,355 |
| Shareholders' funds | 88,013 | 87,361 | 91,127 | 81,259 | 79,661 |
| Perpetual capital securities | 5,791 | – | – | – | – |
| Other non-controlling interests | 2,155 | 120 | 74 | 93 | 97 |
| Equity | 95,959 | 87,481 | 91,201 | 81,352 | 79,758 |
| Bank loans and other borrowings | 67,435 | 56,051 | 66,198 | 65,521 | 44,623 |
| Obligations under finance leases | 27 | 27,976 | 27,055 | 27,396 | 27,100 |
| SoC reserve accounts | 1,131 | 28 | 1,245 | 643 | 1,509 |
| Other current liabilities | 27,771 | 25,251 | 28,147 | 23,642 | 16,420 |
| Other non-current liabilities | 22,340 | 14,898 | 14,910 | 15,734 | 9,945 |
| Total liabilities | 118,704 | 124,204 | 137,555 | 132,936 | 99,597 |
| Equity and total liabilities | 214,663 | 211,685 | 228,756 | 214,288 | 179,355 |
| Per Share Data, HK$ | | | | | |
| Shareholders' funds per share | 34.84 | 34.58 | 36.07 | 33.77 | 33.11 |
| Earnings per share | 4.44 | 2.40 | 3.45 | 3.86 | 4.29 |
| Dividends per share | 2.62 | 2.57 | 2.57 | 2.52 | 2.48 |

**A ten-year summary is on our website**

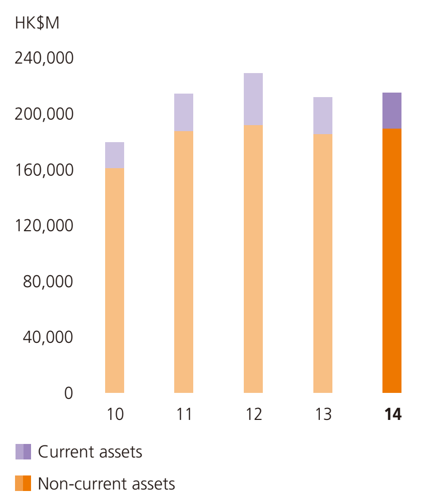
| | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| **Per Share Data,** HK$ (continued) | | | | | |
| Closing share price | | | | | |
| Highest | **68.00** | 69.85 | 68.95 | 74.95 | 64.65 |
| Lowest | **56.30** | 60.35 | 62.30 | 59.95 | 52.15 |
| As at year-end | **67.25** | 61.30 | 64.85 | 66.05 | 63.10 |
| **Ratios** | | | | | |
| Return on equity, % | **12.8** | 6.8 | 10.1[1] | 11.5 | 13.7 |
| Total debt to total capital, % | **39.6** | 39.1 | 42.1 | 44.6 | 35.9 |
| Net debt to total capital, % | **38.0** | 36.7 | 36.8 | 43.1 | 33.3 |
| EBIT interest cover, times | **6** | 3 | 4 | 4 | 7 |
| Price / Earnings, times | **15** | 26 | 19 | 17 | 15 |
| Dividend yield, % | **3.9** | 4.2 | 4.0 | 3.8 | 3.9 |
| Dividend pay-out (total earnings), % | **59.0** | 107.1 | 74.5 | 65.3 | 57.8 |
| Dividend pay-out (operating earnings), % | **65.8** | 69.8 | 65.9 | 58.8 | 65.2 |
| **Group Generating Capacity** | | | | | |
| (owned/operated/under construction) [2], MW | | | | | |
| – by region | | | | | |
| Hong Kong | **6,908** | 6,908 | 6,908 | 6,908 | 6,908 |
| Mainland China | **6,740** | 5,760 | 5,911 | 5,957 | 5,899 |
| India | **3,056** | 3,026 | 2,947 | 2,594 | 2,461 |
| Southeast Asia & Taiwan | **285** | 285 | 285 | 282 | 868 |
| Australia | **4,533** | 5,533 | 5,616 | 5,616 | 3,211 |
| | **21,522** | 21,512 | 21,667 | 21,357 | 19,347 |
| – by status | | | | | |
| Operational | **20,176** | 20,974 | 21,175 | 19,707 | 17,145 |
| Construction | **1,346** | 538 | 492 | 1,650 | 2,202 |
| | **21,522** | 21,512 | 21,667 | 21,357 | 19,347 |

Notes:

1 The 2012 figure excluded the effect of the 5% share placement on 20 December 2012 to give a more accurate average shareholders' funds in 2012.

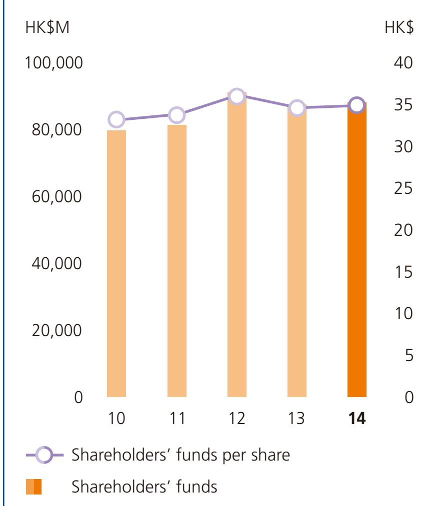
2 Group generating capacity (in MW) is incorporated on the following basis: (a) CAPCO on 100% capacity as stations operated by CLP Power Hong Kong; (b) PSDC (during 2010 to 2013) and Ecogen on 100% as having right to use; and (c) other stations (including PSDC from 2014) on the proportion of the Group's equity interests.

## Total Assets




## Earnings


## Shareholders' Funds



# FIVE-YEAR SUMMARY: CLP GROUP STATISTICS

## Environmental

| Performance Indicators | Units | 2014 | 2013 | 2012 | 2011 | 2010 | Global Reporting Initiative (GRI) G4 Reference | HKEx ESG Reporting Guide Reference |
|---|---|---|---|---|---|---|---|---|
| **Resource Use & Emissions** [(1)] | | | | | | | | |
| Coal consumed (for power generation) | TJ | 541,865 | 433,763 | 361,819 | 419,357 | 370,427 | G4-EN3 | B2.1 |
| Gas consumed (for power generation) | TJ | 63,268 | 73,510 | 86,200 | 101,166 | 135,556 | G4-EN3 | B2.1 |
| Oil consumed (for power generation) | TJ | 2,345 | 1,973 | 8,200 | 1,508 | 1,272 | G4-EN3 | B2.1 |
| $CO_2e$ emissions from power generation (Scopes 1 & 2) | kT | 53,258 | 44,258 | 38,464 | 44,450 | 41,908 | G4-EN15 | B1.2 |
| $CO_2$ emissions from power generation (Scopes 1 & 2) [(2)] | kT | 53,044 | 44,076 | 38,319 | 44,298 | 41,784 | G4-EN15 | B1.2 |
| Nitrogen oxides emissions ($NO_x$) | kT | 74.6 | 50.2 | 42.9 | 48.1 | 39.3 | G4-EN21 | B1.1 |
| Sulphur dioxide emissions ($SO_2$) | kT | 93.0 | 50.5 | 35.1 | 35.8 | 37.4 | G4-EN21 | B1.1 |
| Total particulates emissions | kT | 11.5 | 5.5 | 4.7 | 6.2 | 6.4 | G4-EN21 | B1.1 |
| Water withdrawal [(4)] | | | | | | | G4-EN8 | B2.2 |
| from marine water resources | $Mm^3$ | 4,774.5 | 4,987.9 | 4,648.6 | 4,688.6 | 4,670.7 | | |
| from freshwater resources | $Mm^3$ | 52.9 | 37.2 [(3)] | 35.4 | 37.9 | 41.7 | | |
| from municipal sources | $Mm^3$ | 6.6 | 6.2 [(3)] | 5.8 | 5.5 | 4.3 | | |
| Total | $Mm^3$ | 4,834.0 | 5,031.0 | 4,689.6 | 4,732.0 | 4,716.6 | | |
| Water discharged [(4)] | | | | | | | G4-EN22 | |
| cooling water to marine water bodies | $Mm^3$ | 4,774.5 | 4,987.9 | 4,648.6 | 4,688.6 | 4,670.7 | | |
| treated wastewater to marine water bodies | $Mm^3$ | 1.3 | 1.2 | 1.1 | 0.8 | 0.8 | | |
| treated wastewater to freshwater bodies | $Mm^3$ | 14.5 | 10.1 | 14.0 | 18.1 | 18.4 | | |
| wastewater to sewerage | $Mm^3$ | 1.8 | 1.5 | 1.7 | 1.8 | 1.6 | | |
| wastewater to other destinations | $Mm^3$ | 0.1 | 0.1 | 0.3 | 0.6 | 0.7 | | |
| Total | $Mm^3$ | 4,792.2 | 5,000.8 | 4,665.7 | 4,710.0 | 4,692.1 | | |
| Hazardous waste produced [(4)(5)] | T (solid) / kl (liquid) | 484 / 2,783 | 337 / 1,228 | 262 / 1,500 | 799 / 912 | 803 / 1,167 | G4-EN23 | B1.3 |
| Hazardous waste recycled [(4)(5)] | T (solid) / kl (liquid) | 89 / 1,463 | 34 / 981 | 25 / 1,023 | 36 / 831 | 39 / 844 | G4-EN23 | |
| Non-hazardous waste produced [(4)(5)] | T (solid) / kl (liquid) | 21,142 / 78 | 7,700 / 0 | 10,830 / 21 | 6,301 / 0 | 8,029 / 2 | G4-EN23 | B1.4 |
| Non-hazardous waste recycled [(4)(5)] | T (solid) / kl (liquid) | 4,172 / 78 | 1,853 / 0 | 2,719 / 4 | 3,699 / 0 | 3,199 / 0 | G4-EN23 | |
| Environmental regulatory non-compliances resulting in fines or prosecutions | number | 1 | 0 | 0 | 0 | 0 | G4-EN29 | |
| Environmental licence limit exceedances & other non-compliances | number | 4 | 4 | 1 | 5 | 3 | G4-EN29 | |
| **Climate Vision 2050 Target Performance (Equity Basis)** [(6)] | | | | | | | | |
| Total renewable energy generation capacity | % (MW) | 14.1 (2,660) | 16.3 (2,579) | 20.2 (2,734) | 18.3 (2,424) | 16.8 (2,286) | | |
| Non-carbon emitting generation capacity | % (MW) | 16.7 (3,152) | 19.4 (3,071) | 23.8 (3,226) | 22.0 (2,916) | 20.4 (2,778) | | |
| Carbon dioxide emissions intensity of CLP Group's generation portfolio | kg $CO_2$ / kWh | 0.84 [(7)] | 0.82 [(7)] | 0.77 | 0.80 | 0.80 | G4-EN18 | B1.2 |

Notes:
(1) Covered operating facilities where CLP has operational control for the full calendar reporting year.
(2) Includes Yallourn and Hallett facilities' $CO_2e$ emissions as $CO_2$ emissions data were not available.
(3) Data updated to align with reporting definition.
(4) The data has been independently verified at facility level by the third party.
(5) Waste categorised in accordance with local regulations.
(6) "Equity basis" includes all majority and minority share facilities in the CLP Group portfolio.
(7) CGN Wind not included as per the Greenhouse Gas Protocol due to its accounting categorisation.

*All 2014 Environmental data have been independently verified by PricewaterhouseCoopers **except** those numbers which are shaded in grey.*

# FIVE-YEAR SUMMARY: CLP GROUP STATISTICS

## Social [1]

| Performance Indicators | Units | 2014 | 2013 | 2012 | 2011 | 2010 | Global Reporting Initiative (GRI) G4 Reference | HKEx ESG Reporting Guide Reference |
|---|---|---|---|---|---|---|---|---|
| **Employees** | | | | | | | | |
| Employees based on geographical location | | | | | | | G4-9 | A1.1 |
| Hong Kong | number | 4,405 | 4,394 | 4,345 | 4,259 | 4,228 | | |
| Mainland China | number | 480 | 469 | 539 | 552 | 574 | | |
| Australia | number | 2,143 | 1,745 | 1,302 | 1,111 | 939 | | |
| India | number | 359 | 360 | 391 | 374 | 309 | | |
| Other locations (Southeast Asia & Macau) | number | – | – | 4 | 20 | 25 | | |
| Total | number | 7,387 | 6,968 | 6,581 | 6,316 | 6,075 | | |
| Employees eligible to retire within the next five years [2] | | | | | | | EU15 | |
| Hong Kong | % | 15.4% | 15.2% | 14.0% | 13.4% | 12.5% | | |
| Mainland China | % | 11.1% | 12.2% | 11.9% | 9.6% | 11.3% | | |
| Australia | % | 9.2% | 10.9% | 11.9% | 9.6% | 9.5% | | |
| India | % | 1.4% | 0.8% | 0.8% | 1.1% | 1.3% | | |
| Other locations (Southeast Asia & Macau)[3] | % | – | – | – | 0.0% | 0.0% | | |
| Total | % | 12.4% | 13.0% | 12.6% | 11.6% | 11.3% | | |
| Voluntary staff turnover rate [4][5] | | | | | | | G4-LA1 | A1.2 |
| Hong Kong | % | 2.6% | 1.9% | – | – | – | | |
| Mainland China | % | 2.5% | 2.6% | – | – | – | | |
| Australia | % | 11.6% | 9.4% | – | – | – | | |
| India | % | 13.2% | 10.1% | – | – | – | | |
| Other locations (Southeast Asia & Macau) [3] | % | – | – | – | – | – | | |
| Training Data | | | | | | | | |
| Training per employee [6][7] | average hours | 43.4 | 5.5 | 5.6 | 5.4 | 5.5 | G4-LA9 | A3.2 |
| **Safety** [8] | | | | | | | | |
| Fatalities (employees only) [9] | number | 0 | 0 | 0 | 0 | 1 | G4-LA6 | A2.1 |
| Fatalities (contractors only) [9] | number | 1 | 1 | N/A | N/A | N/A | G4-LA6 | A2.1 |
| Fatality Rate (employees only) [10] | rate | 0.00 | 0.00 | N/A | N/A | N/A | G4-LA6 | A2.1 |
| Fatality Rate (contractors only) [10] | rate | 0.01 | 0.01 | N/A | N/A | N/A | G4-LA6 | A2.1 |
| Lost Time Injury (employees only) [11] | number | 4 | 5 | N/A | N/A | N/A | G4-LA6 | |
| Lost Time Injury (contractors only) [11] | number | 19 | 28 | N/A | N/A | N/A | G4-LA6 | |
| Lost Time Injury Rate (employees only) [10][11] | rate | 0.05 | 0.06 | N/A | N/A | N/A | G4-LA6 | |
| Lost Time Injury Rate (contractors only) [10][11] | rate | 0.15 | 0.22 | N/A | N/A | N/A | G4-LA6 | |
| Total Recordable Injury Rate (employees only) [10][12] | rate | 0.26 | 0.23 | N/A | N/A | N/A | G4-LA6 | |
| Total Recordable Injury Rate (contractors only) [10][12] | rate | 0.51 | 0.50 | N/A | N/A | N/A | G4-LA6 | |
| Days lost / charged (employees only) [13] | number | 105 | 29 | 240 | 674 | 6,010 | G4-LA6 | A2.2 |
| **Governance** | | | | | | | | |
| Convicted cases of corruption | cases | 0 | 0 | 0 | 0 | 0 | G4-SO5 | C3.1 |
| Breaches of Code of Conduct | cases | 7 | 12 | 14 | 6 | 4 | | |

Notes:

(1) For detailed definitions of the Company boundaries which apply to the Employees data and Safety data, please refer to the "About this Report" chapter of the Sustainability Report.

(2) The percentages given refer to full-time permanent staff within each location, who are eligible to retire within the next five years.

(3) There were no permanent staff in "Other locations (Southeast Asia & Macau)" since 2012.

(4) Voluntary turnover is employees leaving the organisation voluntarily and does not include dismissal, retirement, separation under a separation scheme or end of contract.

(5) In Mainland China and Australia, voluntary staff turnover rates refer to both permanent and short-term employees. In all other regions, voluntary staff turnover rates refer to permanent employees only.

(6) Training data for Australia does not include Mount Piper and Wallerawang as the data is not available.

(7) Training per employee in 2014 is reported in average hours of training. Prior to 2014, Training per employee is reported in average days of training.

(8) The system of rules applied in recording and reporting accident statistics complies with the International Labour Organization (ILO) Code of Practice on Recording and Notification of Occupational Accidents and Diseases. Safety data are based on information at the time of publication.

(9) Fatality is the death of an employee or contractor personnel as a result of an occupational injury incident in the course of employment.

(10) All rates are normalised to 200,000 worked hours, which is approximately equal to the number of hours worked by 100 people in one year.

(11) Lost Time Injury is an occupational injury sustained by an employee for which the employee misses one or more scheduled workdays after the day of the injury. It does not include the day of the injury, nor days the injured person was not scheduled to work. Lost Time Injury does not include restricted work injury.

(12) Total Recordable Injury is the sum of all occupational injuries other than first aid cases, which includes all Fatalities, Lost Time Injury, Restricted Work Injury, and Medical Treatment Cases.

(13) Days lost or charged are the days that the employee was away from work because of an occupational injury or illness, measured in calendar days, not including the day of the occupational injury or illness.

*All 2014 social data have been independently verified by PricewaterhouseCoopers **except** those numbers which are shaded in grey.*

# FIVE-YEAR SUMMARY: SCHEME OF CONTROL FINANCIAL & OPERATING STATISTICS

## CLP Power Hong Kong Limited and Castle Peak Power Company Limited

| | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| **SoC Financial Statistics,** HK$M | | | | | |
| Combined Profit & Loss Statement | | | | | |
| Profit for SoC | **10,988** | 8,945 | 9,388 | 8,068 | 8,420 |
| Transfer (to)/from Tariff Stabilisation Fund | **(1,030)** | 693 | (75) | 868 | 148 |
| Permitted return | **9,958** | 9,638 | 9,313 | 8,936 | 8,568 |
| Less: Interest on/Adjustment for | | | | | |
| Borrowed capital | **856** | 887 | 859 | 841 | 763 |
| Performance (incentives)/penalties | **(49)** | (48) | (47) | (45) | (43) |
| Tariff Stabilisation Fund | **1** | 1 | 2 | 2 | 3 |
| Net return | **9,150** | 8,798 | 8,499 | 8,138 | 7,845 |
| Combined Balance Sheet | | | | | |
| Net assets employed | | | | | |
| Fixed assets | **101,420** | 97,918 | 95,243 | 91,187 | 87,713 |
| Non-current assets | **684** | 1,091 | 1,904 | 2,310 | 1,698 |
| Current assets | **6,770** | 6,778 | 11,530 | 4,913 | 4,367 |
| | **108,874** | 105,787 | 108,677 | 98,410 | 93,778 |
| Less: current liabilities | **18,518** | 17,142 | 22,248 | 17,439 | 15,194 |
| Net assets | **90,356** | 88,645 | 86,429 | 80,971 | 78,584 |
| Exchange fluctuation account | **(565)** | (939) | (907) | (1,428) | (962) |
| | **89,791** | 87,706 | 85,522 | 79,543 | 77,622 |
| Represented by | | | | | |
| Equity | **42,456** | 45,067 | 43,070 | 41,845 | 39,960 |
| Long-term loans and other borrowings | **28,340** | 26,873 | 28,254 | 25,283 | 25,248 |
| Deferred liabilities | **17,937** | 15,747 | 13,486 | 11,778 | 10,909 |
| Tariff Stabilisation Fund | **1,058** | 19 | 712 | 637 | 1,505 |
| | **89,791** | 87,706 | 85,522 | 79,543 | 77,622 |
| Other SoC Information | | | | | |
| Total electricity sales | **35,969** | 33,064 | 33,842 | 30,824 | 29,917 |
| Capital expenditure | **7,800** | 7,479 | 8,621 | 7,774 | 7,748 |
| Depreciation | **3,901** | 4,475 | 4,146 | 3,863 | 3,427 |
| **SoC Operating Statistics** | | | | | |
| Customers and Sales | | | | | |
| Number of customers (thousand) | **2,460** | 2,429 | 2,400 | 2,378 | 2,347 |
| Sales analysis, millions of kWh | | | | | |
| Commercial | **13,099** | 12,935 | 12,917 | 12,670 | 12,642 |
| Manufacturing | **1,791** | 1,832 | 1,890 | 1,886 | 1,952 |
| Residential | **9,450** | 8,658 | 8,900 | 8,594 | 8,457 |
| Infrastructure and Public Services | **8,585** | 8,358 | 8,288 | 8,018 | 7,878 |
| Local | **32,925** | 31,783 | 31,995 | 31,168 | 30,929 |
| Export | **1,226** | 1,650 | 1,838 | 2,957 | 2,609 |
| Total Electricity Sales | **34,151** | 33,433 | 33,833 | 34,125 | 33,538 |
| Annual change, % | **2.1** | (1.2) | (0.9) | 1.8 | (2.2) |
| Local consumption, kWh per person | **5,516** | 5,379 | 5,466 | 5,373 | 5,365 |
| Local sales, HK¢ per kWh (average) | | | | | |
| Basic Tariff | **88.6** | 84.0 | 84.2 | 80.1 | 80.1 |
| Fuel Cost Adjustment * | **22.4** | 22.4 | 17.8 | 14.1 | 11.5 |
| Total Tariff | **111.0** | 106.4 | 102.0 | 94.2 | 91.6 |
| Rent and Rates Special Rebate ** | **–** | (1.7) | (3.3) | – | – |
| Net Tariff | **111.0** | 104.7 | 98.7 | 94.2 | 91.6 |
| Annual change in Basic Tariff, % | **5.5** | (0.2) | 5.1 | – | 3.4 |
| Annual change in Total Tariff, % | **4.3** | 4.3 | 8.3 | 2.8 | 2.8 |
| Annual change in Net Tariff, % | **6.0** | 6.1 | 4.8 | 2.8 | 2.8 |

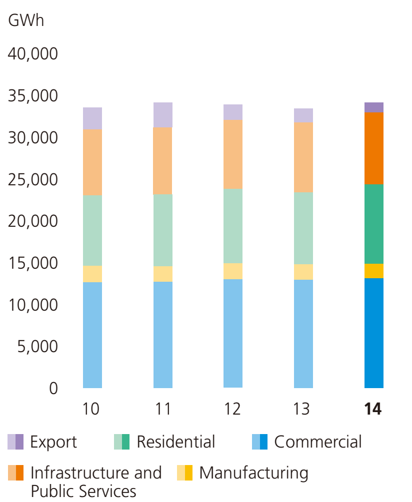
A ten-year summary is on our website

| | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| **Generation (Including Affiliated Generating Companies)** | | | | | |
| Installed capacity, MW | 8,888 | 8,888 | 8,888 | 8,888 | 8,888 |
| System maximum demand | | | | | |
| Local, MW | 7,030 | 6,699 | 6,769 | 6,702 | 6,766 |
| Annual change, % | 4.9 | (1.0) | 1.0 | (0.9) | 5.9 |
| Local and Mainland China, MW | 7,502 | 7,615 | 7,431 | 7,798 | 7,349 |
| Annual change, % | (1.5) | 2.5 | (4.7) | 6.1 | (3.5) |
| System load factor, % | 57.8 | 55.7 | 57.5 | 55.3 | 57.2 |
| Generation by CAPCO stations, millions of kWh | 27,533 | 26,994 | 25,894 | 26,800 | 26,019 |
| Sent out, millions of kWh – | | | | | |
| From own generation | 25,597 | 25,084 | 24,102 | 24,955 | 24,552 |
| Net transfer from | | | | | |
| Landfill gas generation | 3 | 4 | 3 | 5 | 5 |
| GNPS / GPSPS / Others | 10,084 | 9,757 | 11,172 | 10,558 | 10,350 |
| Total | 35,684 | 34,845 | 35,277 | 35,518 | 34,907 |
| Fuel consumed, terajoules – | | | | | |
| Oil | 1,785 | 1,491 | 7,900 | 1,044 | 844 |
| Coal | 215,367 | 205,198 | 182,651 | 188,407 | 148,229 |
| Gas | 42,465 | 47,545 | 50,420 | 57,665 | 83,007 |
| Total | 259,617 | 254,234 | 240,971 | 247,116 | 232,080 |
| Cost of fuel, HK$ per gigajoule – Overall | 39.66 | 38.02 | 40.56 | 35.33 | 34.13 |
| Thermal efficiency, % based on units sent out | 35.5 | 35.5 | 36.0 | 36.4 | 38.1 |
| Plant availability, % | 83.7 | 85.2 | 82.1 | 85.4 | 79.2 |
| **Transmission and Distribution** | | | | | |
| Network, circuit kilometres | | | | | |
| 400kV | 555 | 555 | 555 | 555 | 554 |
| 132kV | 1,643 | 1,587 | 1,581 | 1,531 | 1,528 |
| 33kV | 27 | 27 | 27 | 27 | 27 |
| 11kV | 12,475 | 12,328 | 12,074 | 11,809 | 11,658 |
| Transformers, MVA | 61,450 | 60,430 | 60,136 | 59,454 | 58,929 |
| Substations – | | | | | |
| Primary | 224 | 218 | 216 | 213 | 213 |
| Secondary | 13,845 | 13,692 | 13,536 | 13,361 | 13,208 |
| **Employees and Productivity** | | | | | |
| Number of SoC employees | 3,807 | 3,819 | 3,791 | 3,734 | 3,709 |
| Productivity, thousands of kWh per employee | 8,635 | 8,353 | 8,504 | 8,375 | 8,340 |

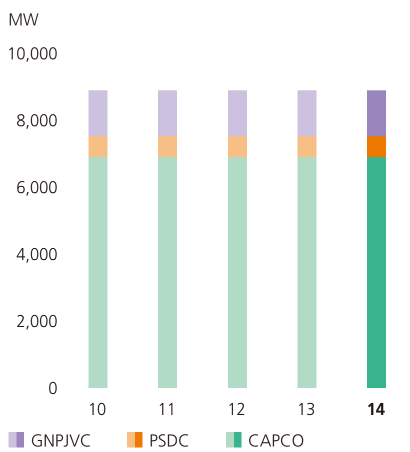
* The Fuel Cost Adjustment has replaced the Fuel Clause Charge effective from October 2014.

** While the rent and rates appeals are still progressing, CLP Power Hong Kong provided customers with a Rent and Rates Special Rebate of 3.3 cents and 2.1 cents per unit in 2012 and January to mid October 2013 respectively, rebating to customers all interim refunds received from the Government in 2012 and 2013 for overcharged rent and rates.

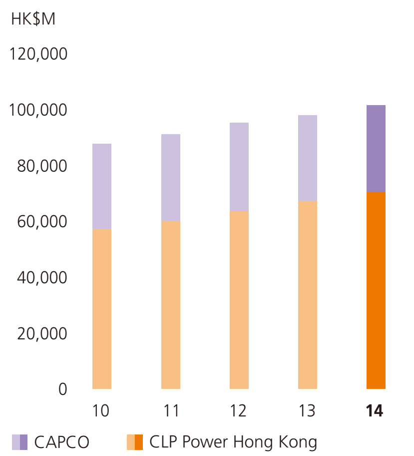
## Electricity Sales by Sector




## Installed Capacity




## SoC Net Fixed Asset



# CONTACT US

## Annual Report

Printed in English and Chinese languages, available on our website at www.clpgroup.com on 12 March 2015 and posted to Shareholders on 27 March 2015.

Those Shareholders who (a) received our 2014 Annual Report electronically and would like to receive a printed copy or vice versa; or (b) received our 2014 Annual Report in either English or Chinese language only and would like to receive a printed copy of the other language version or to receive printed copies of both language versions in the future, are requested to write to the Company Secretary or the Company's Registrars.

Shareholders may at any time change their choice of the language or means of receipt of the Company's corporate communications free of charge by notice in writing to the Company Secretary or the Company's Registrars.

## Information for American Depositary Receipts Holders

The Group's financial statements are prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS). HKFRS differ in certain respects from United States Generally Accepted Accounting Principles. The Company's duty to file or submit reports under Sections 13(a) or 15(d) of the United States Securities Exchange Act of 1934, as amended (the Exchange Act) was terminated on 30 January 2008 after the Company filed a Form 15F with the United States Securities and Exchange Commission on 31 October 2007. The information contemplated in Rule 12g3-2(b)(1)(iii) under the Exchange Act is and will be published on the Company's website.

## Annual General Meeting (AGM)

To be held on 7 May 2015. Details of the AGM including shareholders' right to demand a poll are set out in the Notice of AGM sent to Shareholders together with a proxy form on 27 March 2015.

## Register of Shareholders

To be closed on 13 March 2015 for the 2014 fourth interim dividend and closed from 5 May 2015 to 7 May 2015, both days inclusive, for the 2015 AGM.

## Company's Registrars

Computershare Hong Kong Investor Services Limited

| | |
|---|---|
| Address: | 17th Floor, Hopewell Centre,<br>183 Queen's Road East, Hong Kong |
| Telephone: | (852) 2862 8628 |
| Facsimile: | (852) 2865 0990 |
| E-mail: | hkinfo@computershare.com.hk |

## Share Listing

CLP Holdings shares are listed on the Stock Exchange of Hong Kong and are one of the eligible stocks included in Southbound trading through Shanghai-Hong Kong Stock Connect. CLP Holdings shares are also traded over the counter in the United States in the form of American Depositary Receipts.

## Our Stock Code

| | |
|---|---|
| The Stock Exchange of Hong Kong: | 00002 |
| Bloomberg: | 2 HK |
| Reuters: | 0002.HK |
| Ticker Symbol for ADR Code: | CLPHY |
| CUSIP Reference Number: | 18946Q101 |

**Address:**
8 Laguna Verde Avenue, Hung Hom, Kowloon, Hong Kong

**Telephone:**
(852) 2678 8228 (Shareholders' hotline)

**Facsimile:**
(852) 2678 8390 (Company Secretary)

**E-mail:**

| | |
|---|---|
| cosec@clp.com.hk<br>(Company Secretary) | ir@clp.com.hk<br>(Director – Investor Relations) |

**April Chan**
Company Secretary

**Angus Guthrie**
Director – Investor Relations

# HELPING OUR COMMUNITY

Every year since 2003, with the generous support of our shareholders and other stakeholders, CLP has used our Annual Report and Sustainability Report as an opportunity to support deserving community initiatives. We do this by donating HK$60 to charity for each shareholder who elects to receive our corporate communications electronically, and for each feedback that we receive on this Report, our Sustainability Report and Annual Report snapshot online. The maximum donation amount is set at HK$350,000.

Shareholders who do not yet receive their corporate communications electronically can help support this community initiative by electing for electronic communication through returning to us the notification form which accompanies this Annual Report, using the provided pre-paid mailing label or via email to cosec@clp.com.hk or clp.ecom@computershare.com.hk, on or before 30 June 2015.

2014 Beneficiaries:

## The Hub Hong Kong & Families of Spinal Muscular Atrophy (SMA) Charitable Trust

The two beneficiaries of the 2014 donation programme were selected after assessing community needs as well as the governance of the recipients. As with past years, preference is given to self-help groups or small NGOs that serve the underserved in Hong Kong.

The Hub Hong Kong is a NGO dedicated to facilitating disadvantaged children to study, learn and enrich their social life by creating a centre – or hub – with a range of caring and developmental services. The Hub Hong Kong was founded in Sham Shui Po in 2013. It plans to use CLP's support to launch a training programme for children and youngsters from low income families. The training will focus on environmental protection and leadership, with hopes to broaden the participants' horizons and enhance their communication and social skills. After the training, they are expected to take part in volunteering services to contribute to the community.

Families of SMA Charitable Trust provides life-saving and life-sustaining paramedical machinery, financial assistance, self-help programmes and outings for SMA patients and their families. The organisation plans to utilise CLP's funding to launch an online media platform to share the stories of SMA patients. This project aims to enhance the awareness of SMA and encourage patients to communicate more with the outside world.

2013 Beneficiaries:

## KELY Support Group & Society for the Welfare of the Autistic Persons

Last year, we supported the KELY Support Group and the Society for the Welfare of the Autistic Persons (SWAP).

The KELY Support Group used our donations to expand its "Growing Up with KELY" programme to help 770 young ethnic minorities and new immigrants at two local schools. With the aim of early identification and rapid response for youth deemed to be "at risk", the programme was designed to boost positive and protective factors to decrease the likelihood of high risk behaviours. The programme had a participation rate of around 98%, where 80% of the participating youth indicated that they would recommend this programme to their peers.

SWAP will apply our donation to hold a five-week summer camp for children with severe Autistic Spectrum Disorder (ASD) in July and August this year. It is also working on a booklet for ASD children to help raise their self-awareness and self-acceptance which is scheduled to come out in early 2016.

**This year, as every year, we thank you for your support.**

# CLP welcomes your views...

CLP 中電

## Section A – Feedback on 2014 Annual Report

The Annual Report is a key document in the communication between us and our shareholders and other stakeholders.

1. To enhance the quality of our annual reporting, please let us have your views, by circling the appropriate number below.

| | | Easy to understand? | | | | Did this provide helpful information? | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | strongly disagree | | | strongly agree | strongly disagree | | | strongly agree |
| 1 | A Snapshot of CLP in 2014 | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
| 7 | Chairman's Statement | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
| 11 | CEO's Strategic Review | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
| 18 | Our Assets and Investments | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
| 22 | Shareholder Value and Engagement | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
| **Financial Review** | | | | | | | | | |
| 28 | Financial Review | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
| **Performance and Business Outlook** | | | | | | | | | |
| 44 | Hong Kong | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
| 54 | Mainland China | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
| 61 | India | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
| 68 | Southeast Asia and Taiwan | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
| 71 | Australia | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
| **Capitals** | | | | | | | | | |
| 80 | Financial Capital – our funding resources and capability | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
| 90 | Natural Capital – our respect for the environment | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
| 93 | Human Capital – our people and safety performance | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
| 98 | Social and Relationship Capital – our values and commitment to serve | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
| 101 | Intellectual Capital – our expertise | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
| **Governance** | | | | | | | | | |
| 110 | Corporate Governance Report | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
| 132 | Risk Management Report | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
| 142 | Audit Committee Report | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
| 145 | Sustainability Committee Report | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
| 150 | Human Resources & Remuneration Committee Report | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
| 164 | Directors' Report | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
| **Financials** | | | | | | | | | |
| 182 | Approaching Our Financial Statements | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
| 184 | Accounting Mini-series | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
| 188 | Financial Statements | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
| Questions and Answers with CLP Management | | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
| A Snapshot of 2014 Annual Report (Online Version) | | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |

2. Your overall rating of this Annual Report is:
(Please " ✔ " appropriate circle)

Poor ◯ Fair ◯ Good ◯ Very Good ◯ Excellent ◯

.../cont'd

3. Was there any additional information you expected to receive in the Annual Report? Please specify.

4. Do you have any question to be addressed in next year's Annual Report or answered on the "Frequently Asked Questions" section of the Company's website? If so, please ask.

5. Any other comments / suggestions?

## Section B – Request for Additional Information

Our Annual Report identifies those areas where additional information, beyond that set out in the Report itself, is available through our website (www.clpgroup.com) or in other printed publications.

You can get hard copies of that web information (if you do not have ready access to the internet) and / or printed copies of other publications by indicating as appropriate below:

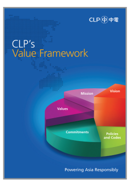
Name of Shareholder(s)

Address

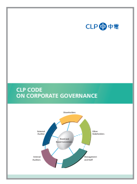
(Please " ✔ " appropriate circle)

○ Web Information Required (Please specify which)

○ CLP's Value Framework (2013 update)




○ CLP Code on Corporate Governance (2015 update)




**Please send your feedback or requests for additional information to CLP Holdings Limited by:**

i) cutting and sticking the mailing label below on an envelope to CLP Holdings' Registrars, Computershare Hong Kong Investor Services Limited

ii) fax: (852) 2678 8390

iii) e-mail: cosec@clp.com.hk

## PERSONAL INFORMATION COLLECTION STATEMENT

"Personal Data" in this statement has the same meaning as "personal data" in the Personal Data (Privacy) Ordinance, Cap 486 (PDPO), which will include your name, mailing address and your opinion.

Your Personal Data provided in this form may be used in connection with our management of your request, inquiry, comments and suggestions or conducting and publishing statistical and data analysis. Your supply of Personal Data is on a voluntary basis. However, we may not be able to follow up your request or inquiry unless you provide us with your Personal Data.

Your Personal Data will not be transferred to any third party.

Your Personal Data will be retained for such period as may be necessary for the above purposes and its directly related purpose(s) and will be destroyed within two years after the date of receipt of your Personal Data.

You have the right to request access to and/or correction of your Personal Data in accordance with the provisions of the PDPO. Any such request for access to and/or correction of your Personal Data should be in writing by either of the following means:

By mail to: Personal Data Privacy Officer
Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

By e-mail to: hkinfo@computershare.com.hk

## MAILING LABEL

Please cut the mailing label and stick it on an envelope to return your feedback to us.

***No postage is necessary if posted in Hong Kong.***

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