

IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY PERSON OR ADDRESS IN THE UNITED STATES

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NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES (THE “**SECURITIES**”) AND THE GUARANTEE DESCRIBED HEREIN HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”) AND, SUBJECT TO CERTAIN EXCEPTIONS, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT).

THIS OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY ADDRESS IN THE UNITED STATES. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED HEREIN.

Confirmation of your Representation: In order to be eligible to view this Offering Circular or make an investment decision with respect to the Securities described herein, investors must not be located in the United States. The Offering Circular is being sent at your request and by accepting the e-mail and accessing this Offering Circular, you shall be deemed to have represented to Crédit Agricole Corporate and Investment Bank, J.P. Morgan Securities plc, the Hongkong and Shanghai Banking Corporation Limited, Mizuho Securities Asia Limited and Standard Chartered Bank (Hong Kong) Limited (together, the “**Joint Bookrunners**” or the “**Joint Lead Managers**”) that your stated electronic mail address to which this e-mail has been delivered is not located in the United States and that you consent to delivery of this Offering Circular by electronic transmission.

You are reminded that this Offering Circular has been delivered to you on the basis that you are a person into whose possession this Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Offering Circular to any other person.

The materials relating to the offering of the Securities do not constitute, and may not be used in connection with, an offer or solicitation by or on behalf of the Issuer (as defined in the Offering Circular), the Guarantor (as defined in the Offering Circular) and the Joint Lead Managers in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering of the Securities be made by a licensed broker or dealer and the Joint Lead Managers or any affiliate of the Joint Lead Managers are licensed brokers or dealers in that jurisdiction, the offering of the Securities shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of the Issuer in such jurisdiction.

This Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Joint Lead Managers, nor any person who controls any of them nor any of their respective directors, officers, employees, agents or affiliates accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers. You are responsible for protecting against viruses and other destructive items. Your use of this electronic mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.



CLP Power HK Finance Ltd.

(incorporated in the British Virgin Islands with limited liability)

U.S.\$500,000,000

Perpetual Subordinated Guaranteed Capital Securities

unconditionally and irrevocably guaranteed by

CLP Power Hong Kong Limited

中華電力有限公司

(incorporated in Hong Kong with limited liability)

Issue price: 99.767 per cent.

Perpetual Subordinated Guaranteed Capital Securities (the "Securities") will be issued in an initial aggregate principal amount of U.S.\$500,000,000 by CLP Power HK Finance Ltd. (the "Issuer") and will be unconditionally and irrevocably guaranteed on a subordinated basis (the "Guarantee") by CLP Power Hong Kong Limited (the "Company", the "Guarantor" or "CLP Power"). Subject to the provisions of the Securities relating to deferral of Distributions (see "Terms and Conditions of the Securities- Distributions- Distribution Deferral"), the Securities confer a right to receive distributions (each a "Distribution") payable semi-annually in arrear on 6th February and 6th August of each year (each a "Distribution Payment Date"): (i) in respect of the period from, and including, 6th November, 2019 (the "Issue Date"), to, but excluding, 6th February, 2025 (the "First Reset Date") at 3.55 per cent. per annum and, with respect to the First Distribution Payment Date only, such distribution will amount to U.S.\$8.875 per Calculation Amount; (ii) in respect of the period from, and including, the First Reset Date to, but excluding, 6th February, 2030 (the "First Step-up Date"), shall be a fixed rate per annum (expressed as a percentage) equal to the sum of: (1) the then prevailing U.S. Treasury Rate; and (2) the Initial Spread; (iii) in respect of the period from, and including, the First Step-up Date to, but excluding, 6th February, 2045 (the "Second Step-up Date"), the Distribution Rate shall be reset on each Reset Date to a fixed rate per annum (expressed as a percentage) equal to the sum of: (1) the then-prevailing U.S. Treasury Rate; (2) the Initial Spread; and (3) 0.25 per cent. (the "Initial Step-up Margin"); (iv) in respect of the period from, and including, each Reset Date falling after the Second Step-up Date to, but excluding, the immediately following Reset Date, the Distribution Rate shall be reset on each Reset Date to a fixed rate per annum (expressed as a percentage) equal to the sum of: (1) the then-prevailing U.S. Treasury Rate; (2) the Initial Spread; (3) the Initial Step-up Margin; and (4) 0.75 per cent. (the "Second Step-up Margin") (see further "Terms and Conditions of the Securities").

The Issuer may, at its sole discretion, elect to defer (in whole or in part) any Distribution which is otherwise scheduled to be paid on a Distribution Payment Date to the next Distribution Payment Date by giving notice to the holders of the Securities (the "Holders", and each, a "Holder"), the Trustee and the Principal Paying Agent not more than ten business days nor less than five business days prior to a scheduled Distribution Payment Date, unless a Compulsory Distribution Payment Event (as defined in "Terms and Conditions of the Securities") has occurred. Any Distribution so deferred shall remain outstanding in full and constitute "Arrears of Distribution" and the Issuer and the Guarantor shall be subject to the restrictions as described in "Terms and Conditions of the Securities — Distribution Deferral- Restrictions in the case of Deferral". Each amount of Arrears of Distribution shall bear interest as if it constituted the principal of the Securities at the prevailing Distribution Rate (such interest amount, the "Additional Distribution Amount"). Save for certain restrictions, the Issuer may, at its sole discretion, elect to further defer any Arrears of Distribution by complying with the foregoing notice requirement and is not subject to any limit as to the number of times Distributions and Arrears of Distribution can or shall be deferred. See "Terms and Conditions of the Securities- Distribution- Distribution Deferral".

The Securities are perpetual securities in respect of which there is no fixed redemption date. However, the Issuer may, on giving not more than 60 nor less than 30 days' irrevocable notice to the Trustee and the Holders, redeem all but not some only of the Securities: (i) on any date during the period commencing on (and including) 6th November, 2024 up to (and including) the First Reset Date or on any Distribution Payment Date thereafter at their principal amount together with any Distributions accrued to but excluding the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount); (ii) upon the occurrence of a Gross-Up Event (as defined in "Terms and Conditions of the Securities") at their principal amount together with any Distributions accrued to but excluding the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount); (iii) upon the occurrence and/or pending occurrence of an Equity Credit Classification Event or an Accounting Event (each as defined in "Terms and Conditions of the Securities") at: (A) 101 per cent. of their principal amount together with any Distributions accrued to but excluding the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount) if such redemption occurs prior to 6th November, 2024 (being the date that falls three months prior to the First Reset Date); or (B) their principal amount (together with any Distribution accrued to but excluding the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount)) if such redemption occurs on or after 6th November, 2024 (being the date that falls three months prior to the First Reset Date), or (iv) if the aggregate principal amount of the Securities outstanding is less than 25 per cent. of the aggregate principal amount originally issued, at their principal amount, together with any Distribution accrued to but excluding the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount). See "Terms and Conditions of the Securities- Redemption and Purchase".

Application will be made to The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") for the listing of, and permission to deal in, the Securities by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange and in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) ("Professional Investors") only on the Hong Kong Stock Exchange. **Investors should not purchase the Securities in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Securities are only suitable for Professional Investors.**

The Hong Kong Stock Exchange has not reviewed the contents of this Offering Circular, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this Offering Circular to Professional Investors only have been reproduced in this document. Listing of the Securities on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Securities or the Issuer and Guarantor, where applicable, or quality of disclosure in this Offering Circular. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular.

Investing in the Securities involves certain risks. See "Risk Factors" beginning on page 18.

The Securities and the Guarantee described in this Offering Circular have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "Securities Act") and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("Regulation S")). For a description of these and certain further restrictions on offers and sales of the Securities and the distribution of this Offering Circular, see "Subscription and Sale".

The Securities are expected to be rated "A3" by Moody's Investors Service, Inc. ("Moody's") and "A-" by S&P Global Ratings, a division of S&P Global Inc. ("S&P"). Such ratings of the Securities do not constitute a recommendation to buy, sell or hold the Securities and may be subject to revision or withdrawal at any time by either such rating organisation. Each such rating should be evaluated independently of any other rating of the Securities, the Issuer's or the Guarantor's other securities or of the Issuer or the Guarantor.

The Securities will initially be represented by beneficial interests in a global certificate (the "Global Certificate") in registered form which will be registered in the name of a nominee of, and shall be deposited on or about the Issue Date with, a common depository for Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking S.A. ("Clearstream, Luxembourg"). Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg. Except as described in the Global Certificate, certificates for the Securities will not be issued in exchange for interests in the Global Certificate.

IMPORTANT — EEA RETAIL INVESTORS — The Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "Insurance Distribution Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "PRIIPs Regulation") for offering or selling the Securities or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Securities or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

Singapore SFA Product Classification — In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "SFA") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "CMP Regulations 2018"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309(A)(1) of the SFA), that the Securities are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Joint Bookrunners and Joint Lead Managers

Crédit
Agricole CIB

HSBC

J.P. Morgan

Mizuho
Securities

Standard
Chartered Bank

Offering Circular dated 23rd October, 2019

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

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

Each person receiving this Offering Circular acknowledges that such person has not relied on the managers named in the section entitled “*Subscription and Sale*” (each a “**Joint Lead Manager**” or “**Joint Bookrunner**” and together, the “**Joint Lead Managers**” or “**Joint Bookrunners**”), any other person affiliated with the Joint Lead Managers, the Trustee (as defined in the section entitled “*Terms and Conditions of the Securities*” (the “**Terms and Conditions**” or “**Conditions**”)) or the Agents (as defined in the Terms and Conditions) in connection with its investigation of the accuracy of such information or its investment decision.

No person has been or is authorised to give any information or to make any representation not contained in this Offering Circular and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, the Guarantor, the Joint Lead Managers, the Trustee or the Agents. The delivery of this Offering Circular at any time does not imply that the information contained herein is correct as at any time subsequent to its date. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor, any of the Joint Lead Managers, the Trustee or the Agents to subscribe for or purchase, any of the Securities and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful. The distribution of this Offering Circular and the offering of the Securities in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor, and the Joint Lead Managers to inform themselves about and to observe any such restrictions. Distribution of this Offering Circular to any person other than the recipient is prohibited. For a description of certain further restrictions on offers and sales of Securities and the distribution of this Offering Circular, see “*Subscription and Sale*”.

None of the Joint Lead Managers, the Trustee (as defined in the Terms and Conditions) or the Agents (as defined in the Terms and Conditions) or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers has independently verified the information contained in this Offering Circular. Accordingly, no representation or warranty, express or implied, is made or given by any of the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by any of the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers. This Offering Circular is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by the Issuer, the Guarantor, any of the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers that any recipient of this Offering Circular should purchase the Securities. Each person receiving this Offering Circular acknowledges that such person has not relied on the Joint Lead Managers, the Trustee, the Agents or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers in connection with its investigation of the accuracy of such information or its investment decision, and each such person must rely on its own examination of the Issuer, the Guarantor and the Group (as defined below) and the merits and risks involved in investing the Securities. See “*Risk Factors*” for a discussion of certain factors to be considered in connection with an investment in the Securities. Each investor contemplating purchasing Securities should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and the Guarantor. Each potential

purchaser of the Securities should determine for itself the relevance of the information contained in this Offering Circular and its purchase of the Securities should be based upon such investigations with its own tax, legal and business advisors as it deems necessary.

To the fullest extent permitted by law, none of the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers accepts any responsibility for the contents of this Offering Circular. Each of the Joint Lead Managers, the Trustee and the Agents and their respective affiliates, directors, officers, employees, representatives, agents or advisers accordingly disclaims all and any liability, whether arising in tort or contract or otherwise, which it might otherwise have in respect of this Offering Circular or any such statement. None of the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers undertakes to review the results of operations, financial condition or affairs of the Issuer, the Guarantor or the Group during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Securities of any information coming to the attention of the Joint Lead Managers, the Trustee or the Agents or any of their affiliates, directors, officers, employees, representatives, agents or advisers.

Listing of the Securities on the Hong Kong Stock Exchange is not to be taken as an indication of the merits of the Issuer, the Guarantor, the Group, the Securities or the Guarantee. In making an investment decision, prospective investors must rely on their examination of the Issuer, the Guarantor, the Group and the terms of this offering, including the merits and risks involved. The Securities have not been approved or recommended by any Hong Kong or other regulatory authority. Furthermore, the foregoing authorities have not passed upon or endorsed the merits of the offering or confirmed the accuracy or determined the adequacy of this Offering Circular.

IN CONNECTION WITH THE ISSUE OF THE SECURITIES, THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED (THE “STABILISING MANAGER”) OR ANY PERSON ACTING ON ITS BEHALF MAY, SUBJECT TO APPLICABLE LAWS, OVER-ALLOT SECURITIES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE SECURITIES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR ANY PERSON ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE SECURITIES IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE SECURITIES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE SECURITIES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILISING MANAGER(S) (OR PERSON(S) ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

None of the Issuer, the Guarantor, the Joint Lead Managers, the Trustee, the Agents or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers is making any representation to any offeree or purchaser of the Securities offered hereby regarding the legality of any investment by such offeree or purchaser under applicable legal investment or similar laws. Each prospective purchaser of the Securities should consult with its own advisors as to legal, tax, business, financial and related aspects of a purchase of the Securities.

The distribution of this Offering Circular and the offer and sale of the Securities may, in certain jurisdictions, be restricted by law. Each purchaser of the Securities must comply with all applicable laws and regulations in force in each jurisdiction in which it purchases, offers or sells the Securities or possesses or distributes this Offering Circular, and must obtain any consent, approval or permission required for the purchase, offer or sale by it of the Securities under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes purchases, offers or sales. There are restrictions on the offer and sale of the Securities, and the circulation of documents relating thereto, in certain jurisdictions, including the United States, the European Economic Area, the United Kingdom, Hong Kong, the PRC, the British Virgin Islands, Japan and Singapore, and to persons connected therewith. See “*Subscription and Sale*”.

Presentation of Financial Information

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

Certain Definitions

All references in this Offering Circular to “**U.S. dollars**”, “**US dollars**”, “**U.S.\$**” refer to the currency of the United States of America, to “**Hong Kong dollars**” and “**HK\$**” refer to the currency of Hong Kong, to “**Sterling**” and “**£**” refer to the currency of the United Kingdom, to “**euro**” and “**€**” refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended from time to time, to “**JPY**” refer to the currency of Japan and to “**A\$**” refer to the currency of Australia. References to “**HKFRS**” are to Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and references to “**IFRS**” are to International Financial Reporting Standards issued by the International Accounting Standards Board (“**IASB**”).

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

In this Offering Circular, “**GWh**” is the abbreviation for Gigawatt-hour, “**kWh**” is the abbreviation for kilowatt-hour and “**MW**” is the abbreviation for megawatt.

References in this Offering Circular to the “**Group**” are to CLP Power and all of its direct and indirect subsidiaries.

FORWARD-LOOKING STATEMENTS

There are statements in this Offering Circular which contain words and phrases such as “aim”, “anticipate”, “assume”, “believe”, “contemplate”, “continue”, “estimate”, “expect”, “future”, “goal”, “intend”, “may”, “objective”, “predict”, “positioned”, “project”, “risk”, “seek to”, “shall”, “should”, “will likely result”, “will pursue”, “plan” and words and terms of similar substance used in connection with any discussion of future operating or financial performance or the Group’s expectations, plans, projections or business prospects identify forward-looking statements. In particular, the statements under the headings “*Risk Factors*” and “*Description of the Guarantor*” regarding the Group’s financial condition and other future events or prospects are forward-looking statements. All forward-looking statements are management’s present expectations of future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements.

In addition to the risks under “*Risk Factors*”, other factors could cause actual results to differ materially from those described in the forward-looking statements. These factors include, but are not limited to:

- the continued performance by CLP Power’s suppliers of coal, oil and natural gas for CLP Power’s core business in Hong Kong;
- future developments and competition in the power generation industry in Hong Kong;
- timely receipt of appropriate regulatory approvals for CLP Power’s planned business activities, which may affect CLP Power’s cash flows, operations and capital expenditures;
- CLP Power’s ability to implement its business strategy successfully, including its investment in emerging energy projects, to increase profitability;
- any changes in government regulation and oversight of CLP Power’s operations, pricing practices or organisational structure; or
- the condition of and changes in the Hong Kong or PRC economies.

By their nature, certain disclosures relating to these and other risks are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains, losses or impact on the Group’s income or results of operations could materially differ from those that have been estimated. For example, turnover could decrease, costs could increase, capital costs could increase, capital investment could be delayed and anticipated improvements in performance might not be fully realised.

Investors are cautioned not to place undue reliance on the forward-looking statements, which speak only as at the date of this Offering Circular. Except as required by law, the Group is not under any obligation, and expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

All subsequent forward-looking statements attributable to the Group or any person acting on their behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this Offering Circular.

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THE OFFERING

This is a summary of the Terms and Conditions. Please refer to “Terms and Conditions of the Securities” for a detailed description of the Terms and Conditions. Capitalised terms used in this summary and not otherwise defined shall have the meanings given to them in “Terms and Conditions of the Securities”.

Issuer	CLP Power HK Finance Ltd.
Guarantor	CLP Power Hong Kong Limited (中華電力有限公司).
Issue	U.S.\$500,000,000 Perpetual Subordinated Guaranteed Capital Securities.
Guarantee	The Guarantor has irrevocably and unconditionally guaranteed on a subordinated basis the due payment of all sums expressed to be payable by the Issuer under the Securities and the Trust Deed. The obligations of the Guarantor in that respect (the “ Guarantee ”) are contained in the Trust Deed, including, but not limited to, an undertaking from the Guarantor that for so long as any of the Securities remains outstanding, the Issuer shall at all times remain a wholly-owned Subsidiary of the Guarantor, whether directly or indirectly.
Status and Subordination of the Securities	The Securities will constitute direct, unconditional, unsecured and subordinated obligations of the Issuer and shall at all times rank <i>pari passu</i> without any preference among themselves. The payment obligations of the Issuer under the Securities shall, save for such exceptions as may be provided for under applicable laws, at all times rank equally with all Parity Obligations of the Issuer. The rights and claims of the Holders in respect of the Securities are subordinated as provided in Condition 3.

Subject to the insolvency laws of the British Virgin Islands and other applicable laws, in the event of the Winding-Up of the Issuer, there shall be payable by the Issuer in respect of each Security (in lieu of any other payment by the Issuer), such amount, if any, as would have been payable to the Holder of such Security if, on the day prior to the commencement of the Winding-Up of the Issuer, and thereafter, such Holder were the holder of one Issuer Notional Preference Share having an equal right to return of assets in the Winding-Up of the Issuer and so ranking *pari passu* with the holders of that class or those classes of preference shares (if any) which have a preferential right to return of assets in the Winding-Up over, and so rank in priority to the holders of, Junior Obligations of the Issuer, but subordinated to the claims of all other present and future creditors of the Issuer (other than Parity Obligations of the Issuer), on the assumption that the amount that such Holder of a Security is entitled to receive in respect of each Issuer Notional Preference Share on a return of assets in such Winding-Up is an amount equal to the principal amount (and any applicable premium outstanding) of the relevant Security together with accrued and unpaid Distributions (including any Arrears of Distribution or any Additional Distribution Amount).

**Status and Subordination
of the Guarantee**

The obligations of the Guarantor under the Guarantee will constitute direct, unconditional, unsecured and subordinated obligations of the Guarantor. The payment obligations of the Guarantor under the Guarantee shall, save for such exceptions as may be provided for under applicable laws, at all times rank equally with all Parity Obligations of the Guarantor. The rights and claims of the Holders in respect of the Guarantee are subordinated as provided in Condition 4.

Subject to the insolvency laws of Hong Kong and other applicable laws and a claim arising under the Guarantee, in the event of the Winding-Up of the Guarantor, there shall be payable by the Guarantor in respect of each Security (in lieu of any other payment by the Guarantor), such amount, if any, as would have been payable to the Holder of such Security if, on the day prior to the commencement of the Winding-Up of the Guarantor, and thereafter, such Holder were the holder of one Guarantor Notional Preference Share having an equal right to return of assets in the Winding-Up of the Guarantor and so ranking *pari passu* with the holders of that class or those classes of preference shares (if any) which have a preferential right to return of assets in the Winding-Up over, and so rank in priority to the holders of, Junior Obligations of the Guarantor, but subordinated to the claims of all other present and future creditors of the Guarantor (other than Parity Obligations of the Guarantor), on the assumption that the amount that such Holder of a Security is entitled to receive in respect of each Guarantor Notional Preference Share on a return of assets in such Winding-Up is an amount equal to the principal amount (and any applicable premium outstanding) of the relevant Security together with accrued and unpaid Distributions (including any Arrears of Distribution or any Additional Distribution Amount).

Set-off.

Subject to applicable laws, no Holder may exercise, claim or plead any right of set-off, deduction, withholding or retention in respect of any amount owed to it by the Issuer or the Guarantor in respect of, or arising under or in connection with the Securities or the Guarantee, as the case may be, and each Holder shall, by virtue of his holding of any Securities, be deemed to have waived all such rights of set-off, deduction, withholding or retention against the Issuer or the Guarantor. Notwithstanding the preceding sentence, if any of the amounts owing to any Holder by the Issuer or the Guarantor in respect of, or arising under or in connection with the Securities or the Guarantee, as the case may be, is discharged by set-off, such Holder shall, subject to applicable laws, immediately pay an amount equal to the amount of such discharge to the Issuer or the Guarantor (or, in the event of its Winding-Up or administration, the liquidator or, as appropriate, administrator of the Issuer or the Guarantor, as the case may be) and, until such time as payment is made, shall hold such amount in trust for the Issuer or the Guarantor, as the case may be (or the liquidator or, as appropriate, administrator of the Issuer or the Guarantor, as the case may be), and accordingly any such discharge shall be deemed not to have taken place.

Issue Price.

99.767 per cent.

Form and Denomination.

The Securities are issued in registered form in denomination of U.S.\$200,000 and higher multiples of U.S.\$1,000 in excess thereof.

Distributions Subject to Condition 5(d), the Securities confer a right to receive distributions (each a “**Distribution**”) in arrear:

- (i) in respect of the period from, and including, the Issue Date to, but excluding, 6th February, 2025 (the “**First Reset Date**”), a fixed rate per annum of 3.55 per cent. per annum and, with respect to the First Distribution Payment Date only, such distribution will amount to U.S.\$8.875 per Calculation Amount;
- (ii) in respect of the period from, and including, the First Reset Date to, but excluding, 6th February, 2030 (the “**First Step-up Date**”), a fixed rate per annum (expressed as a percentage) equal to the sum of:
 - (a) the then prevailing U.S. Treasury Rate; and
 - (b) the Initial Spread;
- (iii) in respect of the period from, and including, the First Step-up Date to, but excluding, 6th February, 2045 (the “**Second Step-up Date**”), a fixed rate per annum (expressed as a percentage) equal to the sum of:
 - (a) the then-prevailing U.S. Treasury Rate;
 - (b) the Initial Spread; and
 - (c) the Initial Step-up Margin;
- (iv) in respect of the period from, and including, each Reset Date falling after the Second Step-up Date to, but excluding, the immediately following Reset Date, shall be a fixed rate per annum (expressed as a percentage) equal to the sum of:
 - (a) the then-prevailing U.S. Treasury Rate;
 - (b) the Initial Spread;
 - (c) the Initial Step-up Margin; and
 - (d) the Second Step-up Margin,

where the:

“**Initial Spread**” means 2.041 per cent. per annum.

“**Initial Step-up Margin**” means 0.25 per cent. per annum.

“**Second Step-up Margin**” means 0.75 per cent. per annum.

Distribution Payment Date 6th February and 6th August of each year (each a “**Distribution Payment Date**”) commencing on 6th February, 2020.

Distribution Deferral The Issuer may, at its sole discretion, elect to defer (in whole or in part) any Distribution which is otherwise scheduled to be paid on a Distribution Payment Date to the next Distribution Payment Date by giving notice to the Holders, the Trustee and the Principal Paying Agent not more than ten business days nor less than five business days prior to a scheduled Distribution Payment Date unless a Compulsory Distribution Payment Event has occurred.

Arrears of Distribution. Any Distribution deferred pursuant to Condition 5(d) shall constitute “**Arrears of Distribution**”. The Issuer may, at its sole discretion, elect (in the circumstances set out in Condition 5(d)(i)) to defer further any Arrears of Distribution by complying with the foregoing notice requirement applicable to any deferral of an accrued Distribution. The Issuer is not subject to any limit as to the number of times Distributions and Arrears of Distribution can or shall be deferred pursuant to Condition 5(d) except that Condition 5(d)(v) shall be complied with until all outstanding Arrears of Distribution have been paid in full.

Each amount of Arrears of Distribution shall bear interest as if it constituted the principal of the Securities at the prevailing Distribution Rate and the amount of such interest (the “**Additional Distribution Amount**”) with respect to Arrears of Distribution shall be due and payable pursuant to Condition 5 and shall be calculated by applying the applicable Distribution Rate to the amount of the Arrears of Distribution and otherwise *mutatis mutandis* as provided in the provisions of Condition 5. The Additional Distribution Amount accrued up to any Distribution Payment Date shall be added (for the purpose of calculating the Additional Distribution Amount accruing thereafter) to the amount of Arrears of Distribution remaining unpaid on such Distribution Payment Date so that it will itself become Arrears of Distribution.

Restrictions in the case of Deferral If, on any Distribution Payment Date, payment of all Distribution payments scheduled to be made on such date is not made in full, each of the Issuer and the Guarantor shall not, and each shall procure that none of its Subsidiaries will:

- (A) declare or pay any dividends or distributions or make any other payment, and will procure that no dividend, distribution or other payment is made, on any of the Junior Obligations or Parity Obligations of the Issuer or the Guarantor save that such restriction shall not apply to payments in respect of:
 - (1) any employee benefit plan or similar arrangements with or for the benefit of employees, officers, directors or consultants; or
 - (2) any of the Parity Obligations of the Issuer or the Guarantor made on a *pro rata* basis; or

(B) redeem, reduce, cancel, buy-back or acquire for any consideration any of the Junior Obligations or Parity Obligations of the Issuer or the Guarantor other than:

(1) a repurchase or other acquisition of securities in respect of an employment benefit plan or similar arrangement with or for the benefit of employees, officers, directors or consultants; or

(2) as a result of the exchange or conversion of the Parity Obligations of the Issuer or the Guarantor for the Junior Obligations of the Issuer or the Guarantor, as the case may be,

in each case, unless and until:

(X) the Issuer or the Guarantor, as the case may be, has satisfied in full all outstanding Arrears of Distribution and Additional Distribution Amounts; or

(Y) the Issuer, the Guarantor or the relevant Subsidiary of the Issuer or the Guarantor is permitted to do so by an Extraordinary Resolution of the Holders.

Satisfaction of Arrears of Distribution

The Issuer:

(A) may satisfy any Arrears of Distribution (in whole or in part) at any time by giving notice of such election to the Holders, the Trustee and the Principal Paying Agent not more than 20 business days nor less than five business days prior to the relevant payment date specified in such notice (which notice is irrevocable and shall oblige the Issuer to pay the relevant Arrears of Distribution and all Additional Distribution Amounts on the payment date specified in such notice); and

(B) in any event shall satisfy any outstanding Arrears of Distribution and any Additional Distribution Amount (in whole but not in part) on the earliest of:

(i) the date of redemption of the Securities in accordance with the redemption events set out in Condition 6;

(ii) the next Distribution Payment Date following the occurrence of a Compulsory Distribution Payment Event;

(iii) the date on which an order is made or an effective resolution is passed for Winding-Up of the Issuer or the Guarantor; and

(iv) the date of any substitution or variation in accordance with Condition 12(c).

Expected Issue Date 6th November, 2019.

Maturity Date There is no maturity date.

Redemption at the option of the Issuer

The Issuer may, on giving not more than 60 nor less than 30 days’ irrevocable notice to the Trustee and the Principal Paying Agent in writing and to the Holders (in accordance with Condition 15), redeem all but not some only of the Securities on

- (i) any date during the period commencing on (and including) 6th November, 2024 up to (and including) the First Reset Date; or
- (ii) on any Distribution Payment Date thereafter,

(each such date being a “Call Date”). On expiry of such notice, the Issuer shall be bound to redeem the Securities on the relevant Call Date at their principal amount together with any Distribution accrued to but excluding the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount).

Redemption for a Gross-up Event

The Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not more than 60 nor less than 30 days’ irrevocable notice to the Trustee and the Principal Paying Agent in writing and to the Holders (in accordance with Condition 15) at their principal amount (together with any Distribution accrued to but excluding the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount)) if the Issuer or the Guarantor, as the case may be, satisfies the Trustee prior to the giving of such notice and in accordance with the Trust Deed that:

- (i) the Issuer or, if the Guarantee were called, the Guarantor has or will become obliged to pay Additional Tax Amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of any Relevant Jurisdiction, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 23rd October, 2019; and
- (ii) such obligation cannot be avoided by the Issuer or, as the case may be, the Guarantor taking reasonable measures available to it.

Upon the expiry of any such notice as is referred to in Condition 6(c), the Issuer shall be bound to redeem the Securities in accordance with Condition 6(c). No such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or, as the case may be, the Guarantor would be obliged to pay such Additional Tax Amounts were a payment in respect of the Securities then payable.

Redemption upon an Equity Credit Classification.

The Issuer may, at any time, on giving not more than 60 nor less than 30 days’ irrevocable notice to the Trustee and the Principal Paying Agent in writing and to the Holders (in accordance with Condition 15), redeem all but not some only of the Securities at:

- (i) 101 per cent. of their principal amount (together with any Distribution accrued to but excluding the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount)) if such redemption occurs prior to 6th November, 2024 (being the date that falls three months prior to the First Reset Date); or

- (ii) their principal amount (together with any Distribution accrued to but excluding the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount)) if such redemption occurs on or after 6th November, 2024 (being the date that falls three months prior to the First Reset Date),

if, immediately before giving such notice, an amendment, clarification or change has occurred or will occur in the equity credit for the Securities granted by S&P, Moody's or any other rating agency of equivalent international standing requested from time to time by the Guarantor to grant an equity classification to the Securities and, in each case, any of their respective successors to the rating business thereof (each a "**Rating Agency**" and together, the "**Rating Agencies**"), which amendment, clarification or change results or will result in an equity credit for the Securities being:

- (1) in the case of S&P, lower than the equity credit assigned immediately prior to that relevant amendment, clarification or change; or
- (2) in the case of Moody's, lower than the equity credit assigned immediately prior to that relevant amendment, clarification or change; or
- (3) in the case of any Rating Agency other than S&P or Moody's, lower than the equity credit assigned immediately prior to that relevant amendment, clarification or change.

Upon the expiry of any such notice as is referred to in Condition 6(d), the Issuer shall be bound to redeem the Securities in accordance with Condition 6(d), provided that such date for redemption shall be no earlier than the last day before the date on which the Securities will no longer be eligible for the same or higher category of equity credit.

Redemption for Accounting Reasons

The Issuer may, at any time, on giving not more than 60 nor less than 30 days irrevocable notice to the Trustee and the Principal Paying Agent in writing and to the Holders (in accordance with Condition 15), redeem all but not some only of the Securities at:

- (i) 101 per cent. of their principal amount (together with any Distribution accrued to but excluding the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount)) if such redemption occurs prior to 6th November, 2024 (being the date that falls three months prior to the First Reset Date); or
- (ii) their principal amount (together with any Distribution accrued to but excluding the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount)) if such redemption occurs on or after 6th November, 2024 (being the date that falls three months prior to the First Reset Date),

if, immediately before giving such notice, a change or amendment to, or a change or amendment to any interpretation of, Hong Kong Financial Reporting Standards or any other internationally generally accepted accounting standards that the Guarantor has adopted for the purposes of the Guarantor's consolidated financial statements (the "**Relevant Accounting Standards**") has occurred or will occur, which change or amendment results or will result in the Securities, in whole or in part, not being permitted to be recorded as "equity" of the Guarantor in the consolidated financial statements of the Guarantor pursuant to the Relevant Accounting Standards.

Upon the expiry of any such notice as is referred to in Condition 6(e), the Issuer shall be bound to redeem the Securities in accordance with Condition 6(e), provided that such date for redemption shall be no earlier than the last day before the date on which the Securities are no longer permitted to be recorded as "equity" of the Guarantor pursuant to the Relevant Accounting Standards.

Redemption in the case of Minimal Outstanding Amount. . .

The Issuer may, at any time, on giving not more than 60 nor less than 30 days' irrevocable notice to the Trustee and the Principal Paying Agent in writing and to the Holders (in accordance with Condition 15), redeem all but not some only of the Securities at their principal amount, together with any Distribution accrued to but excluding the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount), if, immediately before giving such notice, the aggregate principal amount of the Securities outstanding is less than 25 per cent. of the aggregate principal amount of the Securities originally issued.

Replacement Intention

The following paragraphs in italics do not form part of the Terms and Conditions of the Securities:

The Issuer intends (without thereby assuming any legal obligation to do so), during the period from the Issue Date to and including the Second Step-up Date, that if the Securities are assigned an "equity credit" (or such other nomenclature that S&P may then use to describe the degree to which an instrument exhibits the characteristics of an ordinary share) at the time of such redemption or repurchase, that it will redeem or repurchase the Securities pursuant to:

- (1) *a redemption of the Securities at the option of the Issuer pursuant to Condition 6(b);*
- (2) *a repurchase of the Securities by the Issuer, the Guarantor or any of their respective Subsidiaries under Condition 6(h) of more than:*
 - (i) *10 per cent. of the aggregate principal amount of the Securities issued on the Issue Date in any consecutive 12 month period; or*
 - (ii) *25 per cent. of the aggregate principal amount of the Securities issued on the Issue Date in any consecutive 10 year period,*

only to the extent the Aggregate Equity Credit of the Securities at the time of issue to be redeemed or repurchased does not exceed the Aggregate Equity Credit received by the Guarantor or any other Subsidiaries of the Guarantor during the 365 day period prior to the date of such redemption or repurchase from certain securities offerings. Such offerings must involve the sale or issuance by the Guarantor or any other Subsidiaries of the Guarantor to third party purchasers other than the Guarantor or any other Subsidiaries of the Guarantor, of securities which are assigned by S&P, at the time of sale or issuance, an “equity credit” that is equal to or greater than the equity credit assigned to the Securities to be redeemed or repurchased at the time of issue (taking into account any changes in hybrid capital methodology or another relevant methodology or the interpretation thereof since the issuance of the Securities).

The Restrictions described above shall not apply if on the date of such redemption or repurchase:

- (a) the Guarantor has a corporate credit rating from S&P that is equal to or greater than the rating assigned to the Guarantor by S&P as at the Issue Date, and to the best knowledge of the Guarantor, after giving effect to such redemption or repurchase, such rating will not be revised downward, withdrawn or placed on review or “creditwatch” with negative implications (or other similar review or change of outlook) by S&P to levels below the rating assigned to the Guarantor as at the Issue Date as a result of such redemption or repurchase; or*
- (b) the Securities are not assigned any category (not even ‘no’) of “equity credit” at the time of such redemption or repurchase; or*
- (c) a Special Event has occurred; or*
- (d) the Issuer, the Guarantor or any other Subsidiaries of the Guarantor has individually or in the aggregate, redeemed, cancelled or purchased the Securities equal to or in excess of 75 per cent. of the aggregate principal amount of the Securities issued on the Issue Date; or*
- (e) the statements made in the Restrictions set forth hereunder are no longer required for the Securities to be assigned an “equity credit” that is equal to or greater than the equity credit assigned by S&P on the Issue Date; or*
- (f) in the case of a repurchase, such repurchase relates to an aggregate principal amount of Securities which is less than or equal to the excess (if any) above the maximum aggregate principal amount of the Guarantor’s hybrid capital to which S&P then assigns “equity credit” under its prevailing methodology; or*

- (g) *there shall have occurred a general moratorium on, or disruption in, commercial banking activities in the British Virgin Islands, Hong Kong, the United Kingdom, European Economic Area or the United States by any British Virgin Islands, Hong Kong, the United Kingdom, European Economic Area, New York State or United States Federal authorities, which would be, in the Issuer's sole opinion, likely to materially prejudice dealings in the Securities in the secondary market.*

For the purpose of the Restrictions, "Aggregate Equity Credit" means the equity credit (as a percentage) assigned by S&P of the relevant securities multiplied by the aggregate principal amount of such securities with respect to which the calculation is being made.

Limited right to institute proceedings

The right to institute proceedings for Winding-Up is limited to circumstances where payment in respect of the Securities has become due but has not been paid. In the case of any Distribution, such Distribution will not be due if the Issuer has elected to defer that Distribution in accordance with Condition 5(d).

Proceedings for Winding-Up

- If:
- (i) an order is made or an effective resolution is passed for the Winding-Up of the Issuer or the Guarantor; or
 - (ii) the Issuer has not made payment in respect of the Securities or the Guarantor has not made payment in respect of the Guarantee for a period (in either case) of ten days or more after the date on which such payment is due, the Issuer or, as the case may be, the Guarantor shall be deemed to be in default under the Trust Deed, the Securities, and in the case of the Guarantor, the Guarantee, and the Trustee may, subject to the provisions of Condition 9(d), institute proceedings for the Winding-Up of the Issuer and/or the Guarantor and/or prove in the Winding-Up of the Issuer and/or the Guarantor and/or claim in the liquidation of the Issuer and/or the Guarantor for such payment.

Substitution or Variation

- If a Special Event has occurred and is continuing, then the Issuer may, subject to Condition 5 (without any requirement for the consent or approval of the Holders) and subject to it having satisfied the Trustee immediately prior to the giving of any notice referred to in the Terms and Conditions that the provisions of Condition 12(c) have been complied with, and having given not less than 30 nor more than 60 days' irrevocable notice in writing to the Trustee and the Principal Paying Agent in writing and to the Holders (in accordance with Condition 15), at any time either:
- (i) substitute all, but not some only, of the Securities for; or
 - (ii) vary the terms of the Securities with the effect that they remain or become (as the case may be), Qualifying Securities, and the Trustee shall (subject to the following provisions of Condition 12(c) and subject to the receipt by it of the certificate of the directors of the Guarantor referred to in the Trust Deed) agree to such substitution or variation.

“**Special Event**” means a Gross-Up Event, an Accounting Event, an Equity Credit Classification Event or any combination of the foregoing.

Governing Law	The Trust Deed, the Securities and any non-contractual obligations arising out of or in connection with them will be governed by, and shall be construed in accordance with, English law, except that (a) Clause 6.10 of the Trust Deed and Condition 4(c) are governed by, and shall be construed in accordance with, Hong Kong law; and (b) Clause 5.2 of the Trust Deed and Condition 3(b) are governed by, and shall be construed in accordance with, the laws of the British Virgin Islands.
Rating	The Securities are expected to be rated “A3” by Moody’s and “A–” by S&P. Such ratings of the Securities do not constitute a recommendation to buy, sell or hold the Securities and may be subject to revision or withdrawal at any time by either such rating organisation.
Clearing systems	<p>The Securities will be represented by beneficial interests in the Global Certificate, which will be registered in the name of a nominee of, and deposited on the Issue Date with, a common depositary for, Euroclear and Clearstream, Luxembourg.</p> <p>Beneficial interests in the Global Certificate will be shown on and transfers thereof will be effected only through records maintained by Euroclear and Clearstream, Luxembourg. Except as described in the Global Certificate, certificates for Securities will not be issued in exchange for beneficial interests in the Global Certificate.</p>
Clearance and settlement	<p>The Securities have been accepted for clearance by Euroclear and Clearstream, Luxembourg under the following codes:</p> <p>ISIN: XS2063459189</p> <p>Common Code: 206345918</p>
Legal Entity Identifier	254900V6QHCRGVD95V85
Trustee	DB Trustees (Hong Kong) Limited.
Registrar	Deutsche Bank AG, Singapore Branch.
Principal Paying Agent, Transfer Agent and Calculation Agent	Deutsche Bank AG, Hong Kong Branch.
Listing	Application will be made to list the Securities by way of debt issues to Professional Investors only on the Hong Kong Stock Exchange.
Use of Proceeds	See “ <i>Use of Proceeds</i> ”.

RISK FACTORS

In addition to other information in this Offering Circular, investors should carefully consider the following risk factors, together with all other information contained in this Offering Circular, before purchasing the Securities. The risks and uncertainties described below may not be the only ones that the Issuer, CLP Power or the Group face. Additional risks and uncertainties that the Issuer and CLP Power are not aware of or that they currently believe are immaterial may also adversely affect the business, financial condition or results of operations of the Issuer, CLP Power or the Group. If any of the possible events described below occurs, the Issuer's, CLP Power's or the Group's business, financial condition or results of operations could be materially and adversely affected. In such case, the Issuer or CLP Power may not be able to satisfy their obligations under the Securities or the Guarantee (as applicable), and investors could lose all or part of their investment.

Risks relating to the Group and its business

The Issuer is dependent on the business and financial condition of CLP Power and its subsidiaries and other Group entities to make payments under the Securities

The Issuer is a wholly-owned subsidiary of CLP Power formed for the primary purpose of acting as a financing subsidiary of CLP Power. The Issuer's ability to make payments under the Securities depends on timely payments under loans made to, and availability of funds from, CLP Power and its subsidiaries and other Group entities. In the event that CLP Power and its subsidiaries or other Group entities do not make such payments due to limitations in such loans or other agreements, lack of available cash flow or other factors, the Issuer's ability to make payments under the Securities could be adversely affected.

Obligations of CLP Power under the Guarantee are structurally subordinated to the liabilities and obligations of CLP Power's subsidiaries and other Group entities

In addition to operating itself, CLP Power is also a holding company that operates through its subsidiaries and other Group entities. As a result:

- CLP Power's obligations under the Guarantee will be effectively subordinated to all existing and future obligations of the existing or future Group entities; and
- all claims of creditors of the existing or future subsidiaries or other Group entities, including trade creditors, lenders and all other creditors, and rights of holders of preferred shares of such entities (if any) will have priority as to the assets of such entities over CLP Power's claims and those of its creditors, including the holders of Securities.

As at 31 December 2018, the total indebtedness of CLP Power was approximately HK\$34,465 million.

The Issuer and CLP Power may raise additional capital which affects the price of the Securities

The Issuer and CLP Power may raise additional capital through the issue of further Securities (see "*Terms and Conditions of the Securities — Further Issues*"), other securities or other means. There is no restriction, contractual or otherwise, on the amount of securities or other liabilities which the Issuer and CLP Power may issue or incur and which rank senior to, or *pari passu* with, the Securities. The issue of any such securities or the incurrence of any such other liabilities may reduce the amount (if any) recoverable by Holders of Securities on a Winding-Up (as defined in the Terms and Conditions) of the Issuer and/or CLP Power, and may increase the likelihood of a deferral of Distribution under the Securities. The issue of any such securities or the incurrence of any such other liabilities might also have an adverse impact on the trading price of the Securities and/or the ability of Holders to sell their Securities.

Changes in accounting standards may impact CLP Power's financial condition or the characterisation of the Securities

The HKICPA is continuing its policy of issuing HKFRS and interpretations which fully converge with IFRS. HKICPA has issued and may in the future issue more new and revised standards and interpretations, including those required to conform with standards and interpretations issued from time

to time by the IASB. Such factors may require adoption of new accounting policies. There can be no assurance that the adoption of new accounting policies or new HKFRS will not have a significant impact on CLP Power's financial condition and results of operations. In addition, any change or amendment to, or any change or amendment to any interpretation of, HKFRS may result in the reclassification of the Securities such that the Securities must not or must no longer be recorded as "equity" of CLP Power, and will give the Issuer the right to elect to redeem the Securities. See "*— The Securities may be redeemed at the Issuer's option on a date falling between five calendar years and five calendar years and three months from the date of issue of the Securities and every six months from the latter date or upon the occurrence of certain other events.*".

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

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

CLP Power's credit rating may decline

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

Risks relating to the Securities

The Securities may not be a suitable investment for all investors

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

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

The Securities are complex investment securities. Sophisticated institutional investors generally do not purchase complex investment securities as stand-alone investments. They purchase complex investment securities as a way to reduce risk or enhance yield with an understood, measured, appropriate addition

of risk to their overall portfolios. A potential investor should not invest in the Securities unless it has the expertise (either alone or with a financial adviser) to evaluate how the Securities will perform under changing conditions, the resulting effects on the value of the Securities and the impact this investment will have on the potential investor's overall investment portfolio.

The Securities and the Guarantee are subordinated obligations

The obligations of the Issuer under the Securities and of CLP Power under the Guarantee will constitute unsecured and subordinated obligations of the Issuer and CLP Power. Subject to the insolvency laws of the British Virgin Islands and other applicable laws, in the event of the Winding-Up (as defined in the Terms and Conditions) of the Issuer, the rights of the holders to receive payments in respect of the Securities will rank senior to the holders of all Junior Obligations of the Issuer and *pari passu* with the holders of all Parity Obligations of the Issuer, but junior to the claims of all other creditors. Upon the Winding-Up of the Issuer, holders of the Securities can enforce the obligations of CLP Power under the Guarantee, but, subject to the insolvency laws of Hong Kong and other applicable laws, in the event of the Winding-Up of CLP Power, the rights and claims of holders of the Guarantee will rank senior to the holders of all Junior Obligations of CLP Power but be subordinated to the claims of all present and future creditors of CLP Power (other than the claims of Parity Obligations of CLP Power).

In the event of a shortfall of funds or a Winding-Up, there is a real risk that an investor in the Securities will lose all or some of its investment and will not receive a full return of the principal amount or any unpaid amounts due under the Securities.

The Securities are perpetual securities and investors have no right to require redemption

The Securities are perpetual and have no maturity date. The Issuer is under no obligation to redeem the Securities at any time and the Securities can only be disposed of by sale. Holders who wish to sell their Securities may be unable to do so at a price at or above the amount they have paid for them, or at all, if insufficient liquidity exists in the market for the Securities.

Holders may not receive Distribution payments if the Issuer elects to defer Distribution payments

The Issuer may, at its sole discretion, elect to defer any scheduled Distributions or Arrears of Distribution on the Securities for any period of time unless a Compulsory Distribution Payment Event has occurred. Save as aforesaid, the Issuer is not subject to any limits as to the number of times Distributions or Arrears of Distribution can be deferred. Although Arrears of Distributions following a deferral are cumulative, the Issuer may defer their payment for an indefinite period of time by delivering the relevant deferral election notices to Holders of the Securities, the Trustee and the Principal Paying Agent. Any such deferral will not constitute a default for any purpose.

Each of the Issuer and CLP Power is subject to certain restrictions in relation to the declaration and payment of dividends, distributions or other payments on its Junior Securities and its Parity Securities and to the redemption, reduction, cancellation, buy-back or acquisition for any consideration of its Parity Securities or Junior Securities, in each case until any outstanding Arrears of Distribution and Additional Distribution Amount are satisfied or save in certain specified situations as further described in the Terms and Conditions. Such restrictions, however, do not prevent the Issuer or CLP Power from, *inter alia*, making intra-group loans and other advances to CLP Holdings Limited, CLP Power's shareholder. The making of such loans or advances may reduce the amount available to the Issuer for the payment of Distributions, Arrears of Distributions and Additional Distribution Amounts, and may increase the likelihood of a deferral of Distribution under the Securities.

Any deferral of Distribution will likely have an adverse effect on the market price of the Securities. In addition, as a result of the Distribution deferral provision of the Securities, the market price of the Securities may be more volatile than the market prices of debt securities on which original issue discount or interest accrues that are not subject to such deferrals and may be more sensitive generally to adverse changes in the Group's financial condition.

The Securities may be redeemed at the Issuer's option on a date falling between five calendar years and five calendar years and three months from the date of issue of the Securities and every six months from the latter date or upon the occurrence of certain other events

The Securities are redeemable at the option of the Issuer on any date during the period commencing on a date falling five calendar years from the Issue Date up to the First Reset Date and on every Distribution Payment Date thereafter at their principal amount together with any Distribution accrued to but excluding the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount).

In addition, the Issuer also has the right to redeem the Securities upon the occurrence of:

- a Gross-up Event;
- an Equity Credit Classification Event;
- an Accounting Event; or
- if the aggregate principal amount of the Securities outstanding is less than 25 per cent. of the aggregate principal amount originally issued.

The date on which the Issuer elects to redeem the Securities may not accord with the preference of individual Holders. This may be disadvantageous to the Holders in light of market conditions or the individual circumstances of the Holder. In addition, an investor may not be able to reinvest the redemption proceeds in comparable securities at an effective distribution rate at the same level as that of the Securities.

There are limited remedies for default under the Securities and the Guarantee of the Securities

Any scheduled Distribution will not be due if the Issuer elects to defer that Distribution pursuant to the Terms and Conditions. Notwithstanding any of the provisions relating to non-payment defaults, the right to institute Winding-Up proceedings is limited to circumstances where payment has become due and the Issuer has not made payment in respect of the Securities or the Guarantor has not made payment in respect of the Guarantee for a period (in either case) of ten days or more after the date on which such payment is due. The only remedy against the Issuer and/or the Guarantor available to the Trustee or (where the Trustee has failed to proceed against the Issuer as provided in the Terms and Conditions) any Holder of Securities for recovery of amounts in respect of the Securities following the occurrence of a payment default after any sum becomes due in respect of the Securities will be instituting Winding-Up proceedings against the Issuer and/or the Guarantor and/or proving in the Winding-Up of the Issuer and/or the Guarantor and/or claiming in the liquidation of the Issuer and/or the Guarantor in respect of such payment. No remedy against the Issuer or the Guarantor, other than as referred to in Condition 9, shall be available to the Trustee or the Holders, whether for the recovery of amounts owing in respect of the Securities or the Guarantee or under the Trust Deed or in respect of any breach by the Issuer or the Guarantor of any of its other obligations under or in respect of the Securities or the Guarantee or under the Trust Deed.

The Securities contain provisions regarding meetings of Holders, modification, waivers and substitution which may affect the rights of Holders

The Terms and Conditions contain provisions for calling meetings of Holders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Holders, including Holders who did not attend and vote at the relevant meeting and Holders who voted in a manner contrary to the majority. In addition, an Extraordinary Resolution in writing signed by or on behalf of the Holders of not less than 95 per cent. of the aggregate principal amount of Securities outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Holders duly convened and held.

The Terms and Conditions also provide that the Trustee may agree, without the consent of Holders, to:

- any modification of any of the Terms and Conditions or any of the provisions of the Trust Deed, that in the opinion of the Trustee is of a formal, minor or technical nature or is made to correct a manifest error; and
- any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the Terms and Conditions or any of the provisions of the Trust Deed that is in the opinion of the Trustee not materially prejudicial to the interests of the Holders.

The Terms and Conditions also provide that if a Special Event has occurred and is continuing, then the Issuer may, without the consent of Holders, subject to having satisfied the Trustee that Condition 12(c) has been satisfied as to certain matters and giving not less than 30 nor more than 60 days' notice to the Trustee and the Principal Paying Agent in writing and to the Holders (in accordance with Condition 15) (which notice shall be irrevocable):

- substitute all, but not some only, of the Securities for; or
- vary the terms of the Securities with the effect that they remain or become (as the case may be), Qualifying Securities (as defined in the Terms and Conditions).

The Trustee may request that Holders provide an indemnity and/or security and/or prefunding to its satisfaction

In certain circumstances (including, without limitation, as referred to in Conditions 9(b) and 9(c) of the Terms and Conditions), the Trustee may (at its sole discretion) request the Holders to provide an indemnity and/or security and/or prefunding to its satisfaction before it takes steps and/or action and/or institutes proceedings on behalf of the Holders. The Trustee shall not be obliged to take any such steps and/or actions and/or institute such proceedings if not indemnified and/or secured and/or prefunded to its satisfaction. Negotiating and agreeing to any indemnity and/or security and/or prefunding can be a lengthy process and may impact on when such steps and/or action can be taken and/or such proceedings can be instituted. The Trustee may not be able to take steps and/or actions and/or institute proceedings notwithstanding the provision of an indemnity and/or security or prefunding to it, in breach of the terms of the Trust Deed constituting the Securities and in circumstances where there is uncertainty or dispute as to the applicable laws or regulations and, to the extent permitted by the agreements and the applicable law, it will be for the Holders to take such steps and/or actions and/or institute such proceedings directly.

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

As the Issuer is incorporated in the British Virgin Islands and CLP Power is incorporated under the laws of Hong Kong, any insolvency proceeding relating the Issuer or CLP Power would likely involve British Virgin Islands or Hong Kong insolvency laws, respectively, the procedural and substantive provisions of which may differ from comparable provisions of the local insolvency laws of jurisdictions with which the holders of the Securities are familiar. CLP Power cannot give any assurance that any deferred Distributions would constitute a claim under applicable insolvency laws of the British Virgin Islands or Hong Kong with the same ranking as would be afforded to such deferred Distributions in other jurisdictions.

An active trading market for the Securities may not develop

The Securities are a new issue of securities for which there is currently no trading market. Application will be made to list the Securities by way of debt issues to Professional Investors only on the Hong Kong Stock Exchange. No assurance can be given that an active trading market for the Securities will develop or as to the liquidity or sustainability of any such market, the ability of Holders to sell their

Securities or the price at which Holders will be able to sell their Securities. The Joint Lead Managers are not obliged to make a market in the Securities and any such market making, if commenced, may be discontinued at any time at the sole discretion of the Joint Lead Managers.

Certain initial investors or a single initial investor may purchase a significant portion of the Securities and may potentially be able to exercise certain rights and powers on their own

Certain initial investors or a single initial investor may purchase a significant portion of the aggregate principal amount of the Securities in this offering. Any Holder of a significant percentage of the aggregate principal amount of the Securities will be able to exercise certain rights and powers and will have significant influence on matters voted on by Holders. For example, Holders of at least 50 per cent. (or at adjourned meetings no minimum per cent.) of the aggregate principal amount of the Securities would form quorum for the purposes of passing an Extraordinary Resolution, while Holders of at least 66 2/3 per cent. (or at adjourned meetings at least 33 1/3 per cent.) of the aggregate principal amount of the Securities would form quorum for the purposes of voting on reserved matters, including the modification of the dates for redemption of the Securities or the reduction or cancellation of the principal amount of Distributions.

In addition, as the passing of Extraordinary Resolutions at meetings of Holders requires a majority of 75 per cent. of votes cast, any holder of a significant percentage of the Securities, even if less than a majority, will on its own be able to take certain actions that would be binding on all Holders. For example, holders of at least 25 per cent. of the principal amount of Securities represented at a meeting of Holders is able to block the passing of Extraordinary Resolutions, while holders of at least 25 per cent. of the aggregate principal amount of the Securities outstanding may, subject to the provisions of the Trust Deed, direct the Trustee to institute proceedings for the winding-up of the Issuer and/or the Guarantor where payment in respect of the Securities has become due but has not been paid prior to expiration of the applicable grace period.

Additionally, the existence of any such significant Holder may reduce the liquidity of the Securities in the secondary trading market.

The liquidity and price of the Securities following the offering may be volatile

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

The Securities will be represented by a Global Certificate and holders of a beneficial interest in the Global Certificate must rely on the procedures of the relevant Clearing System(s)

The Securities will be represented by a Global Certificate. Such Global Certificate will be deposited with a nominee of a common depository for Euroclear and Clearstream, Luxembourg (each of Euroclear and Clearstream, Luxembourg, a "**Clearing System**"). Except in the circumstances described in the Global Certificate, investors will not be entitled to receive definitive Certificates in respect of the Securities. The relevant Clearing System(s) will maintain records of the beneficial interests in the Global Certificate. While the Securities are represented by a Global Certificate, investors will be able to trade their beneficial interests only through the Clearing Systems.

While the Securities are represented by a Global Certificate, the Issuer, failing which, the Guarantor will discharge its payment obligations under the Securities by making payments to the relevant Clearing System for distribution to their account holders.

A holder of a beneficial interest in a Global Certificate must rely on the procedures of the relevant Clearing System(s) to receive payments under the Securities. None of the Issuer, the Guarantor, the Trustee, the Agents or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers has any responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificate.

Holders of beneficial interests in the Global Certificate will not have a direct right to vote in respect of the Securities. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant Clearing System(s) to appoint appropriate proxies.

Investors in the Securities may be subject to foreign exchange risk

The Securities are denominated and payable in U.S. dollars. An investor who measures investment returns by reference to a currency other than U.S. dollars will be subject to foreign exchange risks by virtue of an investment in the Securities, due to, among other things, economic, political and other factors over which neither the Issuer nor the Guarantor has any control. Depreciation of the U.S. dollar against such currency could cause a decrease in the effective yield of the Securities for an investor and could result in a loss when the return on the Securities is translated into such currency. Conversely, there may be tax consequences for investors as a result of any foreign currency gains resulting from any investment in the Securities in the event of an appreciation.

The ratings assigned to the Securities may be lowered or withdrawn in the future

The Securities are expected to be assigned a rating of A3 by Moody's and A- by S&P. The ratings address the Issuer's and CLP Power's ability to perform their respective obligations under the Terms and Conditions and credit risks in determining the likelihood that payments will be made when due under the Securities. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. The Group cannot assure investors that a rating will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant. Neither the Issuer nor CLP Power has any obligation to inform Holders of any such revision, downgrade or withdrawal. A suspension, reduction or withdrawal at any time of the rating assigned to the Securities may adversely affect the market price of the Securities.

Securities which have a denomination that is not an integral multiple of the minimum specified denomination may be illiquid and difficult to trade

The specified denomination of the Securities is U.S.\$200,000 and higher integral multiples of U.S.\$1,000 in excess thereof. Therefore, it is possible that the Securities may be traded in amounts in excess of U.S.\$200,000 that are not integral multiples of U.S.\$200,000. In such a case, a Holder who, as a result of trading such amounts, holds a principal amount of less than U.S.\$200,000 will not receive a definitive certificate in respect of such holding of Securities (should definitive certificates be printed) and would need to purchase a principal amount of Securities such that it holds an amount equal to one or more denominations. If definitive certificates are issued, Holders should be aware that Securities with aggregate principal amounts that are not an integral multiple of U.S.\$200,000 may be illiquid and difficult to trade.

USE OF PROCEEDS

The net proceeds of the issue of the Securities, after deducting the fees and other expenses in connection with the issue of the Securities, will be approximately U.S.\$497,000,000, which will be used to redeem the Issuer's outstanding U.S.\$750,000,000 perpetual subordinated guaranteed capital securities issued on 7th May, 2014 and 13th June, 2014.

TERMS AND CONDITIONS OF THE SECURITIES

The following, subject to amendment and other than the words in italics, is the text of the Terms and Conditions of the Securities which will appear on the reverse of each of the definitive certificates evidencing the Securities:

The issue of the Securities was approved by the Board of Directors of CLP Power HK Finance Ltd. (the “**Issuer**”) on 10th October, 2019 and the guarantee of the Securities was approved by the Finance and General Committee of CLP Power Hong Kong Limited 中華電力有限公司 (the “**Guarantor**”) on 10th October, 2019. The Securities are constituted by a Trust Deed (as amended or supplemented from time to time, the “**Trust Deed**”) dated 6th November, 2019 (the “**Issue Date**”) between the Issuer, the Guarantor and DB Trustees (Hong Kong) Limited (the “**Trustee**” which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for itself and for the holders of the Securities. These terms and conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Securities. Copies of the Trust Deed and the Agency Agreement (as amended or supplemented from time to time, the “**Agency Agreement**”) dated the Issue Date relating to the Securities between the Issuer, the Guarantor, the Trustee, Deutsche Bank AG, Singapore Branch as the registrar (the “**Registrar**”), Deutsche Bank AG, Hong Kong Branch as the initial transfer agent (the “**Transfer Agent**”), as the calculation agent (the “**Calculation Agent**”) and as the initial principal paying agent (the “**Principal Paying Agent**”) and any other agents named in or appointed under it, are available for inspection by any holder of the Securities at all reasonable times during usual business hours (being between 9.00 a.m. and 3.00 p.m.) at the principal office of the Trustee (being as at the Issue Date at Level 52, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong) and at the specified office for the time being of the Principal Paying Agent following prior written request and proof of holding and identity satisfactory to the Trustee or, as the case may be, the Principal Paying Agent. “**Agents**” means the Principal Paying Agent, the Registrar, the Calculation Agent, the Transfer Agent and any other agent or agents appointed from time to time with respect to the Securities.

The Holders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and those provisions of the Agency Agreement applicable to them.

All capitalised terms that are not defined in these Conditions will have the meanings given to them in the Trust Deed.

1 FORM, SPECIFIED DENOMINATION AND TITLE

The Securities are issued in the specified denomination of U.S.\$200,000 and higher integral multiples of U.S.\$1,000 in excess thereof.

The Securities are represented by registered certificates (“**Certificates**”) and, save as provided in Condition 2(a), each Certificate shall represent the entire holding of Securities by the same holder.

Title to the Securities shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the “**Register**”). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Security shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on the Certificate representing it or the theft or loss of such Certificate and no person shall be liable for so treating the holder.

In these Conditions, “**Holder**” and, in relation to a Security, “**holder**” means the person in whose name a Security is registered.

*Upon issue, the Securities will be represented by a global certificate (the “**Global Certificate**”) representing Securities registered in the name of a nominee of, and deposited with, a common depositary for Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking, S.A. (“**Clearstream, Luxembourg**”).*

The Conditions are modified by certain provisions contained in the Global Certificate. See “Summary of Provisions Relating to the Securities in Global Form”.

Except in the limited circumstances described in the Global Certificate, owners of interests in Securities represented by the Global Certificate will not be entitled to receive definitive Certificates in respect of their individual holdings of Securities. The Securities are not issuable in bearer form.

2 TRANSFERS OF SECURITIES AND ISSUE OF CERTIFICATES

- (a) *Transfer:* A holding of Securities may, subject to Condition 2(d), be transferred in whole or in part upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate(s) representing such Securities to be transferred, together with the form of transfer endorsed on such Certificate(s) (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or such Transfer Agent may require. In the case of a transfer of part only of a holding of Securities represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of Securities to a person who is already a holder of Securities, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding. All transfers of Securities and entries on the Register will be made in accordance with the detailed regulations concerning transfers of Securities scheduled to the Agency Agreement. The regulations may be changed by the Issuer or the Registrar, with the prior written approval of the Trustee and, in the case of any change proposed by the Issuer, the Registrar. A copy of the current regulations will be made available by the Registrar to any Holder following written request and proof of holding and identity satisfactory to the Registrar.

Transfers of interests in the Securities evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems.

- (b) *Delivery of New Certificates:* Each new Certificate to be issued pursuant to Condition 2(a) shall be available for delivery within five business days of receipt of a duly completed form of transfer and surrender of the existing Certificate(s). Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar (as the case may be) the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(b), “**business day**” means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).
- (c) *Transfer or Exercise Free of Charge:* Certificates, on transfer, or exercise of an option, shall be issued and registered without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent, but upon payment of any tax, duty or other governmental charges that may be imposed in relation to it (or the giving of such indemnity and/or security and/or pre-funding as the Registrar or the relevant Transfer Agent may require).
- (d) *Closed Periods:* No Holder may require the transfer of a Security to be registered:
- (i) during the period of 15 days ending on (and including) the due date for redemption of that Security; or
 - (ii) during the period of seven days ending on (and including) any Record Date.

3 STATUS AND RANKING OF CLAIMS

- (a) *Status:* The Securities constitute direct, unconditional, unsecured and subordinated obligations of the Issuer and shall at all times rank *pari passu* without any preference among themselves. The payment obligations of the Issuer under the Securities shall, save for such exceptions as may be provided for under applicable laws, at all times rank equally with all Parity Obligations of the Issuer. The rights and claims of the Holders in respect of the Securities are subordinated as provided in this Condition 3.
- (b) *Ranking of claims on Winding-Up:* Subject to the insolvency laws of the British Virgin Islands and other applicable laws, in the event of the Winding-Up of the Issuer, there shall be payable by the Issuer in respect of each Security (in lieu of any other payment by the Issuer), such amount, if any, as would have been payable to the Holder of such Security if, on the day prior to the commencement of the Winding-Up of the Issuer, and thereafter, such Holder were the holder of one of a class of preference shares in the capital of the Issuer (and if more than one class of preference shares is outstanding, the most junior ranking class of such preference shares) (“**Issuer Notional Preference Shares**”) having an equal right to return of assets in the Winding-Up of the Issuer and so ranking *pari passu* with the holders of that class or those classes of preference shares (if any) which have a preferential right to return of assets in the Winding-Up over, and so rank in priority to the holders of, Junior Obligations of the Issuer, but subordinated to the claims of all other present and future creditors of the Issuer (other than Parity Obligations of the Issuer), on the assumption that the amount that such Holder of a Security is entitled to receive in respect of each Issuer Notional Preference Share on a return of assets in such Winding-Up is an amount equal to the principal amount (and any applicable premium outstanding) of the relevant Security together with accrued and unpaid Distributions (including any Arrears of Distribution or any Additional Distribution Amount).
- (c) *Set-off:* Subject to applicable laws, no Holder may exercise, claim or plead any right of set-off, deduction, withholding or retention in respect of any amount owed to it by the Issuer in respect of, or arising under or in connection with, the Securities, and each Holder is, by virtue of his holding of any Securities, deemed to have waived all such rights of set-off, deduction, withholding or retention against the Issuer. Notwithstanding the preceding sentence, if any of the amounts owing to any Holder by the Issuer in respect of, or arising under or in connection with, the Securities is discharged by set-off, such Holder shall, subject to applicable laws, immediately pay an amount equal to the amount of such discharge to the Issuer (or, in the event of its Winding-Up or administration, the liquidator or, as appropriate, administrator of the Issuer) and, until such time as payment is made, shall hold such amount in trust for the Issuer (or the liquidator or, as appropriate, administrator of the Issuer) and accordingly any such discharge shall be deemed not to have taken place.

4 GUARANTEE

- (a) *Guarantee:* The Guarantor has irrevocably and unconditionally guaranteed on a subordinated basis the due payment of all sums expressed to be payable by the Issuer under the Securities and the Trust Deed. The obligations of the Guarantor in that respect (the “**Guarantee**”) are contained in Clause 6 of the Trust Deed, including, but not limited to, an undertaking from the Guarantor that for so long as any of the Securities remains outstanding, the Issuer shall at all times remain a wholly-owned Subsidiary of the Guarantor, whether directly or indirectly.
- (b) *Status of the Guarantee:* The obligations of the Guarantor under the Guarantee constitute direct, unconditional, unsecured and subordinated obligations of the Guarantor. The payment obligations of the Guarantor under the Guarantee shall, save for such exceptions as may be provided for under applicable laws, at all times rank equally with all Parity Obligations of the Guarantor. The rights and claims of the Holders in respect of the Guarantee are subordinated as provided in this Condition 4.

- (c) *Ranking of claims on Winding-Up:* Subject to the insolvency laws of Hong Kong and other applicable laws and a claim arising under the Guarantee, in the event of the Winding-Up of the Guarantor, there shall be payable by the Guarantor in respect of each Security (in lieu of any other payment by the Guarantor), such amount, if any, as would have been payable to the Holder of such Security if, on the day prior to the commencement of the Winding-Up of the Guarantor, and thereafter, such Holder were the holder of one of a class of preference shares in the capital of the Guarantor (and if more than one class of preference shares is outstanding, the most junior ranking class of such preference shares) (“**Guarantor Notional Preference Shares**”) having an equal right to return of assets in the Winding-Up of the Guarantor and so ranking *pari passu* with the holders of that class or those classes of preference shares (if any) which have a preferential right to return of assets in the Winding-Up over, and so rank in priority to the holders of, Junior Obligations of the Guarantor, but subordinated to the claims of all other present and future creditors of the Guarantor (other than Parity Obligations of the Guarantor), on the assumption that the amount that such Holder of a Security is entitled to receive in respect of each Guarantor Notional Preference Share on a return of assets in such Winding-Up is an amount equal to the principal amount (and any applicable premium outstanding) of the relevant Security together with accrued and unpaid Distributions (including any Arrears of Distribution or any Additional Distribution Amount).
- (d) *Set-off:* Subject to applicable laws, no Holder may exercise, claim or plead any right of set-off, deduction, withholding or retention in respect of any amount owed to it by the Guarantor in respect of, or arising under or in connection with, the Guarantee, and each Holder is, by virtue of his holding of any Securities, deemed to have waived all such rights of set-off, deduction, withholding or retention against the Guarantor. Notwithstanding the preceding sentence, if any of the amounts owing to any Holder by the Guarantor in respect of, or arising under or in connection with, the Guarantee is discharged by set-off, such Holder shall, subject to applicable laws, immediately pay an amount equal to the amount of such discharge to the Guarantor (or, in the event of its Winding-Up or administration, the liquidator or, as appropriate, administrator of the Guarantor) and, until such time as payment is made, shall hold such amount in trust for the Guarantor (or the liquidator or, as appropriate, administrator of the Guarantor) and, accordingly, any such discharge shall be deemed not to have taken place.

5 DISTRIBUTIONS

- (a) *Distributions:*
- (i) Subject to Condition 5(d), each Security shall entitle the Holder thereof to receive distributions (“**Distributions**” and each a “**Distribution**”) from and including the Issue Date at the applicable rate of distribution (“**Distribution Rate**”) in accordance with the provisions of this Condition 5.
- (ii) Subject to Condition 5(d), Distributions shall be payable on the Securities semi-annually in arrear on 6th February and 6th August in each year (each, a “**Distribution Payment Date**”), except that the first payment of distribution to be made on 6th February, 2020 (the “**First Distribution Payment Date**”) will be in respect of the period from, and including, the Issue Date to, but excluding, the First Distribution Payment Date.
- (iii) If a Distribution is required to be paid in respect of a Security on any date other than a Distribution Payment Date, it shall be calculated by applying the applicable Distribution Rate to the Calculation Amount, multiplying the product by the Day Count Fraction (as defined below), rounding the resulting figure to the nearest cent (half a cent being rounded upwards) and multiplying such rounded figure by a fraction equal to the principal amount of such Security divided by the Calculation Amount, where “**Calculation Amount**” means U.S.\$1,000 and “**Day Count Fraction**” means, in respect of any period, the number of days in the relevant period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months).

- (iv) Distributions payable under this Condition 5 will be paid in accordance with Condition 7.
 - (v) All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 5 by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Guarantor, the Paying Agents, the Trustee and the Holders and (subject as aforesaid) no liability to any such person will attach to the Calculation Agent or the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.
- (b) *Rate of Distribution:* The Distribution Rate applicable to the Securities will be:
- (i) in respect of the period from, and including, the Issue Date to, but excluding, 6th February, 2025 (the “**First Reset Date**”), shall be a fixed rate per annum of 3.55 per cent. per annum and, with respect to the First Distribution Payment Date only, such distribution will amount to U.S.\$8.875 per Calculation Amount;
 - (ii) in respect of the period from, and including, the First Reset Date to, but excluding, 6th February, 2030 (the “**First Step-up Date**”), shall be a fixed rate per annum (expressed as a percentage) equal to the sum of:
 - (A) the then prevailing U.S. Treasury Rate; and
 - (B) the Initial Spread;
 - (iii) in respect of the period from, and including, the First Step-up Date to, but excluding, 6th February, 2045 (the “**Second Step-up Date**”), the Distribution Rate shall be reset on each Reset Date to a fixed rate per annum (expressed as a percentage) equal to the sum of:
 - (A) the then-prevailing U.S. Treasury Rate;
 - (B) the Initial Spread; and
 - (C) 0.25 per cent. (the “**Initial Step-up Margin**”);
 - (iv) in respect of the period from, and including, each Reset Date falling after the Second Step-up Date to, but excluding, the immediately following Reset Date, the Distribution Rate shall be reset on each Reset Date to a fixed rate per annum (expressed as a percentage) equal to the sum of:
 - (A) the then-prevailing U.S. Treasury Rate;
 - (B) the Initial Spread;
 - (C) the Initial Step-up Margin; and
 - (D) 0.75 per cent. (the “**Second Step-up Margin**”).

- (c) *Distribution Accrual:* Unless otherwise provided for in these Conditions, each Security will cease to confer the right to receive any Distributions from the due date for redemption unless, upon due presentation, payment of the full amount due is improperly withheld or refused. In such latter event, the right to a Distribution will continue to accrue at the applicable Distribution Rate (after as well as before any judgment) up to but excluding whichever is the earlier of:
- (i) the date on which all sums due in respect of the Securities are received by or on behalf of the relevant Holder; and
 - (ii) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Holders that it has received all sums due in respect of the Securities up to such seventh day (except to the extent that there is a failure in the subsequent payment to the relevant Holders under these Conditions).
- (d) *Distribution Deferral:*
- (i) *Deferral Election:* The Issuer may, at its sole discretion, elect to defer (in whole or in part) any Distribution which is otherwise scheduled to be paid on a Distribution Payment Date to the next Distribution Payment Date by giving notice (a “**Deferral Election Notice**”) to the Holders (in accordance with Condition 15) and to the Trustee and the Principal Paying Agent in writing not more than ten business days nor less than five business days prior to a scheduled Distribution Payment Date unless a Compulsory Distribution Payment Event has occurred (a “**Deferral Election Event**”). Any partial payment of outstanding Distributions (including any Arrears of Distribution and any Additional Distribution Amount) by the Issuer shall be shared by the Holders of all outstanding Securities on a *pro rata* basis.
 - (ii) *No obligation to pay:* The Issuer shall have no obligation to pay any Distribution (including any Arrears of Distribution and any Additional Distribution Amount) on any Distribution Payment Date if it elects not to do so in accordance with Condition 5(d)(i).
 - (iii) *Requirements as to Notice:* Each Deferral Election Notice shall be accompanied, in the case of the notice to the Trustee and the Principal Paying Agent, by a certificate in the form attached as Schedule 5 to the Trust Deed signed by two directors of the Issuer (each of whom are Authorised Signatories of the Issuer) confirming that no Compulsory Distribution Payment Event has occurred. The Trustee shall be entitled to accept such Deferral Election Notice and such certificate (if applicable) without investigation as sufficient evidence of the occurrence of a Deferral Election Event, in which event it shall be conclusive and binding on the Holders.
 - (iv) *Cumulative Deferral:* Any Distribution deferred pursuant to this Condition 5(d) shall constitute “**Arrears of Distribution**”. The Issuer may, at its sole discretion, elect (in the circumstances set out in Condition 5(d)(i)) to defer further any Arrears of Distribution by complying with the foregoing notice requirement applicable to any deferral of an accrued Distribution. The Issuer is not subject to any limit as to the number of times Distributions and Arrears of Distribution can or shall be deferred pursuant to this Condition 5(d) except that Condition 5(d)(v) shall be complied with until all outstanding Arrears of Distribution have been paid in full.

Each amount of Arrears of Distribution shall bear interest as if it constituted the principal of the Securities at the prevailing Distribution Rate and the amount of such interest (the “**Additional Distribution Amount**”) with respect to Arrears of Distribution shall be due and payable pursuant to this Condition 5 and shall be calculated by applying the applicable Distribution Rate to the amount of the Arrears of Distribution and otherwise *mutatis mutandis* as provided in the foregoing provisions of this Condition 5. The Additional Distribution Amount accrued up to any Distribution Payment Date shall be added (for the purpose of calculating the Additional Distribution Amount accruing thereafter) to the amount of Arrears of Distribution remaining unpaid on such Distribution Payment Date so that it will itself become Arrears of Distribution.

- (v) *Restrictions in the case of Deferral:* If, on any Distribution Payment Date, payment of all Distribution payments scheduled to be made on such date is not made in full, each of the Issuer and the Guarantor shall not, and each shall procure that none of its Subsidiaries will:
- (A) declare or pay any dividends or distributions or make any other payment, and will procure that no dividend, distribution or other payment is made, on any of the Junior Obligations or Parity Obligations of the Issuer or the Guarantor save that such restriction shall not apply to payments in respect of:
 - (1) any employee benefit plan or similar arrangements with or for the benefit of employees, officers, directors or consultants; or
 - (2) any of the Parity Obligations of the Issuer or the Guarantor made on a *pro rata* basis; or
 - (B) redeem, reduce, cancel, buy-back or acquire for any consideration any of the Junior Obligations or Parity Obligations of the Issuer or the Guarantor other than:
 - (1) a repurchase or other acquisition of securities in respect of an employment benefit plan or similar arrangement with or for the benefit of employees, officers, directors or consultants; or
 - (2) as a result of the exchange or conversion of the Parity Obligations of the Issuer or the Guarantor for the Junior Obligations of the Issuer or the Guarantor, as the case may be,
- in each case, unless and until:
- (X) the Issuer or the Guarantor, as the case may be, has satisfied in full all outstanding Arrears of Distribution and Additional Distribution Amounts; or
 - (Y) the Issuer, the Guarantor or the relevant Subsidiary of the Issuer or the Guarantor is permitted to do so by an Extraordinary Resolution of the Holders.
- (vi) *Satisfaction of Arrears of Distribution by payment:* The Issuer:
- (A) may satisfy any Arrears of Distribution (in whole or in part) at any time by giving notice of such election to the Holders (in accordance with Condition 15) and to the Trustee and the Principal Paying Agent in writing not more than 20 business days nor less than five business days prior to the relevant payment date specified in such notice (which notice is irrevocable and shall oblige the Issuer to pay the relevant Arrears of Distribution and all Additional Distribution Amounts on the payment date specified in such notice); and
 - (B) in any event shall satisfy any outstanding Arrears of Distribution and any Additional Distribution Amount (in whole but not in part) on the earliest of:
 - (1) the date of redemption of the Securities in accordance with the redemption events set out in Condition 6;
 - (2) the next Distribution Payment Date following the occurrence of a Compulsory Distribution Payment Event;
 - (3) the date on which an order is made or an effective resolution is passed for Winding-Up of the Issuer or the Guarantor; and
 - (4) the date of any substitution or variation in accordance with Condition 12(c).

Any partial payment of outstanding Arrears of Distribution and any Additional Distribution Amount by the Issuer shall be shared by the Holders of all outstanding Securities on a *pro rata* basis.

- (vii) *No default*: Notwithstanding any other provision in these Conditions or in the Trust Deed, the deferral of any Distribution payment in accordance with this Condition 5(e) shall not constitute a default for any purpose (including, without limitation, pursuant to Condition 9) on the part of the Issuer under the Securities or the Guarantor under the Guarantee or for any other purpose.

6 REDEMPTION AND PURCHASE

- (a) *No Fixed Redemption Date*: The Securities are perpetual securities in respect of which there is no fixed redemption date and the Issuer shall (subject to the provisions of Condition 3 and Condition 4 and without prejudice to Condition 9) only have the right to redeem or purchase them in accordance with the following provisions of this Condition 6.
- (b) *Redemption at the option of the Issuer*: The Issuer may, on giving not more than 60 nor less than 30 days' irrevocable notice to the Trustee and the Principal Paying Agent in writing and to the Holders (in accordance with Condition 15), redeem all but not some only of the Securities on:
- (i) any date during the period commencing on (and including) 6th November, 2024 up to (and including) the First Reset Date; or
- (ii) on any Distribution Payment Date thereafter,

(each such date being a "**Call Date**"). On expiry of such notice, the Issuer shall be bound to redeem the Securities on the relevant Call Date at their principal amount together with any Distribution accrued to but excluding the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount).

- (c) *Redemption for Gross-up Event*: The Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not more than 60 nor less than 30 days' irrevocable notice to the Trustee and the Principal Paying Agent in writing and to the Holders (in accordance with Condition 15) at their principal amount (together with any Distribution accrued to but excluding the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount)) if the Issuer or the Guarantor, as the case may be, satisfies the Trustee prior to the giving of such notice and in accordance with the Trust Deed that:
- (i) the Issuer or, if the Guarantee were called, the Guarantor has or will become obliged to pay Additional Tax Amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of any Relevant Jurisdiction (as defined in Condition 18), or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 23rd October, 2019; and
- (ii) such obligation cannot be avoided by the Issuer or, as the case may be, the Guarantor taking reasonable measures available to it (a "**Gross-Up Event**").

Prior to the publication of any notice of redemption pursuant to this Condition 6(c), the Issuer or the Guarantor, as the case may be, shall deliver to the Trustee:

- (A) a certificate signed by two directors of the Issuer (each of whom is an Authorised Signatory of the Issuer) or, as the case may be, by two directors of the Guarantor (each of whom is an Authorised Signatory of the Guarantor), stating that the obligation referred to in Condition 6(c)(i) cannot be avoided by the Issuer or, as the case may be, the Guarantor, taking reasonable measures available to it; and

- (B) an opinion, in form and substance satisfactory to the Trustee, of independent tax or legal advisers of recognised standing to the effect that the Issuer or, as the case may be, the Guarantor, has or will become obliged to pay such Additional Tax Amounts as a result of such change or amendment,

and the Trustee shall be entitled to accept such certificate and opinion without investigation as sufficient evidence of the satisfaction of the conditions precedent set out in Conditions 6(c)(i) and 6(c)(ii), in which event the same shall be conclusive and binding on the Holders.

Upon the expiry of any such notice as is referred to in this Condition 6(c), the Issuer shall be bound to redeem the Securities in accordance with this Condition 6(c). No such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or, as the case may be, the Guarantor would be obliged to pay such Additional Tax Amounts were a payment in respect of the Securities then payable.

- (d) *Redemption upon an Equity Credit Classification Event:* The Issuer may, at any time, on giving not more than 60 nor less than 30 days' irrevocable notice to the Trustee and the Principal Paying Agent in writing and to the Holders (in accordance with Condition 15), redeem all but not some only of the Securities at:
- (i) 101 per cent. of their principal amount (together with any Distribution accrued to but excluding the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount)) if such redemption occurs prior to 6th November, 2024 (being the date that falls three months prior to the First Reset Date); or
 - (ii) their principal amount (together with any Distribution accrued to but excluding the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount)) if such redemption occurs on or after 6th November, 2024 (being the date that falls three months prior to the First Reset Date),

if, immediately before giving such notice, an amendment, clarification or change has occurred or will occur in the equity credit for the Securities granted by S&P, Moody's or any other rating agency of equivalent international standing requested from time to time by the Guarantor to grant an equity classification to the Securities and, in each case, any of their respective successors to the rating business thereof (each a "**Rating Agency**" and, together, "**Rating Agencies**"), which amendment, clarification or change results or will result in an equity credit for the Securities being:

- (A) in the case of S&P, lower than the equity credit assigned immediately prior to that relevant amendment, clarification or change; or
- (B) in the case of Moody's, lower than the equity credit assigned immediately prior to that relevant amendment, clarification or change; or
- (C) in the case of any Rating Agency other than S&P or Moody's, lower than the equity credit assigned immediately prior to that relevant amendment, clarification or change,

(each an "**Equity Credit Classification Event**").

Prior to the publication of any notice of redemption pursuant to this Condition 6(d), the Guarantor shall deliver or procure that there is delivered to the Trustee a certificate signed by two directors of the Guarantor (each of whom is an Authorised Signatory of the Guarantor) stating that the circumstances referred to in this Condition 6(d) prevail and setting out the details of such circumstances.

The Trustee shall be entitled to accept such certificate without investigation as sufficient evidence of the satisfaction of the circumstances set out above in this Condition 6(d), in which event it shall be conclusive and binding on the Holders.

Upon the expiry of any such notice as is referred to in this Condition 6(d), the Issuer shall be bound to redeem the Securities in accordance with this Condition 6(d), provided that such date for redemption shall be no earlier than the last day before the date on which the Securities will no longer be eligible for the same or higher category of equity credit.

- (e) *Redemption for Accounting Reasons:* The Issuer may, at any time, on giving not more than 60 nor less than 30 days' irrevocable notice to the Trustee and the Principal Paying Agent in writing and to the Holders (in accordance with Condition 15), redeem all but not some only of the Securities at:
- (i) 101 per cent. of their principal amount (together with any Distribution accrued to but excluding the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount)) if such redemption occurs prior to 6th November, 2024 (being the date that falls three months prior to the First Reset Date); or
 - (ii) their principal amount (together with any Distribution accrued to but excluding the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount)) if such redemption occurs on or after 6th November, 2024 (being the date that falls three months prior to the First Reset Date),

if, immediately before giving such notice, a change or amendment to, or a change or amendment to any interpretation of, Hong Kong Financial Reporting Standards or any other internationally generally accepted accounting standards that the Guarantor has adopted for the purposes of the Guarantor's consolidated financial statements (the "**Relevant Accounting Standards**") has occurred or will occur, which change or amendment results or will result in the Securities, in whole or in part, not being permitted to be recorded as "equity" of the Guarantor in the consolidated financial statements of the Guarantor pursuant to the Relevant Accounting Standards (an "**Accounting Event**").

Prior to the publication of any notice of redemption pursuant to this Condition 6(e), the Guarantor shall deliver or procure that there is delivered to the Trustee:

- (A) a certificate, signed by two directors of the Guarantor (each of whom is an Authorised Signatory of the Guarantor), stating that the circumstances referred to above in this Condition 6(e) prevail and setting out the details of such circumstances; and
- (B) an opinion, in form and substance satisfactory to the Trustee, of the Guarantor's independent auditors or of a recognised accountancy firm of international standing stating that the circumstances referred to above in this Condition 6(e) prevail and the date on which the relevant change or amendment to the Relevant Accounting Standards is due to take effect.

The Trustee shall be entitled to accept such certificate and opinion without investigation as sufficient evidence of the satisfaction of the circumstances set out above, in which event they shall be conclusive and binding on the Holders.

Upon the expiry of any such notice as is referred to in this Condition 6(e), the Issuer shall be bound to redeem the Securities in accordance with this Condition 6(e), provided that such date for redemption shall be no earlier than the last day before the date on which the Securities are no longer permitted to be recorded as "equity" of the Guarantor pursuant to the Relevant Accounting Standards.

- (f) *Redemption in the case of Minimal Outstanding Amount:* The Issuer may, at any time, on giving not more than 60 nor less than 30 days' irrevocable notice to the Trustee and the Principal Paying Agent in writing and to the Holders (in accordance with Condition 15), redeem all but not some only of the Securities at their principal amount, together with any Distribution accrued to but excluding the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount), if, immediately before giving such notice, the aggregate principal amount of the Securities outstanding is less than 25 per cent. of the aggregate principal amount of the Securities originally issued (and including any

additional Securities issued in accordance with Condition 14, if any). Upon expiry of any such notice as is referred to in this Condition 6(f), the Issuer shall be bound to redeem the Securities in accordance with this Condition 6(f).

- (g) *No other redemption:* The Issuer shall not be entitled to redeem the Securities and neither the Issuer nor the Guarantor shall have any obligation to make any payment of principal in respect of the Securities otherwise than as provided in Conditions 6(b) to 6(f) (both inclusive) or Condition 9.
- (h) *Purchase:* The Issuer, the Guarantor, any other Subsidiary of the Guarantor, any holding company of the Guarantor or any other Subsidiary of such holding company may at any time purchase Securities in the open market or otherwise at any price.

The Securities so purchased, while held by or on behalf of the Issuer, the Guarantor, any other Subsidiary of the Guarantor, any holding company of the Guarantor or any other Subsidiary of such holding company, shall not entitle the Holder thereof to vote at any meetings of the Holders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Holders or for the purposes of Condition 12(a) or for any other purpose described in the proviso to the definition of “outstanding” set out in the Trust Deed.

- (i) *Cancellation:* All Certificates representing Securities purchased by or on behalf of the Issuer, the Guarantor, any other Subsidiary of the Guarantor, any holding company of the Guarantor or any other Subsidiary of such holding company shall be surrendered for cancellation to the Registrar and, upon surrender thereof, all such Securities shall be cancelled forthwith. Any Certificates so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Securities shall be discharged immediately upon cancellation of the relevant Certificates.

7 PAYMENTS

(a) *Method of Payment:*

- (i) Payments of principal and Distributions shall be made (subject to surrender of the relevant Certificates at the specified office of any Paying Agent or of the Registrar if no further payment falls to be made in respect of the Securities represented by such Certificates) in the manner provided in Condition 7(a)(ii).
- (ii) Distributions on each Security shall be paid to the person shown as the Holder on the Register at the close of business on the 15th business day before the due date for payment thereof (the “**Record Date**”). Payments of Distributions on each Security shall be made in U.S. dollars by transfer to the registered account of the Holder.

*So long as the Global Certificate is held on behalf of Euroclear and Clearstream, Luxembourg or any other clearing system, each payment in respect of the Global Certificate will be made to the person shown as the holder in the Register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where “**Clearing System Business Day**” means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.*

- (iii) For the purposes of this Condition 7, a Holder’s “**registered account**” means the U.S. dollar account maintained by or on behalf of it with a bank that processes payments in U.S. dollars, details of which appear on the Register at the close of business on the 5th business day before the due date for payment.
- (iv) If the amount of principal being paid upon surrender of the relevant Certificate is less than the outstanding principal amount of such Certificate, the Registrar will annotate the Register with the amount of principal so paid and will (if so requested by the Issuer or a Holder) issue a new Certificate with a principal amount equal to the remaining

unpaid outstanding principal amount. If the amount of a Distribution being paid is less than the amount then due, the Registrar will annotate the Register with the amount of the Distribution so paid.

- (b) *Payments subject to Fiscal Laws:* All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment. No commission or expenses shall be charged to the Holders in respect of such payments.
- (c) *Payment Initiation:* Payment instructions (for value the due date, or if that is not a business day, for value the first following day which is a business day) will be initiated, on the last day on which the Principal Paying Agent is open for business preceding the due date for payment or, in the case of payments of principal where the relevant Certificate has not been surrendered at the specified office of any Paying Agent or of the Registrar, on a day on which the Principal Paying Agent is open for business and on which the relevant Certificate is surrendered.
- (d) *Appointment of Agents:* The Agents initially appointed by the Issuer and their respective specified offices are listed below. The Agents act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Holder. The Issuer and the Guarantor reserve the right at any time with the approval of the Trustee to vary or terminate the appointment of any Agent and to appoint additional or other Agents, provided that:
 - (i) there will at all times be a Principal Paying Agent and a Calculation Agent;
 - (ii) there will at all times be a Registrar which will maintain the Register outside Hong Kong and the United Kingdom; and
 - (iii) so long as the Securities are listed on The Stock Exchange of Hong Kong Limited and The Stock Exchange of Hong Kong Limited so requires, there will be a Paying Agent with a specified office in Hong Kong.

Notice of any such change or any change of any specified office shall promptly be given to the Holders in accordance with Condition 15.

- (e) *Delay in Payment:* Holders will not be entitled to any Distribution or other payment for any delay after the due date in receiving the amount due on a Security if the due date is not a business day or if the Holder is late in surrendering or cannot surrender its Certificate (if required to do so).
- (f) *Non-Business Days:* If any date for payment in respect of any Security is not a business day, the Holder shall not be entitled to payment until the next following business day nor to any Distribution or other sum in respect of such postponed payment.

8 TAXATION

- (a) *Payment without Withholding:* All payments of principal and Distributions (including any Arrears of Distribution or any Additional Distribution Amount) by or on behalf of the Issuer in respect of the Securities and the Guarantor in respect of the Guarantee shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (“**Taxes**”) imposed or levied by or on behalf of any of the Relevant Jurisdictions, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer or, as the case may be, the Guarantor will pay such additional amounts (“**Additional Tax Amounts**”) as may be necessary in order that the net amounts received by the Holders after the withholding or deduction shall equal the respective amounts which would have been

receivable in respect of the Securities in the absence of the withholding or deduction, except that no Additional Tax Amounts shall be payable in relation to any payment in respect of any Securities:

- (i) *other connection:* to a Holder (or a third party on behalf of a Holder) who is liable to the Taxes in respect of the Securities by reason of his having some connection with any Relevant Jurisdiction other than the mere holding of the Securities; or
 - (ii) *presentation more than 30 days after the Relevant Date:* if the Certificate in respect of such Security is presented for payment more than 30 days after the Relevant Date (as defined in Condition 18) except to the extent that a Holder would have been entitled to Additional Tax Amounts on presenting the same for payment on the last day of the period of 30 days assuming (whether or not such is in fact the case) that day to have been a business day); or
 - (iii) *lawful avoidance of withholding:* if the Certificate in respect of such Security is presented for payment by or on behalf of a Holder who, at the time of such presentation, is able to avoid such withholding or deduction by making a declaration of non-residence or other similar claim for exemption and who does not make such declaration or claim.
- (b) *Additional Tax Amounts:* Any reference in these Conditions to principal, Distribution, Arrears of Distribution or Additional Distribution Amount shall be deemed to include any Additional Tax Amounts in respect of such principal, Distribution, Arrears of Distribution or Additional Distribution Amount (as the case may be) which may be payable under this Condition 8 or any undertaking given in addition to or in substitution of this Condition 8 pursuant to the Trust Deed.

9 NON-PAYMENT

- (a) *Non-payment when due:* Notwithstanding any of the provisions below in this Condition 9, the right to institute proceedings for Winding-Up is limited to circumstances where payment in respect of the Securities has become due but has not been paid. In the case of any Distribution, such Distribution will not be due if the Issuer has elected to defer that Distribution in accordance with Condition 5(d). In addition, nothing in this Condition 9, including any restriction on commencing proceedings, shall in any way restrict or limit any rights of the Trustee or any of its directors, officers, employees or Appointees (as defined in the Trust Deed) to claim from or to otherwise take any action against the Issuer and/or the Guarantor in respect of any costs, charges, fees, expenses or liabilities incurred by such party pursuant to or in connection with the Trust Deed or the Securities.
- (b) *Proceedings for Winding-Up:* If:
- (i) an order is made or an effective resolution is passed for the Winding-Up of the Issuer or the Guarantor; or
 - (ii) the Issuer has not made payment in respect of the Securities or the Guarantor has not made payment in respect of the Guarantee for a period (in either case) of ten days or more after the date on which such payment is due,

the Issuer or, as the case may be, the Guarantor shall be deemed to be in default under the Trust Deed, the Securities and, in the case of the Guarantor, the Guarantee, and the Trustee may, subject to the provisions of Condition 9(d), institute proceedings for the Winding-Up of the Issuer and/or the Guarantor and/or prove in the Winding-Up of the Issuer and/or the Guarantor and/or claim in the liquidation of the Issuer and/or the Guarantor for such payment.

- (c) *Enforcement:* Without prejudice to Condition 9(b) but subject to the provisions of Condition 9(d), the Trustee may at its discretion and without notice to the Issuer or the Guarantor take and/or institute such steps and/or actions and/or proceedings, as the case may be, against the

Issuer and/or the Guarantor as it may think fit to enforce any term or condition binding on the Issuer and/or the Guarantor under the Trust Deed or the Securities (other than any payment obligation of the Issuer or the Guarantor under or arising from the Securities or the Trust Deed, including, without limitation, payment of any principal or Distributions (including any Arrears of Distribution and any Additional Distribution Amount) in respect of the Securities or the Guarantee, including any damages awarded for breach of any obligations) and in no event shall the Issuer or the Guarantor, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it.

- (d) *Entitlement of Trustee:* The Trustee shall not and shall not be obliged to take any of the actions referred to in Condition 9(b) or Condition 9(c) above against the Issuer and/or the Guarantor to enforce the terms of the Trust Deed or the Securities unless:
- (i) it shall have been so requested by an Extraordinary Resolution of the Holders or in writing by the Holders of at least 25 per cent. in aggregate principal amount of the Securities then outstanding; and
 - (ii) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction.
- (e) *Right of Holders:* No Holder shall be entitled to proceed directly against the Issuer or the Guarantor or to institute proceedings for the Winding-Up of the Issuer and/or the Guarantor or claim in the liquidation of the Issuer and/or the Guarantor or to prove in such Winding-Up unless the Trustee, having become so bound to proceed or being able to prove in such Winding-Up or claim in such liquidation, fails to do so within a reasonable period and such failure shall be continuing, in which case the Holder shall have only such rights against the Issuer and/or the Guarantor as those which the Trustee is entitled to exercise as set out in this Condition 9.
- (f) *Extent of Holders' remedy:* No remedy against the Issuer or the Guarantor, other than as referred to in this Condition 9, shall be available to the Trustee or the Holders, whether for the recovery of amounts owing in respect of the Securities or the Guarantee or under the Trust Deed or in respect of any breach by the Issuer or the Guarantor of any of its other obligations under or in respect of the Securities or the Guarantee or under the Trust Deed.

10 PRESCRIPTION

Claims against the Issuer and the Guarantor for payment in respect of the Securities shall be prescribed and become void unless made within ten years (in the case of principal) or five years (in the case of Distributions) from the appropriate Relevant Date in respect of them.

11 REPLACEMENT OF CERTIFICATES

If any Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations or other relevant regulatory authority regulations, at the specified office of the Registrar, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security, indemnity and otherwise as the Issuer and the Guarantor may require (provided that the requirement is reasonable in light of prevailing market practice). Mutilated or defaced Certificates must be surrendered before replacements will be issued.

12 MEETINGS OF HOLDERS, MODIFICATION, SUBSTITUTION OR VARIATION AND ENTITLEMENT OF TRUSTEE

- (a) *Meetings of Holders:* The Trust Deed contains provisions for convening meetings of the Holders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of any of these Conditions or any of the provisions of the Trust Deed. Such a meeting may be convened by the Issuer, the Guarantor or the Trustee and shall be convened by the Trustee if required in writing by Holders holding not less than 10 per cent. in aggregate principal amount of the Securities for the time being outstanding. The quorum at any meeting for passing an Extraordinary Resolution will be one

or more persons present holding or representing more than 50 per cent. in aggregate principal amount of the Securities for the time being outstanding, or at any adjourned such meeting two or more persons present whatever the principal amount of the Securities held or represented by him or them, except that, at any meeting the business of which includes the modification or abrogation of certain of the provisions of these Conditions and certain of the provisions of the Trust Deed, including consideration of proposals, *inter alia*:

- (i) to modify the dates for redemption of the Securities pursuant to Conditions 6(b), 6(c), 6(d), 6(e) or 6(f) or the dates on which Distributions (including any Arrears of Distribution or Additional Distribution Amounts) are payable in respect of the Securities;
- (ii) to reduce or cancel the principal amount of, or Distributions (including any Arrears of Distribution or Additional Distribution Amounts) on or to vary the method of calculating the Distribution Rate or to reduce the Distribution Rate on, the Securities;
- (iii) to change the currency of payment of the Securities;
- (iv) to amend the subordination provisions of the Trust Deed and/or Conditions;
- (v) to modify or cancel the Guarantee;
- (vi) to modify the provisions concerning the quorum required at any meeting of Holders or the majority required to pass an Extraordinary Resolution; or
- (vii) to alter this proviso,

(each a “**Reserved Matter**”), the necessary quorum for passing an Extraordinary Resolution will be two or more persons present holding or representing not less than $66 \frac{2}{3}$ per cent., or at any adjourned such meeting not less than $33 \frac{1}{3}$ per cent., of the aggregate principal amount of the Securities for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Holders will be binding on all Holders, whether or not they are present at the meeting.

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 95 per cent. in aggregate principal amount of the Securities for the time being outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Holders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Holders.

- (b) *Modification, Waiver, Authorisation and Determination:* The Trustee may agree (but is not obliged to agree), without the consent of the Holders, to:
 - (i) any modification of any of these Conditions or any of the provisions of the Trust Deed, that in the opinion of the Trustee is of a formal, minor or technical nature or is made to correct a manifest error, and
 - (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of these Conditions or any of the provisions of the Trust Deed that is in the opinion of the Trustee not materially prejudicial to the interests of the Holders.

Any such modification, authorisation or waiver shall be binding on the Holders and, unless the Trustee otherwise permits, such modification, authorisation or waiver shall be notified by the Issuer to the Holders as soon as practicable.

- (c) *Substitution or Variation:* If a Special Event has occurred and is continuing, then the Issuer may, subject to Condition 5 (without any requirement for the consent or approval of the Holders) and subject to it having satisfied the Trustee immediately prior to the giving of any

notice referred to herein that the provisions of this Condition 12(c) have been complied with, and having given not less than 30 nor more than 60 days' irrevocable notice in writing to the Trustee and the Principal Paying Agent in writing and to the Holders (in accordance with Condition 15), at any time either:

- (i) substitute all, but not some only, of the Securities for; or
- (ii) vary the terms of the Securities with the effect that they remain or become (as the case may be), Qualifying Securities,

and the Trustee shall (subject to the following provisions of this Condition 12(c) and subject to the receipt by it of the certificate of the directors of the Guarantor (each of whom is an Authorised Signatory of the Guarantor) referred to in Clause 9.22 of the Trust Deed) agree to such substitution or variation. Upon expiry of such notice, the Issuer shall either vary the terms of or, as the case may be, substitute the Securities in accordance with this Condition 12(c).

In connection therewith, any outstanding Arrears of Distribution (including any Additional Distribution Amount) shall be satisfied in full in accordance with the provisions of Condition 5(d)(vi).

In connection with any substitution or variation in accordance with this Condition 12(c), the Issuer shall comply with the rules of any stock exchange on which the Securities are for the time being listed or admitted to trading.

Any such substitution or variation in accordance with the foregoing provisions shall not be permitted if any such substitution or variation would itself give rise to a Special Event with respect to the Securities or the Qualifying Securities.

- (d) *Entitlement of the Trustee:* In connection with the exercise of its functions, rights, powers and discretions (including but not limited to those referred to in this Condition 12), the Trustee shall have regard to the interests of the Holders as a class and shall not have regard to the consequences of such exercise for individual Holders and the Trustee shall not be entitled to require on behalf of any Holder, nor shall any Holder be entitled to claim, from the Issuer or the Guarantor or the Trustee any indemnification or payment in respect of any tax or other consequence of any such exercise upon individual Holders.

13 INDEMNIFICATION OF THE TRUSTEE

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking steps, actions and/or proceedings to enforce payment or taking other actions unless first indemnified and/or secured and/or pre-funded to its satisfaction.

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*:

- (a) to enter into business transactions with the Issuer and/or the Guarantor and/or any entity related (directly or indirectly) to the Issuer and/or the Guarantor and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or the Guarantor and/or any entity related (directly or indirectly) to the Issuer and/or the Guarantor;
- (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Holders; and
- (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

The Trustee may rely without liability to Holders, the Issuer, the Guarantor or any other person on any report, opinion, confirmation or certificate or any advice of any accountants, legal advisers, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or any other person or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice, in which case such report, opinion, confirmation, certificate or advice shall be binding on the Issuer, the Guarantor and the Holders.

14 FURTHER ISSUES

The Issuer may from time to time without the consent of the Holders create and issue further securities either:

- (a) ranking *pari passu* in all respects (or in all respects save for the first Distribution paid thereon) and so that the same shall be consolidated and form a single series with the Securities constituted by the Trust Deed or any supplemental deed; or
- (b) upon such terms as the Issuer may determine at the time of the issue.

References in these Conditions to the Securities include (unless the context requires otherwise) any other securities issued pursuant to this Condition 14 and consolidated and forming a single series with the Securities.

Any further securities which are to be consolidated and form a single series with the outstanding Securities constituted by the Trust Deed or any supplemental deed shall be constituted by a deed supplemental to the Trust Deed.

15 NOTICES

Notices to the Holders will be valid if mailed to them at their respective addresses in the Register or published in a leading newspaper having general circulation in Hong Kong or, if such publication shall not be practicable, in a daily newspaper with general circulation in Asia approved in writing by the Trustee. It is expected that such publication will normally be made in the *Asian Wall Street Journal*. The Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Securities are for the time being listed. Any notice shall be deemed to have been given on the fourth day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of the first publication.

So long as the Securities are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream, Luxembourg, notices to Holders shall be given by delivery of the relevant notice to Euroclear or Clearstream, Luxembourg for communication by it to the entitled accountholders in substitution for notification as required by these Conditions and shall be deemed to have been given on the date of delivery to such clearing system.

16 CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

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

17 GOVERNING LAW AND SUBMISSION TO JURISDICTION

- (a) *Governing Law:* The Trust Deed, the Securities and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law, except that:
- (i) Clause 6.10 of the Trust Deed and Condition 4(c) are governed by, and shall be construed in accordance with, Hong Kong law; and
 - (ii) Clause 5.2 of the Trust Deed and Condition 3(b) are governed by, and shall be construed in accordance with, the laws of the British Virgin Islands.
- (b) *Submission to Jurisdiction:*
- (i) Each of the Issuer and the Guarantor has in the Trust Deed agreed, for the benefit of the Trustee and the Holders that the English courts are to have jurisdiction to settle any dispute arising out of or in connection with the Trust Deed and/or the Securities, including any dispute relating to any non-contractual obligations arising out of or in connection with the Trust Deed and/or the Securities, and accordingly any suit, action or proceedings (together referred to as “**Proceedings**”) obligations arising out of or in connection with the Trust Deed and/or the Securities may be brought in such courts.
 - (ii) Each of the Issuer and the Guarantor has in the Trust Deed irrevocably waived any objection which it may have now or hereafter to the laying of the venue of any such Proceedings in any such court and any claim that any such Proceedings have been brought in an inconvenient forum and has further irrevocably agreed in the Trust Deed that a judgment in any such Proceedings brought in the English courts shall be conclusive and binding upon it and may be enforced in the courts of any other jurisdiction.
 - (iii) To the extent allowed by law, nothing shall limit any right to take Proceedings against the Issuer or the Guarantor in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.
- (c) *Appointment of Process Agent:* Each of the Issuer and the Guarantor has, in the Trust Deed, appointed Law Debenture Corporate Services Limited at its registered office at Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom as its agent for service of process in any proceedings before the English courts in relation to any Proceedings, and has agreed that, in the event that Law Debenture Corporate Services Limited ceases to be able or to be willing for any reason so to act, it will immediately appoint another person as its agent for service of process in England and deliver to the Trustee a copy of the agent’s acceptance of that appointment within 30 days of such cessation. Each of the Issuer and the Guarantor has agreed that failure by a process agent to notify it of any process will not invalidate service and that nothing in the Trust Deed or these Conditions shall affect the right to serve process in any other manner permitted by law.

18 DEFINITIONS

In these Conditions:

“**Accounting Event**” has the meaning set out in Condition 6(e);

“**Additional Distribution Amount**” has the meaning set out in Condition 5(d)(iv);

“**Additional Tax Amounts**” has the meaning set out in Condition 8(a);

“**Arrears of Distribution**” has the meaning set out in Condition 5(d)(iv);

“**Authorised Signatory**” has the meaning set out in the Trust Deed;

“**business day**” means:

- (a) in respect of Condition 2(b), a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be);
- (b) in respect of Condition 5 and a Calculation Date, any day, excluding a Saturday and a Sunday, on which banks are open for general business (including dealings in foreign currencies) in Hong Kong, London and New York City; and
- (c) in respect of Condition 7 and Condition 8, a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the place in which the specified office of the Registrar is located and, in the case of presentation of a Certificate, in the place in which the Certificate is presented and where payment is to be made by transfer to an account maintained with a bank in New York City, on which foreign exchange transactions may be carried on in U.S. dollars in New York City;

“**Call Date**” has the meaning set out in Condition 6(b);

“**Calculation Amount**” has the meaning set out in Condition 5(a)(iii);

“**Calculation Date**” means the second business day prior to the relevant Reset Date;

“**Certificates**” has the meaning set out in Condition 1;

“**Comparable Treasury Issue**” means the U.S. Treasury security selected by the Issuer as having a maturity of five years that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities with a maturity of five years;

“**Comparable Treasury Price**” means, with respect to the second business day immediately preceding the Reset Date, the average of three Reference Treasury Dealer Quotations for the relevant Calculation Date;

“**Compulsory Distribution Payment Event**” means circumstances in which during the six month period ending on the day before the relevant scheduled Distribution Payment Date either or both of the following have occurred:

- (a) a discretionary dividend, distribution or other payment has been declared, paid or made by the Issuer, the Guarantor or any of their respective Subsidiaries on or in respect of any of the Junior Obligations or the Parity Obligations of the Issuer or the Guarantor other than a dividend, distribution or other payment in respect of:
 - (i) an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors or consultants; or
 - (ii) any Parity Obligations of the Issuer or the Guarantor made on a *pro rata* basis; or
- (b) the Issuer, the Guarantor or any of their respective Subsidiaries has at its discretion repurchased, redeemed or otherwise acquired any of the Junior Obligations or the Parity Obligations of the Issuer or the Guarantor other than:
 - (i) a repurchase or other acquisition of securities in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors or consultants; or
 - (ii) as a result of the exchange or conversion of the Parity Obligations of the Issuer or the Guarantor for the Junior Obligations of the Issuer or the Guarantor, as the case may be;

“**Day Count Fraction**” has the meaning set out in Condition 5(a)(iii);

“**Deferral Election Event**” has the meaning set out in Condition 5(d)(i);

“**Deferral Election Notice**” has the meaning set out in Condition 5(d)(i);

“**Distribution**” has the meaning set out in Condition 5(a);

“**Distribution Payment Date**” has the meaning set out in Condition 5(a)(ii);

“**Distribution Rate**” has the meaning set out in Condition 5(a);

“**Equity Credit Classification Event**” has the meaning set out in Condition 6(d);

“**Extraordinary Resolution**” has the meaning given to it in the Trust Deed;

“**First Reset Date**” has the meaning set out in Condition 5(b)(i);

“**First Step-up Date**” has the meaning set out in Condition 5(b)(ii);

“**Gross-Up Event**” has the meaning set out in Condition 6(c)(ii);

“**Guarantee**” has the meaning set out in Condition 4(a);

“**Holder**” or “**holder**” has the meaning set out in Condition 1;

“**Initial Spread**” means 2.041 per cent. per annum;

“**Initial Step-up Margin**” has the meaning set out in Condition 5(b)(iii);

“**Issue Date**” has the meaning set out in the introductory paragraphs to these Conditions;

“**Junior Obligations**” means any class of the Issuer’s or, as the case may be, the Guarantor’s share capital, other than any instrument or security (including without limitation any preference shares) ranking in priority in payment and in all other respects to the ordinary shares of the Issuer or, as the case may be, the Guarantor;

“**Moody’s**” means Moody’s Investors Service, Inc., or any of its subsidiaries and their successors;

“**Parity Obligations**” means any instrument or security (including preference shares) issued, entered into or guaranteed by the Issuer or, as the case may be, the Guarantor:

- (a) which ranks or is expressed to rank, by its terms or by operation of law, *pari passu* with an Issuer Notional Preference Share (in the case of the Issuer) or a Guarantor Notional Preference Share (in the case of the Guarantor); and
- (b) the terms of which provide that the making of payments thereon or distributions in respect thereof are fully at the discretion of the Issuer or, as the case may be, the Guarantor, and/or, in the case of an instrument or security guaranteed by the Issuer or, as the case may be, the Guarantor, the issuer thereof;

“**Qualifying Securities**” means securities that:

- (a) have terms not materially less favourable to an investor than the terms of the Securities (as reasonably determined by the Guarantor and an independent investment bank, and provided that a certificate to such effect (and confirming that the conditions set out in (i) to (iv) below of this definition have been satisfied) signed by two directors of the Guarantor (each of whom is an Authorised Signatory of the Guarantor) and from an independent investment bank, shall have been delivered to the Trustee prior to the substitution or variation of the relevant Securities upon which certificate the Trustee shall rely absolutely and which shall be binding on the Holders), provided that:

- (i) they are issued by the Guarantor, the Issuer or any wholly-owned direct or indirect finance Subsidiary of the Guarantor;
 - (ii) they are unconditionally and irrevocably guaranteed by the Guarantor where not issued by the Guarantor;
 - (iii) they (or, as appropriate, the guarantee as aforesaid) shall rank *pari passu* with the Securities on a Winding-Up, shall preserve the Holders' rights to any Arrears of Distribution, any Additional Distribution Amount and any other payment that has accrued with respect to the Securities, and shall contain terms which provide at least for the same Distribution Rate, subsequent Distribution Payment Dates and redemption events, from time to time applying to the Securities; and other terms of such securities are substantially identical (as reasonably determined by the Guarantor and an independent investment bank) to the Securities and, other than in the case of an Equity Credit Classification Event, have an equity content or credit that is the same or better than the equity credit assigned to the Securities before the substitution or variation, save for any modifications to such terms that are required to be made to avoid or resolve the occurrence of a Special Event; and
 - (iv) they shall not contain loss-absorbing provisions, such as principal write-offs, write-downs or conversion to equity;
- (b) have been, or will on issue be, assigned at least the same rating as that assigned by all relevant Rating Agencies where the Securities were so rated (other than unsolicited ratings) prior to substitution or variation as provided in Condition 12(c); and
 - (c) are listed on The Stock Exchange of Hong Kong Limited or another securities exchange of international standing regularly used for the listing and quoting of debt securities offered and traded in the international markets;

“**Rating Agency**” has the meaning set out in Condition 6(d);

“**Record Date**” has the meaning set out in Condition 7(a)(ii);

“**Reference Treasury Dealer**” means each of the three nationally recognised investment banking firms selected by the Issuer that are primary U.S. Government securities dealers;

“**Reference Treasury Dealer Quotations**” means, with respect to each Reference Treasury Dealer and the Calculation Date, the average, as determined by the Calculation Agent, of the bid and ask prices for the Comparable Treasury Issue, expressed in each case as a percentage of its principal amount, quoted in writing to the Issuer by such Reference Treasury Dealer at 5:00 p.m. (New York City time), on the relevant Calculation Date and then notified in writing by the Issuer to the Calculation Agent and the Trustee;

“**Register**” has the meaning set out in Condition 1;

“**Relevant Accounting Standards**” has the meaning set out in Condition 6(e);

“**Relevant Date**” in respect of any Security means the date on which payment in respect of it first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Paying Agent or the Registrar, as the case may be, on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Holders in accordance with Condition 15;

“**Relevant Jurisdiction**” means the British Virgin Islands or Hong Kong or, in each case, any political subdivision or any authority therein or thereof having power to tax to which the Issuer or the Guarantor becomes subject in respect of payments made by it of any sums due in respect of the Securities;

“**Reset Date**” means the First Reset Date and each day falling five calendar years after the First Reset Date;

“**S&P**” means S&P Global Ratings, a division of S&P Global Inc. or any of its subsidiaries and their successors;

“**Second Step-up Date**” has the meaning set out in Condition 5(b)(ii);

“**Second Step-up Margin**” has the meaning set out in Condition 5(b)(iv);

“**Special Event**” means a Gross-Up Event, an Accounting Event, an Equity Credit Classification Event or any combination of the foregoing;

“**Subsidiary**” means, in relation to the Issuer or the Guarantor, any company:

- (a) in which the Issuer or as the case may be, the Guarantor holds a majority of the voting rights; or
- (b) of which the Issuer or, as the case may be, the Guarantor is a member and has the right to appoint or remove a majority of the board of directors; or
- (c) of which the Issuer or as the case may be, the Guarantor is a member and controls a majority of the voting rights,

and includes any company which is a Subsidiary of a Subsidiary of the Issuer or as the case may be, the Guarantor;

“**U.S. Treasury Rate**” means the rate in percentage per annum as notified by the Calculation Agent to the Issuer, the Trustee and the Agents in writing and to the Holders (in accordance with Condition 15) equal to the yield on U.S. Treasury securities having a maturity of five years as set forth in H.15(519) under the caption “*Treasury constant maturities*”, as displayed on Reuters page “*FRBCMT*” (or any successor page or service displaying yields on U.S. Treasury securities as agreed between the Issuer and the Calculation Agent), at 5:00 p.m. (New York time) on the Calculation Date.

If such page (or any successor page or service) does not display the relevant yield at 5:00 p.m. (New York time) on the Calculation Date, “**U.S. Treasury Rate**” shall mean the rate in percentage per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price on the relevant Calculation Date.

If there is no Comparable Treasury Price on the relevant Calculation Date for whatever reason, “**U.S. Treasury Rate**” means the rate in percentage per annum as notified by the Calculation Agent in writing to the Issuer equal to the yield on U.S. Treasury securities having a maturity of five years as set forth in H.15(519) under the caption “*Treasury constant maturities*”, as was displayed on Reuters page “*FRBCMT*” (or any successor page or service displaying yields on U.S. Treasury securities as agreed between the Issuer and the Calculation Agent), at 5:00 p.m. (New York time) on the last available date preceding the Calculation Date on which such rate was displayed on Reuters page “*FRBCMT*” (or any successor page or service displaying yields on U.S. Treasury securities as agreed between the Issuer and the Calculation Agent); and

“**Winding-Up**” means, with respect to the Issuer or, as the case may be, the Guarantor, a final and effective order or resolution by a competent authority in the respective jurisdiction of incorporation of the Issuer or, as the case may be, the Guarantor for the winding up, liquidation or similar proceedings in respect of the Issuer or, as the case may be, the Guarantor.

The following paragraphs in italics do not form part of the Terms and Conditions of the Securities:

Restrictions regarding redemption of the Securities (the “**Restrictions**”):

The Issuer intends (without thereby assuming any legal obligation to do so), during the period from the Issue Date to and including the Second Step-up Date, that if the Securities are assigned an “equity credit” (or such other nomenclature that S&P may then use to describe the degree to which an instrument exhibits the characteristics of an ordinary share) at the time of such redemption or repurchase, that it will redeem or repurchase the Securities pursuant to:

- (1) a redemption of the Securities at the option of the Issuer pursuant to Condition 6(b);*
- (2) a repurchase of the Securities by the Issuer, the Guarantor or any of their respective Subsidiaries under Condition 6(h) of more than:*
 - (i) 10 per cent. of the aggregate principal amount of the Securities issued on the Issue Date in any consecutive 12 month period; or*
 - (ii) 25 per cent. of the aggregate principal amount of the Securities issued on the Issue Date in any consecutive 10 year period,*

only to the extent the Aggregate Equity Credit of the Securities at the time of issue to be redeemed or repurchased does not exceed the Aggregate Equity Credit received by the Guarantor or any other Subsidiaries of the Guarantor during the 365 day period prior to the date of such redemption or repurchase from certain securities offerings. Such offerings must involve the sale or issuance by the Guarantor or any other Subsidiaries of the Guarantor to third party purchasers other than the Guarantor or any other Subsidiaries of the Guarantor, of securities which are assigned by S&P, at the time of sale or issuance, an “equity credit” that is equal to or greater than the equity credit assigned to the Securities to be redeemed or repurchased at the time of issue (taking into account any changes in hybrid capital methodology or another relevant methodology or the interpretation thereof since the issuance of the Securities).

The Restrictions described above shall not apply if on the date of such redemption or repurchase:

- (a) the Guarantor has a corporate credit rating from S&P that is equal to or greater than the rating assigned to the Guarantor by S&P as at the Issue Date, and to the best knowledge of the Guarantor, after giving effect to such redemption or repurchase, such rating will not be revised downward, withdrawn or placed on review or “creditwatch” with negative implications (or other similar review or change of outlook) by S&P to levels below the rating assigned to the Guarantor as at the Issue Date as a result of such redemption or repurchase; or*
- (b) the Securities are not assigned any category (not even ‘no’) of “equity credit” at the time of such redemption or repurchase; or*
- (c) a Special Event has occurred; or*
- (d) the Issuer, the Guarantor or any other Subsidiaries of the Guarantor has individually or in the aggregate, redeemed, cancelled or purchased the Securities equal to or in excess of 75 per cent. of the aggregate principal amount of the Securities issued on the Issue Date; or*
- (e) the statements made in the Restrictions set forth hereunder are no longer required for the Securities to be assigned an “equity credit” that is equal to or greater than the equity credit assigned by S&P on the Issue Date;*

- (f) *in the case of a repurchase, such repurchase relates to an aggregate principal amount of Securities which is less than or equal to the excess (if any) above the maximum aggregate principal amount of the Guarantor's hybrid capital to which S&P then assigns "equity credit" under its prevailing methodology; or*
- (g) *there shall have occurred a general moratorium on, or disruption in, commercial banking activities in the British Virgin Islands, Hong Kong, the United Kingdom, European Economic Area or the United States by any British Virgin Islands, Hong Kong, the United Kingdom, European Economic Area, New York State or United States Federal authorities, which would be, in the Issuer's sole opinion, likely to materially prejudice dealings in the Securities in the secondary market.*

For the purpose of the Restrictions, "Aggregate Equity Credit" means the "equity credit" (as a percentage) assigned by S&P of the relevant securities multiplied by the aggregate principal amount of such securities with respect to which the calculation is being made.

THE GLOBAL CERTIFICATE

The Global Certificate contains the following provisions which apply to the Securities in respect of which they are issued whilst they are represented by the Global Certificate, some of which modify the effect of the Conditions. Terms defined in the Conditions have the same meaning in paragraphs 1 to 5 below.

1 Cancellation

Cancellation of any Security following its redemption or purchase by the Issuer, the Guarantor or any of their respective Subsidiaries will be effected by reduction in the aggregate principal amount of the Securities in the register of Holders and by the annotation of the appropriate schedule to the Global Certificate.

2 Payments

The Issuer, for value received, will promise to pay to the Holder of the Securities represented by the Global Certificate upon presentation and (when no further payment is due in respect of the Securities represented by the Global Certificate) surrender of the Global Certificate on the First Distribution Payment Date or relevant Distribution Payment Date (or on such earlier date as the amount payable upon redemption under the Terms and Conditions may become repayable in accordance with the Terms and Conditions) the amount payable upon redemption under the Conditions in respect of the Securities represented by the Global Certificate and to pay Distribution (including any Arrears of Distributions and any Additional Distribution Amount) in respect of such Securities from and including 6th November, 2019 in arrear at the rates on the dates for payment, in accordance with the method of calculation provided for in the Terms and Conditions, save that the calculation is made in respect of the total aggregate amount of the Securities represented by the Global Certificate together with such other sums and additional amounts (if any) as may be payable under the Terms and Conditions, in accordance with the Terms and Conditions.

Each payment will be made to or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date of payment, where “**Clearing System Business Day**” means Monday to Friday inclusive except 25th December and 1st January.

Distributions of amounts with respect to book-entry interests in the Securities held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Registrar, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system’s rules and procedures.

A record of each payment made will be endorsed on the appropriate schedule to the Global Certificate by or on behalf of the Registrar and shall be prima facie evidence that payment has been made.

3 Notices

Notices required to be given in respect of the Securities represented by the Global Certificate may be given by their being delivered (so long as the Securities are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and Clearstream, Luxembourg) to Euroclear, Clearstream, Luxembourg for communication by it to accountholders entitled to an interest in the Securities in substitution for notification as required by the Conditions, rather than by mailing to the addresses in the Register as required by the Conditions.

4 Meetings

For the purposes of any meeting of Holders of the Securities, the Holder of the Securities represented by the Global Certificate shall (unless the Global Certificate represents only one Security) be treated as two persons for the purposes of any quorum requirements of a meeting of Holders of the Securities and as being entitled to one vote in respect of each U.S.\$1,000 of the Securities.

5 Transfers

Transfers of the holding of Securities represented by the Global Certificate pursuant to Condition 2(a) may only be made in part if the Securities represented by the Global Certificate are held on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system (an “**Alternative Clearing System**”) and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, provided that, in the case of the first transfer of part of a holding as contemplated above, the Holder of the Securities represented by the Global Certificate has given the Registrar not less than 30 days’ notice at its specified office of such holder’s intention to effect such transfer.

Where the holding of Securities represented by the Global Certificate is only transferable in its entirety, the Certificate issued to the transferee upon transfer of such holding shall be a Global Certificate.

Where transfers are permitted in part, Certificates issued to transferees shall not be Global Certificates unless the transferee so requests and certifies to the Registrar that it is, or is a common depository of or is acting as a nominee for, Clearstream, Luxembourg, Euroclear and/or an Alternative Clearing System.

DESCRIPTION OF THE ISSUER

The Issuer, incorporated with limited liability in the British Virgin Islands on 9th April, 2014, is a wholly-owned subsidiary of the Guarantor. The Issuer was established to raise financing for the Guarantor.

As at the date of this Offering Circular, the Issuer has no subsidiaries.

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

<u>Name</u>	<u>Position</u>	<u>Year Appointed</u>
Geert Herman August Peeters	Director	2014
Chiang Tung Keung.	Director	2017

Geert Herman August Peeters ***Director***

Current position/responsibilities

Executive Director and Chief Financial Officer (“**CFO**”) of CLP Holdings Limited

Mr. Peeters, in addition to his responsibilities as CFO, has responsibility for CLP Group business development oversight.

Titles, qualifications and education

Knight in the Order of King Leopold

Chartered Engineer (Belgium)

International Certified Professional Accountant

Executive business training, INSEAD Paris, France

Master of Science in electro mechanical engineering (hons. RUG Gent, Belgium)

Postgraduate degree in business and IT administration (HEC Brussels, Belgium)

Past/Other experience

Prior to Mr. Peeters’ appointment as an Executive Director and CFO of CLP Holdings Limited in January 2016, he was the Group Director & CFO since 1 April 2014. He is also a Director of CLP Power Hong Kong Limited.

Mr. Peeters has over 25 years of experience in the energy industry. Prior to joining CLP, he was the Deputy CFO of GDF SUEZ (now known as ENGIE) Group based in Paris and Executive Director and CFO of International Power plc, a ENGIE subsidiary formerly listed on the London Stock Exchange and part of the FTSE 100. Mr. Peeters was with GDF SUEZ from 1997 to 2013, gaining extensive experience in senior financial and operational roles in Europe, Latin America, the Middle East and North America.

Further particulars

Further particulars of Mr. Peeters, including his directorships in the subsidiary and/or affiliated companies of CLP Group and other major appointments are available on the website of CLP Holdings Limited at <https://www.clpgroup.com>.

Chiang Tung Keung
Director

Current position/responsibilities

Managing Director - CLP Power

Mr. Chiang holds overall responsibility for the operations of CLP's Hong Kong regulated business, which includes a vertically integrated electricity utility serving 2.6 million customers in Kowloon, the New Territories and Lantau Island.

Titles, qualifications and education

FHKIE, CEng, MIET, BSc(Eng.), MSc, MBA

Mr. Chiang holds a Bachelor of Science in Electrical & Electronic Engineering from the University of Hong Kong, a Master of Science in Electrical Engineering from the Hong Kong Polytechnic University and a Master of Business Administration from the Chinese University of Hong Kong.

Past/Other experience

Mr. Chiang joined CLP Power as a Graduate Trainee in 1988 and has extensive experience in generation, transmission and distribution systems as well as regulatory strategy. He has held various posts in different areas including power system asset management, planning, design, operation and maintenance, power quality, and corporate and regulatory strategy. He was the Chief Operating Officer - CLP Power before taking up his current position in June 2017. He is also a Director of CLP Power Hong Kong Limited.

Further particulars

Further particulars of Mr. Chiang, including his directorships in the subsidiary and/or affiliated companies of CLP Group and other major appointments are available on the website of CLP Holdings Limited at <https://www.clpgroup.com>.

The registered office of the Issuer is Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands. The correspondence address of each of the Directors of the Issuer for the purposes of his directorship in the Issuer is 8 Laguna Verde Avenue, Hung Hom, Kowloon, Hong Kong.

As at the date of this Offering Circular, the Issuer has no employees.

CAPITALISATION AND INDEBTEDNESS OF THE ISSUER

The following table sets out the capitalisation and indebtedness of the Issuer as at 31st December, 2018, extracted from the audited financial statements of the Issuer as at 31st December, 2018 and as adjusted to give effect to the issuance of the Securities (before deducting the underwriting fees and commissions and other estimated transaction expenses payable) as if the issuance of the Securities had occurred on 31st December, 2018:

	As at 31st December, 2018	
	Actual (HK\$ million)	As adjusted (HK\$ million) (unaudited)
Short-term debt	—	—
Long-term debt ⁽¹⁾	5,849	5,849
Securities to be issued ⁽²⁾	—	3,900
 Shareholders' funds		
Share capital	—	—
Reserves	20	20
 Total shareholders' funds	20	20
 Total capitalisation ⁽³⁾	5,869	9,769
Total short-term debt and capitalisation	5,869	9,769

As at 31st December, 2018, the Issuer is authorised to issue a maximum of 50,000 shares of a single class each with U.S.\$1.00 par value, of which one share had been issued and fully paid.

Note:

- (1) The long-term debt represented the U.S.\$750 million perpetual subordinated guaranteed capital securities issued in 2014 (“**2014 Securities**”). The 2014 Securities are perpetual, non-callable in the first 5.5 years and entitle holders to receive distributions at a distribution rate of 4.25 per cent. per annum in the first 5.5 years and floating distributions thereafter with fixed step up margins at year 10.5 and at year 25.5 respectively, payable semi-annually in arrear. The distributions may be deferred at the discretion of the Issuer, if the Issuer and the Guarantor (also as guarantor of the securities) do not (a) declare or pay dividends or distributions to their shareholders or (b) cancel or reduce their share capital within each distribution payment period. On 4th October, 2019, the Issuer, at its sole discretion and in accordance with the terms and conditions of the 2014 Securities, gave irrevocable notice to the Trustee and the securities holders to redeem all of the 2014 Securities on 7th November, 2019 (being the first call date) at their principal amount together with any distributions accrued to the date fixed for redemption.
- (2) Securities to be issued represent the aggregate principal amount of the Securities, without taking into account, and before deduction of underwriting fees and commissions and other estimated transaction expenses payable. The principal amount of the Securities has been translated from U.S. dollars to Hong Kong dollars at the exchange rate of U.S.\$1.00 to HK\$7.80. No representation is made that Hong Kong dollars have been, could have been, or could be, converted into U.S. dollars at that rate indicated or at any other rate.
- (3) Total capitalisation represents the sum of long-term debt and shareholders' funds.

CAPITALISATION AND INDEBTEDNESS OF THE GUARANTOR

The following table sets out the consolidated capitalisation and indebtedness of the Guarantor as at 31st December, 2018, extracted from the audited consolidated financial statements of the Guarantor as at 31st December, 2018 and as adjusted to give effect to the issuance of the Securities (before deducting the underwriting fees and commissions and other estimated transaction expenses payable) as if the issuance of the Securities had occurred on 31st December, 2018:

	As at 31st December, 2018	
	Actual (HK\$ million)	As adjusted (HK\$ million) (unaudited)
Short-term debt (including current portion of long-term debt) . . .	6,523	6,523
Long-term debt (net of current portion)	32,324	32,324
Shareholders' funds		
Share capital	20,400	20,400
Reserves	22,840	22,840
	43,240	43,240
Perpetual capital securities ⁽¹⁾	5,791	5,791
Securities to be issued ⁽²⁾	—	3,900
Other non-controlling interests ⁽³⁾	6,634	6,634
Equity	55,665	59,565
Total capitalisation ⁽⁴⁾	87,989	91,889
Total short-term debt and capitalisation	94,512	98,412

As at 31st December, 2018, the Guarantor had issued 2,488.32 million ordinary shares which are fully paid.

Save as disclosed in this Offering Circular, there has been no material change in the consolidated capitalisation and indebtedness of the Guarantor since 31st December, 2018.

Notes:

- (1) These represented the 2014 Securities which are classified as equity in accordance with Hong Kong Accounting Standard 32 “Financial Instruments: Presentation”. Upon the issuance of an irrevocable notice on 4th October, 2019 to the Trustee and the holders of the 2014 Securities to redeem all of the 2014 Securities on 7th November, 2019, the 2014 Securities were reclassified as short-term debt as of the date of this Offering Circular.
- (2) Securities to be issued represent the aggregate principal amount of the Securities, without taking into account, any issue discount or premium and before deduction of underwriting fees and commissions and other estimated transaction expenses payable. The principal amount of the Securities has been translated from U.S. dollars to Hong Kong dollars at the exchange rate of U.S.\$1.00 to HK\$7.80. No representation is made that Hong Kong dollars have been, could have been, or could be, converted into U.S. dollars at that rate indicated or at any other rate.
- (3) Other non-controlling interests represents China Southern Power Grid International (HK) Co., Limited’s 30 per cent. equity interest and redeemable shareholder capital in the Guarantor’s subsidiary, Castle Peak Power Company Limited.
- (4) Total capitalisation represents the sum of long-term debt and equity.

DESCRIPTION OF THE GUARANTOR

Introduction

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

The Company is engaged in the electricity generation, transmission and distribution business in Hong Kong. It is one of the only two electricity providers in Hong Kong. Apart from the standalone renewable system on Town Island, the Company does not generate the electricity it sells, but pursuant to several contracts described below in “— *Power Purchase from CAPCO*” and “— *Non-CAPCO Power Purchases/Storage Facilities*”, the Company purchases electricity from Castle Peak Power Company Limited (“**CAPCO**”), and from Guangdong Daya Bay Nuclear Power Station located in Guangdong Province of Mainland China. The Company supplies electricity to Kowloon, the New Territories and a number of outlying islands, including Lantau Island and Cheung Chau. Its supply area extends to approximately 1,000 square kilometres and covers a population of more than 6.1 million people, which translates into approximately 2.6 million customers. The Company supplies approximately 76 per cent. of the electricity consumed in Hong Kong.

The electricity-related operations of the Company and CAPCO, the generating company, have been governed under a regulatory framework with the Government of Hong Kong (the “**Government**”) known as the “Scheme of Control” (“**SoC**”) which was first negotiated in 1964. The SoC regulates the Company’s and CAPCO’s financial affairs for electricity related operations. The SoC provides that the Company is obliged to meet electricity demand at the lowest reasonable cost. In return, the Government recognises that the Company and CAPCO are entitled to receive a reasonable return on their investments. The current SoC, which came into effect on 1st October, 2018, covers a period of over 15 years to 31st December, 2033. See “— *Scheme of Control*”.

CAPCO was initially jointly owned by the Company (40 per cent.) and ExxonMobil Energy Limited (“**ExxonMobil**”) (60 per cent.). On 12th May, 2014, the Company completed, in collaboration with China Southern Power Grid International (HK) Co., Limited (“**CSG HK**”), a wholly-owned subsidiary of 中国南方电网有限责任公司 (China Southern Power Grid Co., Limited) (“**CSG**”), the acquisition of the 60 per cent. interest in CAPCO held by ExxonMobil. After the acquisition, the Company holds a 70 per cent. interest in CAPCO and CSG HK holds the remaining 30 per cent. interest. The increase in interest in CAPCO enables the Company to exercise a greater degree of control over CAPCO’s generation activities.

In June 2019, CAPCO invested in the construction of a liquefied natural gas terminal in Hong Kong through the newly incorporated joint-venture company, Hong Kong LNG Terminal Limited (“**HKLNGL**”) in which CAPCO holds a 70 per cent. equity interest, with the remaining 30 per cent. owned by The Hongkong Electric Company, Limited (“**HK Electric**”).

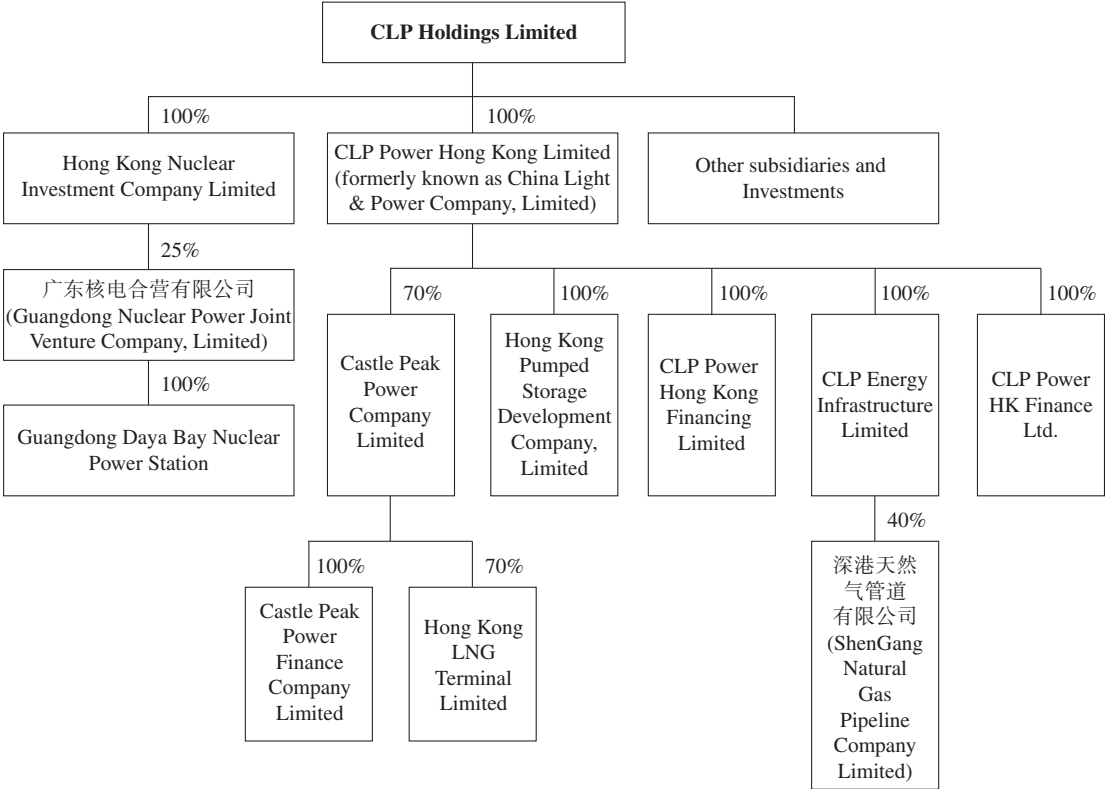
Hong Kong Pumped Storage Development Company, Limited (“**PSDC**”) is a wholly-owned subsidiary of the Company after the acquisition in 2014 of the remaining 51 per cent. interest previously held by ExxonMobil. The principal activity of PSDC is to provide pumped storage services to the Company in Guangdong Province of Mainland China. See “— *Non-CAPCO Power Purchases/Storage Facilities*”.

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

Relationship with CLP Holdings Limited

The Company carried out a corporate reorganisation in 1998 to delineate the Company’s regulated electricity generation, transmission and distribution business from the non-regulated businesses. CLP Holdings Limited (“**CLP Holdings**”) was established as the top-tier holding company by way of a Scheme of Arrangement effective 6th January, 1998 and listed on the Hong Kong Stock Exchange in

place of the Company. The Company was then converted into a private company and became a wholly-owned subsidiary of CLP Holdings and transferred to CLP Holdings the shares of its subsidiary companies undertaking non-regulated businesses. The diagram below sets forth the Company's parent entity and the corporate group structure for its principal operating subsidiaries and affiliates as at the date of this Offering Circular:



Business Strategy

The Company aims to continually improve its excellence in supply reliability, tariff levels, customer service and environmental performance while providing a reasonable return to its shareholders in accordance with the SoC. The 2018–2023 Development Plan is part of the SoC Agreement that came into effect in October 2018. Under the SoC Agreement, a series of green initiatives have been introduced as Hong Kong looks to a smarter, greener future. It enables the Company and CAPCO to plan ahead and make appropriate investments to meet the Government’s energy policy objectives. The Company’s priorities in 2019 include:

- engaging with the Government on the long-term decarbonisation strategy;
- managing and delivering new initiatives under the SoC Agreement, including the new CLP Eco Building Fund and the CLP Community Energy Saving Fund, the Feed-in Tariff programme and Renewable Energy Certificates;
- prudently managing fuel expenses by maximising the use of cheaper gas from Yacheng gas fields, procuring and using low emission coal, temporarily importing additional nuclear energy from Daya Bay, enhancing the operational performance of generation plants and emission reduction equipment and securing other long-term gas supply options;
- managing operating costs to minimise the impact of tariff increase on customers;
- managing and delivering the 2018–2023 Development Plan;

- continuing the construction work of the approved 550MW gas-fired generation unit at the Black Point Power Station with a target to commission the new unit before 2020 in order to increase the natural gas generation to around 50 per cent. of the Company's fuel mix from 2020;
- developing Hong Kong's largest landfill gas power generation project that will produce 10MW of renewable power close to Black Point Power Station;
- progressing with the preparatory work for the construction of offshore liquefied natural ("LNG") gas terminal along with subsea pipeline and gas receiving station;
- working with gas suppliers for long-term gas supply contracts to support the increased gas generation;
- maintaining excellent and innovative services for customers and stepping up customer engagement, education and new product offerings such as smart appliances, digital platforms for remote control and mobile monitoring of energy use, the new smart energy experience center in order to provide customers a greater range of online information to keep pace with evolving customer needs, a higher degree of energy management and to offer customers more choices; and
- continuing prudent financial management in all aspects of the Company's business.

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

- working closely with the Government in its forward-looking mitigation measures to tackle climate change to help Hong Kong achieve a greener future;
- implementing a cleaner fuel mix, which may involve using more gas, carefully considering the potential import of more nuclear energy and other clean energy, reducing the reliance on coal, as well as promoting the use of local renewable energy sources to the extent practicable in Hong Kong;
- continuing the implementation of the Memorandum of Understanding between the Government and the PRC government on energy cooperation signed in 2008 ("MOU") so that new long-term gas supplies are brought to Hong Kong in a timely fashion;
- continuing support for the Government's green initiatives to promote energy efficiency and conservation, and help customers manage their energy consumption;
- supporting Hong Kong's transformation into a smart city as an innovative energy service provider; and
- maintaining excellence in operations at all times, including supply reliability and environmental and safety performance.

Relationship with CAPCO

General

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

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

Electricity Purchases

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

Supply to Mainland China

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

CAPCO Financing

The Company and CSG HK have provided most of their funding to CAPCO in the form of redeemable shareholder capital (see below) and interest-free shareholder advances. As at 31st December, 2018, the Company's 70 per cent. share of CAPCO's paid-in capital is HK\$35.0 million, and the Company's 70 per cent. share of CAPCO's redeemable shareholder capital and shareholders' advances amounted to HK\$11,935.0 million and HK\$3,530.6 million respectively.

Following the Shareholder Capital Agreement executed in 2017, an amount of advances from shareholders was reclassified into the redeemable shareholder capital of CAPCO. The redeemable shareholder capital is subordinated, unsecured, interest free and has no fixed terms of repayment. CAPCO can, at its sole discretion, redeem all or part of the redeemable shareholder capital at any time after 31st December, 2032. CAPCO may also, at its sole discretion, redeem the shareholder capital on the occurrence of certain events such as an "Equity Credit Classification Event" (lower equity credit from Standard & Poor's or other rating agencies of equivalent international standing) or an "Accounting Classification Event" (instrument no longer classified as 'equity' in CAPCO's financial statements). The redeemable shareholder capital is considered capital in nature in accordance with Hong Kong Accounting Standard 32.

Pursuant to the terms of a bank covenant given by CAPCO, shareholders' advances to CAPCO will not be repaid without prior approval of certain lenders if CAPCO's ratio of borrowed moneys to shareholders' funds (representing the sum of the issued share capital, redeemable shareholder capital, deferred taxation, retained profit, proposed dividend, shareholders' advances (excluding unrealised foreign exchange differences)) exceeds 1.5:1 after repayment of the advances. Borrowed moneys means moneys lent to CAPCO excluding fuel stock loans, obligations arising from swaps and currency exchange transactions, and unrealised foreign exchange differences. As at 31st December, 2018, the borrowed moneys of CAPCO amounted to approximately HK\$8.7 billion, while shareholders' funds totalled approximately HK\$26.4 billion, giving a ratio of 0.33:1, whilst the ratio was 0.32:1 as at 31st December, 2017.

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

CAPCO's wholly-owned subsidiary, Castle Peak Power Finance Company Limited, was incorporated on 16th May, 2017 to act as the issuer of a medium term note programme to raise financing for CAPCO. Under an inter-company lending arrangement, CAPCO unconditionally and irrevocably guarantees all the obligations of the subsidiary. In return, all proceeds from any issuance of notes under the programme are lent onward to CAPCO at the same interest rates and terms as those under the notes issued by the subsidiary, and CAPCO reimburses all related expenses incurred by the subsidiary.

Scheme of Control

Overview

The electricity-related operations and financial affairs of the Company and CAPCO have been governed since 1st October, 1963 by a series of SoC Agreements entered into with the Government. The current SoC, which came into effect on 1st October, 2018, covers a period of over 15 years to 31st December, 2033.

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

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

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

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

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

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

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

An interim review is conducted every five years during the term of the current SoC. During an interim review, the Government and the SoC Companies can request modifications to the SoC agreement which are subject to mutual agreement.

Tariffs

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

(i) *Basic Tariff Rate*

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

- (a) operating costs, which include, among other things, the standard cost of fuel; generation, transmission, distribution and administration expenses; depreciation; interest expenses; and taxes;
- (b) allowed net return ("**net return**"), which is derived by subtracting from or adjusting the SoC permitted return ("**permitted return**"): (i) interest up to a maximum of 7 per cent. per annum on borrowed capital arranged for financing fixed assets; (ii) a charge of the average one-month Hong Kong Interbank Offered Rate on the average balance of the TSF; (iii) an excess capacity adjustment of 8 per cent. on the average excess capacity expenditure, less an allowed interest charge of up to 7 per cent. per annum on the average excess capacity expenditure; (iv) interest up to 7 per cent. per annum on the increase in average balance of the customers' deposits in excess of the balance as at 30th September, 1998; and (v) various performance-linked incentives/penalties adjustments under categories as below:

Category	Per cent. incentives (+)/penalties (-)
Operation performance related incentives/ penalties	in the range of -0.05 per cent. to +0.05 per cent. on average net fixed assets
Energy efficiency and renewable performance incentives	<ul style="list-style-type: none"> ● a maximum of 0.315 per cent. on average net fixed assets ● new incentive of 10 per cent. of renewable energy certificates sales revenue ● five-year energy saving and renewable energy connections incentives with a maximum of 0.11 per cent. on the average net fixed assets at the final year of the five-year period
Demand response reduction incentive	a maximum of 0.025 per cent. on average net fixed assets

The permitted return is 8 per cent. of the SoC Companies' average net fixed assets.

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

Under the SoC, all of the Company's expenses relating to power purchases of the 70 per cent. output from Guangdong Daya Bay Nuclear Power Station and all payments to PSDC are included in the operating costs described in (a) above. See "*— Non-CAPCO Power Purchases/Storage Facilities — Guangdong Daya Bay Nuclear Power Station and Guangzhou Pumped Storage Power Station*".

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

The standard cost of fuel is recovered through the basic tariff rate as an operating cost. The Fuel Cost Adjustment represents the difference between the actual cost of fuel (including natural gas, coal and oil) and the standard cost recovered through the basic tariff rate. The difference is charged or credited to a fuel clause recovery account maintained in the Company's books. No approval from the Government is required to recover increases in the cost of fuel. Under the current SoC, revisions to the Fuel Cost Adjustment is made on a monthly basis to take into account the movement of actual prices of fuels in a more timely manner with enhanced transparency.

Net and Permitted Returns

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

Under the current SoC, 65 per cent. of the energy efficiency incentives earned in a year is to be contributed to a CLP Community Energy Saving Fund to support the disadvantaged groups, programmes in promotion of energy efficiency, use of renewable energy, and other programmes as agreed with the Government.

Rate-Making Procedures

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

Stranded Costs

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

Power Generation

As at 31st December, 2018, on top of the standalone renewable system on Town Island with generating capacity of 192kW, the Company's sources of power supply comprised: (i) CAPCO's power stations located at Castle Peak, Penny's Bay and Black Point with a total installed capacity of 6,983MW; (ii) 70 per cent. (approximately 1,380MW) of the output from the Guangdong Daya Bay Nuclear Power Station under a 40-year contract beginning in 1994 (which was originally a 20-year contract as extended for a further term of 20 years commencing from 2014) and (iii) the Company's right to use 50 per cent. (600MW) of the capacity of Phase I of Guangzhou Pumped Storage Power Station for a period of 40 years commencing in 1994, providing it with a total installed capacity of 8,963MW.

The Company met all demands for power during the year ended 31st December, 2018. The amount of electricity supplied to the system for the year ended 31st December, 2018 was 35,536GWh, a decrease of 0.97 per cent. over the year ended 31st December, 2017. In 2018, the Company's system and local

reserve margins (the relationship between the total installed capacity available to serve Hong Kong customers and the highest demand for electricity from customers in the past 12 months) were approximately 22 per cent. and 27 per cent. respectively.

The table below sets forth for each of the two years ended 31st December, 2017 and 2018, the amount of electricity as generated by CAPCO and other generating facilities and the amount of power used or lost in connection with transmission and distribution:

	<u>Year ended 31st December, 2017</u> (GWh)	<u>Year ended 31st December, 2018</u> (GWh)
CAPCO facilities		
Castle Peak	15,210	15,065
Black Point	9,822	9,576
Gas Turbines	<u>—</u>	<u>1</u>
	25,032	24,642
Auxiliary use ⁽¹⁾	<u>(1,576)</u>	<u>(1,610)</u>
Net CAPCO production	23,456	23,032
Other power purchased		
Nuclear	11,004	11,026
Net transfer from		
Others ⁽²⁾	1,575	1,576
Landfill gas generation	<u>2</u>	<u>3</u>
Total other power purchase and transfer	12,581	12,605
Pumped Storage operation		
Energy generated	496	320
Energy consumed for pumping	<u>(649)</u>	<u>(421)</u>
Net loss in Pumped Storage operation	(153)	(101)
Total net generation	<u>35,884</u>	<u>35,536</u>
Transmission and distribution losses ⁽³⁾	<u>1,379</u>	<u>1,318</u>

Notes:

- (1) Auxiliary use represents electricity consumed by generating units in the course of generation.
- (2) Additional transfer from Guangdong Daya Bay Nuclear Power Station, interchange to Guangdong Power Grid Co. Ltd. and transfer from Sludge Treatment Facility of the Government.
- (3) Losses include non-revenue items such as the Company's office use and staff electricity allowances.

Power Purchase from CAPCO

Under the power purchase agreement, the Company has agreed to purchase, and CAPCO has agreed to sell, the total power produced by CAPCO. For the year ended 31st December, 2018, the Company purchased approximately 64.8 per cent. of its power from CAPCO. CAPCO had three commissioned power stations with a combined installed capacity of 6,983MW as at 31st December 2018, and was further increased to 7,008MW as at 30th June, 2019 with the fourth unit of gas turbine upgrade completed.

To ensure the reliability and security of its power supply, CAPCO's power generation system comprises a mix of different types of generation units, including gas-fired combined cycle units, coal-fired steam generators and gas turbines. The power stations at Black Point and Castle Peak provided almost all of CAPCO's electricity supply to the Company during the year ended 31st December, 2018.

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

Black Point Power Station

Black Point Power Station ("**BPPS**") commenced commercial operation in 1996 (units 1 and 2) and is located at the western tip of the New Territories, approximately four kilometres north of the Castle Peak Power Station. With the commissioning of unit 8 in 2006, it is one of the largest combined cycle power plants in the world with a total installed capacity of 2,600MW as at 30th June, 2019.

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

With the upgrade of four units of the eight generation units in BPPS, the total capacity of BPPS has been increased by 100MW, thereby reducing nitrogen oxide emissions and making minor improvement in efficiency and fuel cost. The upgrade of the fifth unit has commenced in October 2019 with expected completion in May 2020.

The main civil construction of the new 550MW gas-fired combined cycle unit at BPPS was started in July 2017 with a target to have the new unit in commercial operation in 2020 to support the Government in achieving its policy objective of increasing the use of natural gas to around 50 per cent. of the total fuel mix for electricity generation in 2020.

Castle Peak Power Station

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

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

Penny's Bay Power Station

The three 100MW gas turbines at Penny's Bay Power Station are utilised for peak lopping and emergency generation purposes. Total output by such units for the year ended 31st December, 2018 was minimal.

Fuel

For the majority of the 1980's, coal was the Company's primary energy source. After the commissioning of the natural gas-fired generating units at BPPS and the purchases from Guangdong Daya Bay Nuclear Power Station, the Company now operates with a diversified fuel mix of gas, coal and nuclear. Oil has

been phased out as a fuel for base and intermediate power generation and is now used only for peak lopping and standby generation. A diversification of energy sources will provide greater long-term security for customers and is beneficial to Hong Kong's environment.

For the year ended 31st December, 2018, the fuel mix consisted of the following: natural gas (26 per cent.), coal (38 per cent.), nuclear (35 per cent.) and others (1 per cent.). The Company's fuel costs are recovered through the basic tariff rates and the Fuel Cost Adjustment. See "*— Scheme of Control — Tariffs*".

(i) Natural Gas

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

Another contract was signed with CNOOC China for supply of natural gas for a 5-year plateau supply period commencing on 30th July, 2012. The contract price is determined annually by reference to certain market and economic indices. This contract has ended in the first half of 2019. Another bridging contract was signed with CNOOC China for supply of natural gas from the Wenchang gas field for a 4-year plateau supply period which commenced in September 2018, with contract price also determined by reference to certain market and economic indices.

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

(ii) Coal

For the year ended 31st December, 2018, total coal consumption for the eight generating units of CPPS was approximately 7.2 million tonnes. CAPCO's coal requirements are imported under term and spot contracts with the majority coming from Indonesia and the rest mainly from the United States and Australia. Prices are generally negotiated in line with international market levels.

(iii) Nuclear

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

Non-CAPCO Power Purchases/Storage Facilities

Guangdong Daya Bay Nuclear Power Station

In addition to purchasing power from CAPCO, for the year ended 31st December, 2018, the Company purchased approximately 12,601GWh of power from the Guangdong Daya Bay Nuclear Power Station located in Guangdong Province of Mainland China. The Company's affiliate, Hong Kong Nuclear Investment Company Limited ("**HKNIC**"), owns a 25 per cent. equity interest in 广东核电合营有限公司 (Guangdong Nuclear Power Joint Venture Company, Limited) ("**GNPJVC**") which owns Guangdong Daya Bay Nuclear Power Station. The other 75 per cent. equity interest is owned by 广东核电投资有限公司 (Guangdong Nuclear Investment Company, Limited) ("**GNIC**"), an enterprise in Mainland China. Guangdong Daya Bay Nuclear Power Station is one of the largest joint venture power projects in Mainland China. The power purchase agreements covering 70 per cent. of the output of Guangdong

Daya Bay Nuclear Power Station and joint venture agreements, originally expiring in 2014, were extended for 20 years to 2034 following approvals from Mainland China authorities and the Government.

The Company is obliged to purchase 70 per cent. of the output of Guangdong Daya Bay Nuclear Power Station from HKNIC. An agreement has been reached to increase the proportion of supply to Hong Kong to slightly above 70 per cent. in late 2014 and to about 80 per cent. from 2015 to 2018. In December 2018, the agreement was renewed for the purchase of the approximately 10 per cent. additional supply to Hong Kong from 2019 to 2023. The price paid by the Company for electricity generated by Guangdong Daya Bay Nuclear Power Station is determined by a formula based on Guangdong Daya Bay Nuclear Power Station's operating costs and a profit calculated with reference to the capacity factors during the second phase of the joint venture from 7th May, 2014 until 6th May, 2034. The Company is allowed to treat the payments for 70 per cent. of nuclear electricity generated by Guangdong Daya Bay Nuclear Power Station as part of its operating expenses permitted under the SoC with the additional portion as part of fuel. See "*— Scheme of Control*".

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

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

Guangzhou Pumped Storage Power Station

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

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

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

Interconnection with HK Electric and Guangdong Grid

The interconnection of the Company's system with those of HK Electric, the only other electricity supplier in Hong Kong) to the south and Guangdong Province to the north allows the Company to access other generating capacities to further enhance the reliability of its own supply system. See "*— Power Systems — Security and Reliability*". The interconnection with Guangdong Province also allows the Company to sell its excess capacity to customers in Mainland China. See "*— Sales to the Mainland China*". The Company has an interconnection agreement with HK Electric under which the two companies transfer electricity between each other to meet marginal demand when doing so is more economical than utilising other sources. For the year ended 31st December, 2018, there were no sales or purchases of electricity to or from HK Electric. Furthermore, the Company has an energy economy interchange agreement with Guangdong Power Grid Co., Ltd. (广东电网有限责任公司) ("**GPG**") for transfer of electricity between each other in case of emergency incidents resulting in interruption of normal electricity supply to customers. For the year ended 31st December, 2018, transfer of electricity from the Company to GPG was made under the energy economy interchange agreement when Guangdong Province was affected by Super Typhoon Mangkhut in September 2018.

Power Systems

The Network

The Company transmits electricity to load centres through an advanced transmission network owned and operated by it. As at 31st December, 2018, its transmission and distribution network comprised over 15,800 km of high voltage circuits, 232 primary substations and 14,685 secondary substations.

Electricity generated from the steam turbine units at CPPS, the combined cycle units at BPPS, the nuclear units at Guangdong Daya Bay Nuclear Power Station and the pumped storage units at Guangzhou Pumped Storage Power Station is transmitted to the load centres via the Company's highly secure 400kV and 132kV transmission network.

The Company continues to expand its distribution network to supply new customers, and to reinforce and upgrade the supply network to its existing customers. The Company is making additional investments to expand and reinforce its transmission network in order to maintain its high reliability standards as well as to accommodate the increasing demand for electricity created by infrastructure development projects. The development plan covering the period from October 2018 to December 2023 was approved by the Government in July 2018. The Company expects to invest about HK\$26.5 billion in its transmission and distribution network during this development plan period.

Security and Reliability

The company maintains a world-class supply reliability of over 99.99 per cent. Between 2016 and 2018, a CLP customer experienced 10.29 minutes of unplanned power interruptions per year on average, out of which 8.85 minutes were due to Super Typhoon Mangkhut in September 2018. If not for Mangkhut, the Company could have achieved a three-year average of 1.44 minutes, compared to 11-19 minutes in New York, Sydney and London (between 2015 and 2017).

The Company has undertaken multiple measures to strengthen the defence against extreme weather events that are becoming more frequent. Over the years, the Company has been reinforcing pylons of 400kV overhead lines so that these structures can better withstand super typhoons. The Company has also installed flood damage mitigation and alarm systems at low lying substations to guard against storm surges. In addition, post-typhoon reviews and regular drills were conducted to ensure a smooth execution of contingency plans when needed. Although power interruptions may be unavoidable during extreme natural events, the Company continues to enhance its power system to alleviate the impact to its customers.

Customers and Sales

As at 31st December, 2018, the Company was supplying electricity to approximately 2.6 million customers. For the year ended 31st December, 2018, total sales decreased by 0.8 per cent. to 34,218GWh, which comprised 33,662GWh sold to Hong Kong customers and 556GWh sold to

customers in Mainland China. Sales to local customers in 2018 increased slightly by 1.5 per cent. as compared to the previous year. The increase was mainly driven by the electricity demand in the infrastructure and public services sector. Sales to Mainland China, which consist of sales to GPG and the Shekou Industrial Zone, decreased by 58.5 per cent. from 2017.

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

<u>End-user</u>	Number of Customers as at 31st December, 2018 (thousands)	Year ended 31st December, 2017 (GWh)	Year ended 31st December, 2018 (GWh)	Percentage of total electricity sales for 2018 (per cent.)	Average Annual Sales Change over 2014–2018 (per cent.)
Residential	2,265	9,217	9,191	26.9	1.2
Commercial	206	13,220	13,425	39.2	0.7
Infrastructure and Public Services	108	8,987	9,342	27.3	2.3
Manufacturing.	<u>18</u>	<u>1,740</u>	<u>1,704</u>	<u>5.0</u>	<u>(1.4)</u>
Total local sales	2,597	33,164	33,662	98.4	1.2
Export sales	<u>—</u>	<u>1,341</u>	<u>556</u>	<u>1.6</u>	<u>(19.6)</u>
Total Sales	<u><u>2,597</u></u>	<u><u>34,505</u></u>	<u><u>34,218</u></u>	<u><u>100.0</u></u>	<u><u>0.5</u></u>

Hong Kong Customer Base

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

Residential

As at 31st December, 2018, the Company serviced approximately 2.3 million residential customers in its supply area. For 2018, residential customers accounted for approximately 27 per cent. of the Company's total sales. The Government has forecasted that the population of Hong Kong will grow to 7.7 million by 2023 and adopted a total housing supply target of 450,000 units for the next decade. The majority of those new flats are expected to be built in the Company's supply area resulting in an increase in the demand for electricity in this customer sector.

Commercial

Commercial customers accounted for approximately 39 per cent. of the Company's total sales in 2018. The Company anticipates that sales in this sector will continue in the medium-term, supported by the continued economic growth of Hong Kong, data centre development and Kowloon East Core Business District development.

Infrastructure and Public Services

This category of Hong Kong customers include government accounts and utilities, such as the Hong Kong Housing Authority, the Water Supplies Department, the MTR Corporation, and Hong Kong's telecommunications companies and container terminals. Customers in this sector accounted for approximately 27 per cent. of the Company's total sales in 2018.

Manufacturing

Sales to the manufacturing sector represented approximately 5 per cent. of the Company's total sales in 2018.

Sales to Mainland China

In addition to sales to customers in Hong Kong, in 2018, the Company sold approximately 2 per cent. of its electricity to customers in Guangdong Province of Mainland China through two sales agreements — one was an exclusive agreement with China Merchants Steam Navigation Company Ltd. (招商局轮船股份有限公司) covering the Shekou Industrial Zone which expired in June 2018, and another is an agreement with GPG.

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

Customer Service

Electricity has a critical role to play in Hong Kong's efforts to transform itself into a smart city. It accounts for more than half of all the energy Hong Kong citizens use in homes and businesses and in the infrastructure and transport networks. The Company is making use of new technology to transform conventional transmission and distribution networks into a smart grid. At the same time, the Company wants to make smart technology directly available to more of its customers.

To support smart living and provide a new level of mobile convenience, a mobile app was launched with new features including mobile bill and payment for customers to view and pay their bills instantly, and mobile shopping to promote green and smart appliances. It allows customers to manage their account smartly and embrace greener lifestyles.

The Company's Smart Energy Experience Centre was opened in 2017 to introduce a one-stop advisory service on smart technology for homes and offices. It showcases various interactive and new technologies to promote smarter, greener, low-carbon lifestyles. Smart Energy@Mong Kok, the Company's flagship store that has been revamped in 2018, also offers unique in-store customer experience by letting visitors experience a full range of smart home products and technologies.

Smart Enterprise, a new affordable energy monitoring solution and automation control platform via mobile app, was also launched targeting small and medium enterprises in various segments including schools, retails, government buildings, offices, hospitals, NGOs, exhibitions and estate management offices.

Since the Green Studio was launched in 2009, it has received over 160,000 visitors. In 2017, a first multi-purpose promotion truck was also launched to join Green Studio to strengthen green education and promotions with the latest 4D movie and various educational augmented reality games. A dedicated Science, Technology, Engineering and Mathematics (“STEM”) workshop kit, has been introduced to secondary schools to support the Government's initiative of STEM education.

Free energy audits are offered to business customers to help improve their energy efficiency performance and identify saving opportunities.

Through the CLP Eco Building Fund, subsidies have also been provided to residential building owners to enhance the energy efficiency of the communal areas of their buildings since 2014. From 1st October, 2018, the Company launched a new Eco Building Fund with scope extended to cover eligible commercial buildings, industrial buildings and composite buildings and their nearby ancillary facilities.

Tariff Rates

The Company normally implements changes to its basic tariff rate and the fuel cost adjustment on 1st January of each year. For 2018, new tariff rates were also introduced with effect from 1st October, in line with the commencement of the 2018-2023 Development Plan. The table below sets out the Company's average total tariffs:

<u>Local sales, HK¢ per kWh average</u>	<u>Year ended 31st December, 2017</u>	<u>1st January to 30th September, 2018</u>	<u>Effective 1st October, 2018</u>
Basic Tariff	92.2	94.5	91.0
Fuel Cost Adjustment	21.0	22.0	27.8
Rent and Rates Special Rebate*.	—	(1.1)	(1.1)
Total Tariff	113.2	115.4	117.7

* The Rent and Rates Special Rebate was discontinued from 18th February, 2019 with the rent and rates refund being used up for the rebate

The Company is mindful of the impact of tariff increases on people's livelihood and business, and has maintained a relatively stable Basic Tariff over the past decade. With effect from 1st October, 2018, with the offering of a Rent and Rates Special Rebate, the Company adjusted the Average Net Tariff by 2.0 per cent. to HK\$1.177 per unit of electricity amid the pressure of continuing inflation, increasing fuel costs and rising operating costs.

The Company continues to provide the Energy Saving Rebate Scheme, which was introduced in 2013, to assist low consumption customers and encourage energy conservation.

Notwithstanding the tariff increase in October 2018, the Company's tariff continues to be highly competitive when compared with other major metropolitan cities, many of which do not benefit from the same level of supply reliability, power quality and customer service provided by the Company.

Competition

The Company and HK Electric are currently Hong Kong's only suppliers of electricity. The supply areas of the Company and HK Electric do not overlap; the Company supplies Kowloon, the New Territories, Lantau Island, Cheung Chau and some outlying islands, and HK Electric supplies Hong Kong Island, Lamma Island and Ap Lei Chau Island. The number of customers for each of the Company and HK Electric is approximately 2.6 million and 0.6 million respectively as at 31st December, 2018. The Company and HK Electric both sell electricity to the MTR Corporation which operates in both companies' supply areas. HK Electric's electricity-related operations are governed by a scheme of control similar to that by which the Company is governed. The two schemes of control are similar and neither the Company nor HK Electric has the exclusive right to supply electricity in its respective supply areas.

The SoC has been serving Hong Kong well for over half a century and has ensured the delivery of a highly reliable and environmentally friendly electricity supply at reasonable cost for Hong Kong. Since the electricity industry is capital intensive, involving advanced technologies and very long lead times, the SoC provides a clear, fair and stable regulatory environment to ensure that the significant capital investments can be delivered and a fair return is provided in order for a commercial company to continue its investment to ensure a sustainable electricity industry.

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

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

Environmental Matters

The operations of the Company and CAPCO are subject to a number of laws and regulations relating to environmental protection and safety. For 2018, the Company and CAPCO maintained full compliance with environmental licence requirements in all material aspects.

Since 1990, the Company and CAPCO have concentrated their efforts on reducing emissions and, despite an over 80 per cent. increase in electricity demand, the Company and CAPCO have managed to reduce emissions of SO₂, NO_x and RSP by more than 85 per cent.

The emissions caps of CAPCO's power plants have been progressively tightened over time. The emissions caps applicable for 2018 were the same as those in 2017, which required CAPCO to further reduce emissions by 6% to 9% from the very tight base of 2015 and 2016 respectively.

In 2018, CAPCO complied with all the emissions caps set by the Government. The emissions caps for SO₂, NO_x, and RSP were substantially reduced by 67 per cent., 38 per cent., and 37 per cent. respectively compared with the base of 2010 levels, when the Government introduced the emission allowances under the first Technical Memorandum under the Air Pollution Control Ordinance (Cap. 311) of Hong Kong. CAPCO and the Company were able to achieve the targets while maintaining supply reliability and a reasonable tariff level by optimising the diversified fuel mix, and maintaining the effectiveness of the emissions control facilities. CAPCO continues to closely monitor its emissions levels and adopt relevant control measures to ensure compliance with the emission caps.

Capital Investment Programme

The Development Plan covering the period from October 2018 to December 2023 (“**2018 Development Plan**”) was approved by the Government in July 2018. The plan projects a capital expenditure of HK\$52.9 billion supporting the continuation of the Company's world-class electricity supply reliability, contributing to a lower-carbon economy consistent with the Government's Climate Action Plan and advancing Hong Kong towards a smarter city with customers more in control of their energy use. Some of the key projects under the 2018 Development Plan include an additional gas-fired generation unit, an offshore LNG terminal along with subsea pipeline and gas receiving station, increase in transmission capacity of the existing cross-border transmission overhead line circuits connecting Hong Kong and Mainland China, as well as the upgrade to smart meters for residential and small and medium business customers.

For the year ended 31st December, 2018, the Company invested HK\$4,411 million in its owned fixed assets and leasehold land, compared with HK\$4,523 million invested for the year ended 31st December, 2017. Capital expenditure by the Company's subsidiaries incorporated in Hong Kong, principally CAPCO, was HK\$4,543 million for the year ended 31st December, 2018, compared with HK\$3,569 million for the year ended 31st December, 2017. A total of HK\$8,954 million capital expenditure was made by the Company and its subsidiaries in 2018, which mainly included the upgrade of existing generation units, construction of new facilities including the new combined-cycle gas turbine (“**CCGT**”) unit, commissioning of new substations to support new development areas and the expansion of Hong Kong's railway networks, and the commissioning of new circuits to reinforce the transmission and distribution networks.

Insurance

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

Property, Plant and Equipment

The Company's owned property consists mainly of power transmission and distribution equipment and facilities in Hong Kong. As at 31st December, 2018, the net book value of its owned property was HK\$79,089 million, of which HK\$66,601 million represented plant, machinery and equipment and HK\$12,488 million represented leasehold land and buildings. The generating plant facilities in Hong Kong are owned by the Company's subsidiary, CAPCO.

At 31st December, 2018, the net book value of property, plant and equipment of the Company and subsidiaries, principally comprising the Company's and CAPCO's assets, amounted to HK\$114,239 million, of which HK\$92,337 million was plant, machinery and equipment and HK\$16,412 million was buildings. Most of the Company's and CAPCO's land leases are medium to long-term. As at 31st December, 2018, the aggregate net book value of the Company and CAPCO's leased land held in Hong Kong was HK\$5,490 million.

Employees

As at 31st December, 2018, the Company had a total workforce of 3,798. Of the total number of employees as at 31st December, 2018, 29 per cent. were professionals and administrative personnel, 38 per cent. were engineers and technical personnel and 33 per cent. were industrial workers. The Company maintains satisfactory employee relations through regular communication with employees at all levels.

Share Ownership

The Company is wholly-owned by CLP Holdings Limited, a company incorporated in Hong Kong with limited liability and listed on the Hong Kong Stock Exchange. As at 31st December, 2018, there were no options outstanding to purchase shares from the Company.

Information on legal or arbitration proceedings

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

Recent Developments and Prospects

Air Quality Improvement and the Public Consultation on Fuel Mix

As part of the measures intended to improve local air quality in Hong Kong, the Government has been steadily tightening the levels of emissions allowed from power stations in Hong Kong. With the enforcement of the Second, the Third, the Fourth, the Fifth, the Sixth and the Seventh Technical Memorandum for Allocation of Emission Allowances under the Air Pollution Control Ordinance (Cap. 311) of Hong Kong, permitted emissions allowances for power stations for 2015, 2017, 2019, 2020, 2021 and 2022 require SO₂, NO_x, and RSP emissions to be reduced by 80 per cent., 53 per cent. and 53 per cent. respectively from the permitted level in 2010. The Government has recently completed the review of the emissions caps requirements for 2024, and plans to pass the bill for the new emissions caps in 2019. The proposed new emissions caps for 2024 and beyond, taking into account the additional gas-fired generation capacity as approved in the recent 2018–2023 Development Plan, require emissions to be further reduced by up to 49 per cent. from the base levels for 2022/2023.

The Government's new Air Quality Objectives ("AQOs") took effect in January 2014. One of the air quality improvement measures is to increase the ratio of natural gas in local electricity generation, which has been enforced under the Second Technical Memorandum. According to "A Clean Air Plan for Hong Kong" announced by the Government in March 2013, the roadmap for improving the air quality in Hong Kong will include a host of green initiatives with priorities set for reducing roadside air pollution and reducing marine emissions. The Government started a review on the AQOs in 2016, taking into consideration various current and new air quality improvement measures and initiatives. With the completion of the review in December 2018, the Government launched a public consultation in July 2019 to seek public views on the review recommendations, and plans to legislate the new objectives after the consultation period concludes.

In addition to these specific emissions reduction requirements, the Government has conducted two fuel mix/climate change consultations since 2010.

According to the public consultation on future fuel mix for electricity generation in Hong Kong launched in 2014, the majority of respondents supported reducing Hong Kong's carbon intensity by moving towards more natural gas generation locally. Consequently, in March 2015 the Government announced its decision to revamp the fuel mix for local electricity generation by moving towards new 2020 targets with around 50 per cent. natural gas, 25 per cent. nuclear, and 25 per cent. of coal and renewable energy. The Government also envisaged that a small number of additional gas units would need to be built in order to increase the use of natural gas.

In the public consultation on Hong Kong's Climate Change Strategy and Action Agenda launched in September 2010, the consultation document dealt with a wide range of climate change proposals and mitigation measures, in an effort to reduce Hong Kong's carbon intensity (i.e. the amount of greenhouse gas or carbon emissions per unit of GDP) by 50-60 per cent. from the 2005 level by 2020. In January 2017, the Government released its Climate Action Plan 2030+, committed to a tightened target whereby reducing Hong Kong's carbon intensity by 65-70 per cent. by 2030, echoing China's national commitment to reducing its carbon intensity as announced in June 2015, before the Paris Climate Change Conference. According to the Climate Action Plan 2030+, the Government envisaged to phase down Hong Kong's remaining coal plants as they reach their normal retirement life and replace them with natural gas and non-fossil fuel sources so as to further reduce the role of coal in Hong Kong's fuel mix for electricity generation by 2030. The Company will work together with the Government on future new generation capacity and the potential replacement of coal generation units to contribute towards this target.

The Company recognises its role in addressing the threat of climate change together with the community. The Company is supportive of the Government's environmental policy and is proactively implementing initiatives to improve environmental performance.

Projects to Support the Use of More Gas and Supply of Gas

The Company and CAPCO continued to pursue a number of key initiatives to support the Government in achieving its policy objective of increasing the use of natural gas to around 50 per cent. of the total fuel mix for electricity generation in 2020. CAPCO is building a new 550MW advanced CCGT at BPPS which will operate with a world-class efficiency and environmental performance. Construction is progressing to put the unit into operation in 2020. The development of a second new CCGT unit on an adjacent site with around 550MW at BPPS is being pursued. Front-End Engineering Design ("FEED") has begun and the unit is targeted for completion in 2023.

Another important project necessary to support the increase in gas within the fuel mix is the development of an offshore LNG terminal along with a subsea pipeline from the offshore terminal to a gas receiving station at the BPPS, which will allow CAPCO to purchase competitively-priced LNG directly from more diversified global sources. CAPCO and HK Electric are jointly pursuing the project and have entered into an agreement with Shell Eastern Trading (Pte.) Ltd., a subsidiary of Royal Dutch Shell, for long-term LNG supply. In addition, HKLNGL, the joint venture established by the CAPCO and HK Electric, has entered into an agreement with Mitsui O.S.K. Lines, Ltd. for the chartering of a Floating Storage and Regasification Unit vessel on a time charter basis. Site investigation and FEED have commenced for the offshore jetty facility and the subsea pipelines that will connect the facility to Black Point and Lamma Island. Subject to timely receipt of regulatory approvals and statutory permits, construction works are expected to complete by the end of 2021.

Development of Renewable Energy

CAPCO and the West New Territories ("WENT") Landfill contractor finalised agreements in August 2018 to make use of landfill gas from WENT Landfill as fuel for generation units to support the Government's policy of promoting waste-to-energy and renewable initiatives. Installation of the initial 10MW landfill-gas generation units is underway for operation by 2019. The electricity produced will then be transmitted to the Company's existing power grid. The amount of energy produced will be enough to meet the annual electricity demand of around 17,000 four-person homes. Additional 4MW landfill-gas generation units are also planned for installation in 2021, subject to the availability of additional landfill gas.

Support to Hong Kong's Transition to Low Carbon Economy

The SoC Agreement contains important elements designed to support Hong Kong's transition to a low carbon economy. It includes important initiatives to promote local renewable energy development, energy efficiency, and conservation.

A number of green initiatives have been introduced to encourage community participation in moving Hong Kong towards a smarter, greener future. The Feed-in Tariff (“**FiT**”) scheme, which encourages customers to build their own renewable energy systems, received over 4,300 applications up to the end of July 2019, and the Company has approved more than 80% of the applications. The Company will continue to facilitate easy grid connection for these small-scale renewable energy projects. For those customers who want to support the development of renewable energy but do not have the opportunity to build their own system, they can purchase Renewable Energy Certificates (“**RECs**”) which represent locally generated renewable energy starting from January 2019. These two instruments give customers the opportunity to provide practical support to accelerate the development of renewable energy in Hong Kong. Other initiatives include the new CLP Eco Building Fund, the CLP Community Energy Saving Fund and energy audits to help customers save energy and to raise public awareness about the need for power conservation. All these new initiatives help lead Hong Kong towards a lower carbon future.

The Council for Sustainable Development (“**SDC**”) launched a public engagement on long-term decarbonization strategy on 14th June, 2019. The Company submitted its response on 3rd September, 2019, expressing support for the deep decarbonisation of electricity generation, and outlining two broad directions to maintain a reliable electricity supply while lowering carbon emissions — (1) increasing gas-fired generation; (2) increasing the availability of zero-carbon energy through regional cooperation. The Company will continue to engage with the Government and the stakeholders in setting the long-term electricity generation approach, supporting customers in saving energy, and facilitating other sectors to decarbonise through electrification and energy efficiency improvement.

Powering Hong Kong's Growth

The Company is fully committed to meeting the development needs of Hong Kong through supporting a large number of territory-wide development and infrastructure projects with our expanding power supply network. Major projects include the Kai Tak redevelopment, the West Kowloon Cultural District, the Lok Ma Chau Loop, and landmark transport development schemes such as the Hong Kong-Zhuhai-Macao Bridge, the Hong Kong Boundary Crossing Facility Island and the Guangzhou-Shenzhen-Hong Kong Express Rail Link. In addition, as Hong Kong becomes a data centre hub, the Company will provide operators with one-stop services in design and build solutions, infrastructural construction and management, energy efficiency, and renewable energy solutions, as well as guaranteeing a reliable, world-class power supply critical for data centre operations.

Utility of the Future

Innovation and technology are the driving forces behind Hong Kong's transformation into a smart city. In 2018, the Company implemented a range of significant initiatives to support this vision.

One of the most broad-reaching programmes is the introduction of smart meters across the Company's supply area to replace 2.3 million conventional meters in phases from now to 2025. Smart meters provide customers with a range of digitalised services and solutions to encourage energy saving. They also give the Company greater end-to-end visibility of conditions in the power system, enabling improved fault detection, reduced repair times during critical events, and faster power restoration. Their introduction will enhance overall supply reliability and power safety for customers.

As part of the Company's innovation journey, it deployed the best available technology and ideas in the operation to make sure the assets perform at the highest standard. These included using robots to inspect boilers to enhance safety and operational efficiency, and adopting the airborne Light Detection and Ranging (“**LiDAR**”) scanning technology for overhead line and tower maintenance. Analytics models on operational data such as emission analysis and meter irregularity detection have also been developed to improve asset performance.

DIRECTORS AND SENIOR MANAGEMENT

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

<u>Name</u>	<u>Position</u>	<u>Year Appointed to Current Position</u>	<u>Year Appointed to Director</u>
<i>Directors</i>			
William Elkin Mocatta	Chairman	1999	1993
Yuen So Siu Mai Betty	Vice Chairman	2010	1998
Chiang Tung Keung	Managing Director	2017	2016
Richard Kendall Lancaster	Director	2005	2005
Tong Chi Leung David	Director	2004	2004
James Richarde Truscott	Director	2011	2011
Chan Siu Hung	Director	2012	2012
Chong Wai Yan Quince	Director	2012	2012
Geert Herman August Peeters	Director	2014	2014
<i>Alternate Directors</i>			
James Lindsay Lewis, Alternate to Tong Chi Leung David	Alternate Director	2007	2007
Chiang Tung Keung, Alternate to Richard Kendall Lancaster and Yuen So Siu Mai Betty	Alternate Director	2017	2016
<i>Executive Officers</i>			
Yuen So Siu Mai Betty	Vice Chairman	2010	1998
Chiang Tung Keung	Managing Director	2017	2016
James Richarde Truscott	Chief Operating Officer	2017	2011
Chong Wai Yan Quince	Chief Corporate Development Officer	2012	2012
Lo Pak Cheong	Senior Director - Generation	2016	—
Chan Kin Ming	Senior Director - Financial Control (Hong Kong)	2017	—
Cheung Po Chung	Senior Director - Power Systems	2018	—
Lena Low	Senior Director - Customer & Business Development	2018	—

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

In accordance with Article 104 of the Company's Articles of Association, Mr. William Elkin Mocatta and Mr. James Richarde Truscott retired by rotation and were re-elected Directors of the Company by way of written resolutions of shareholders in lieu of the Annual General Meeting dated 6th March, 2019.

Biographical Details of Directors, Alternate Directors and Executive Officers

Directors

William Elkin Mocatta

Current position/responsibilities

Chairman of CLP Power
Vice Chairman and Non-Executive Director of CLP Holdings Limited

Titles, qualifications and education

Fellow of The Institute of Chartered Accountants in England and Wales

Past/Other experience

Mr. Mocatta is Executive Director of Sir Elly Kadoorie & Sons Limited. He is also the Chairman of Castle Peak Power Company Limited, Hong Kong Pumped Storage Development Company, Limited, CLP Properties Limited and CLP Property Investment Limited; a Non-executive Director of The Hongkong and Shanghai Hotels, Limited; an Alternate Director of CK Hutchison Holdings Limited and a Director of other companies in Hong Kong.

Further particulars

Further particulars of Mr. Mocatta, including his directorships in the subsidiary and/or affiliated companies of CLP Group and other major appointments are available on the website of CLP Holdings Limited at <https://www.clpgroup.com>.

Yuen So Siu Mai Betty

Current position/responsibilities

Vice Chairman - CLP Power
Mrs. Yuen has a primary focus on the strategic direction of the CLP Group's electricity business in Hong Kong and China; is also responsible for CLP's investments in Guangdong Daya Bay and Yangjiang nuclear projects as well as further development of CLP's nuclear business on the Mainland.

Titles, qualifications and education

JP, CPA, B.Comm.

Past/Other experience

A qualified accountant by training, Mrs. Yuen began her career in public accounting in Canada and worked for ExxonMobil for 13 years before joining CLP in 1999. She was the Managing Director of CLP Power between 2002 and 2009, with overall responsibility for the operations of the Hong Kong business. She is also the Vice Chairman of Castle Peak Power Company Limited. She assumed her current position in 2010.

Further particulars

Further particulars of Mrs. Yuen, including her directorships in the subsidiary and/or affiliated companies of CLP Group and other major appointments are available on the website of CLP Holdings Limited at <https://www.clpgroup.com>.

Chiang Tung Keung

Current position/responsibilities

Managing Director - CLP Power
Mr. Chiang holds overall responsibility for the operations of CLP's Hong Kong regulated business, which includes a vertically integrated electricity utility serving 2.6 million customers in Kowloon, the New Territories and Lantau Island.

Titles, qualifications and education

FHKIE, CEng, MIET, BSc(Eng.), MSc, MBA

Mr. Chiang holds a Bachelor of Science in Electrical & Electronic Engineering from the University of Hong Kong, a Master of Science in Electrical Engineering from the Hong Kong Polytechnic University and a Master of Business Administration from the Chinese University of Hong Kong.

Past/Other experience

Mr. Chiang joined CLP Power as a Graduate Trainee in 1988 and has extensive experience in generation, transmission and distribution systems as well as regulatory strategy. He has held various posts in different areas including power system asset management, planning, design, operation and maintenance, power quality, and corporate and regulatory strategy. He was the Chief Operating Officer - CLP Power before taking up his current position in June 2017. He is also a Director of CLP Power HK Finance Ltd.

Further particulars

Further particulars of Mr. Chiang, including his directorships in the subsidiary and/or affiliated companies of CLP Group and other major appointments are available on the website of CLP Holdings Limited at <https://www.clpgroup.com>.

Richard Kendall Lancaster

Current position/responsibilities

Executive Director and Chief Executive Officer (“CEO”) of CLP Holdings Limited

Mr. Lancaster is responsible for overall group performance of CLP.

Titles, qualifications and education

Bachelor of Engineering in electrical engineering, the University of New South Wales

Past/Other experience

Prior to assuming his role of CEO in September 2013, Mr. Lancaster was the Managing Director of CLP Power for three years, responsible for its electricity generation, transmission and distribution business and service to its customers in Hong Kong. He began his career with the Electricity Commission of New South Wales in Australia and has more than 30 years of experience in the power industry and in other industrial operations in Australia, the United Kingdom and Hong Kong. Mr. Lancaster joined CLP in 1992 and has held a variety of managerial positions in CLP. His experience covers project management, power plant operations, commercial, finance, legal and corporate functions. Mr. Lancaster is the Chairman of Business Environment Council Limited and a founding Member of the Advisory Council of The Australian Chamber of Commerce Hong Kong & Macau. He is also a Fellow of the Hong Kong Management Association and a Council Member of the World Business Council for Sustainable Development and a member of its Climate and Energy Cluster Board. He is also Chairman of the Hong Kong Member Committee of the World Energy Council and a Board Member of UNSW Hong Kong Foundation.

Further particulars

Further particulars of Mr. Lancaster, including his directorships in the subsidiary and/or affiliated companies of CLP Group and other major appointments are available on the website of CLP Holdings Limited at <https://www.clpgroup.com>.

Tong Chi Leung David

Current position/responsibilities

Director of CLP Power

Titles, qualifications and education

ACGI, CEng, MIMechE, FHKIE, BEng

Mr. Tong holds a BEng degree from Imperial College, University of London, and is a Chartered Engineer with working and management experience in Hong Kong, Scotland and Texas.

Past/Other experience

Mr. Tong is a Director of Sir Elly Kadoorie & Sons Limited and Hong Kong Nuclear Investment Company Limited as well as an Alternate Director of Castle Peak Power Company Limited and Hong Kong Pumped Storage Development Company, Limited. He also serves on several other corporate boards in Hong Kong.

James Richarde Truscott

Current position/responsibilities

Chief Operating Officer - CLP Power

Titles, qualifications and education

BSc, MBA, Mag

Mr. Truscott's educational background includes a Bachelors of Science in Mechanical Engineering and a Masters of Business Administration from Texas A&M University as well as a graduate degree in International Management from Johannes Kepler University in Linz, Austria.

Past/Other experience

Mr. Truscott has worked in a variety of roles covering development, financing, construction, operations and maintenance in the power sector with over 27 years of experience. He assumed his current position in June 2017 after leading CLP Power's Power Systems and Generation business groups since 2011. Previously, he was Senior Vice President for CLP Southeast Asia in the Business Development team resident in Bangkok, Thailand. From 2001 until 2009, Mr. Truscott served in a variety of roles associated with the BLCP Power project in Thailand primarily as Managing Director. He joined the CLP Group in 1999 as Business Development Manager for Southeast Asia. Mr. Truscott is qualified as an engineer for a nuclear-powered submarine achieved during his service on board the USS Whale (SSN 638).

Chan Siu Hung

Current position/responsibilities

Managing Director - China of CLP Holdings Limited

Mr. Chan is responsible for CLP's China business with projects encompassing a wide range of energy technologies from nuclear, coal-fired, hydro, wind and solar power.

Titles, qualifications and education

JP, CEng, HonFEI, MIET, MHKIE, BSc(Eng.), MSc

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.

Past/Other experience

Mr. Chan joined CLP Power in 1981, and has held management positions in various functional areas in the power supply industry. Mr. Chan is currently a member of the Election Committee for the Chief Executive of the Hong Kong Special Administrative Region and a member of the Hong Kong Advisory Council on AIDS. In the Mainland, he is appointed as a member of the 11th and 12th Guangdong Provincial Committee of the Chinese People's Political Consultative Conference.

Further particulars

Further particulars of Mr. Chan including his directorships in the subsidiary and/or affiliated companies of CLP Group and other major appointments are available on the website of CLP Holdings Limited at <https://www.clpgroup.com>.

Chong Wai Yan Quince

Current position/responsibilities

Chief Corporate Development Officer - CLP Power

Ms. Chong leads the functions of customer and business development, public affairs and community relations. Her role helps 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.

Titles, qualifications and education

JP, BSSc

Hon Fellow of The Open University of Hong Kong and Hong Kong Baptist University

Past/Other experience

Ms. Chong has over 30 years of experience in corporate communications and customer services after having held various senior management positions in the tourism, hotel and aviation industries. Before joining CLP, Ms. Chong was Director Corporate Affairs of Cathay Pacific Airways Limited and has worked at the Hong Kong Tourism Board (formerly the Hong Kong Tourist Association). She assumed her current position in September 2012. She is currently the Board member of the Vocational Training Council. She is also a member of the 12th Hunan Provincial Committee of the Chinese People's Political Consultative Conference.

Further particulars

Further particulars of Ms. Chong, including her directorships in the subsidiary and/or affiliated companies of CLP Group and other major appointments are available on the website of CLP Holdings Limited at <https://www.clpgroup.com>.

Geert Herman August Peeters

Current position/responsibilities

Executive Director and Chief Financial Officer (“**CFO**”) of CLP Holdings Limited

Mr. Peeters, in addition to his responsibilities as CFO, has responsibility for CLP Group business development oversight.

Titles, qualifications and education

Knight in the Order of King Leopold

Chartered Engineer (Belgium)

International Certified Professional Accountant

Executive business training, INSEAD Paris, France

Master of Science in electro mechanical engineering (hons. RUG Gent, Belgium)

Postgraduate degree in business and IT administration (HEC Brussels, Belgium)

Past/Other experience

Prior to Mr. Peeters' appointment as an Executive Director and CFO of CLP Holdings Limited in January 2016, he was the Group Director & CFO since 1 April 2014. He is also a Director of CLP Power HK Finance Ltd.

Mr. Peeters has over 25 years of experience in the energy industry. Prior to joining CLP, he was the Deputy CFO of GDF SUEZ (now known as ENGIE) Group based in Paris and Executive Director and CFO of International Power plc, a ENGIE subsidiary formerly listed on the London Stock Exchange and part of the FTSE 100. Mr. Peeters was with GDF SUEZ from 1997 to 2013, gaining extensive experience in senior financial and operational roles in Europe, Latin America, the Middle East and North America.

Further particulars

Further particulars of Mr. Peeters, including his directorships in the subsidiary and/or affiliated companies of CLP Group and other major appointments are available on the website of CLP Holdings Limited at <https://www.clpgroup.com>.

Alternate Director

James Lindsay Lewis

Current position/responsibilities

Alternate Director of CLP Power (Alternate to Mr. David Tong)

Titles, qualifications and education

Mr. Lewis is a graduate of the Kellogg-HKUST Executive MBA program, holds a Master of Aviation Management from The University of Newcastle, Australia, a Certification of Hospitality Management from Cornell University, U.S.A. and is a Member of The Society of Trust and Estate Practitioners.

Past/Other experience

Mr. Lewis is a Director of Sir Elly Kadoorie & Sons Limited, involved in a number of Kadoorie family interests in Hong Kong and overseas and, as such, is associated with the major shareholders of the Company. He is also a Non-executive Director of The Hongkong and Shanghai Hotels, Limited. He has experience in private equity, hotel, charity and aviation operations, and currently serves on the boards of several private companies in the United Kingdom and Hong Kong.

Executive Officers

Lo Pak Cheong

Current position/responsibilities

Senior Director - Generation, CLP Power

Titles, qualifications and education

FHKIE, MIET, CEng

Past/Other experience

Mr. Lo joined CLP Power as an engineering graduate trainee in 1984. Since then, he had held various posts in the generation, transmission and distribution business groups of CLP Power and in different functional areas ranging from power plant operations and maintenance, network operations and maintenance, network planning and design, engineering projects planning and management as well as power system operation. More recently, he had served as the Commercial Director, Planning and Development Director and Senior Director - Generation Operation of CLP Power before taking up the role of Senior Director - Generation in March 2016. Mr. Lo is also the Chairman of Hong Kong LNG Terminal Limited, a Director of Hong Kong Pumped Storage Development Company, Limited and 深港天然气管道有限公司 (ShenGang Natural Gas Pipeline Company Limited) (an affiliated company of the CLP Group) as well as an Alternate Director of Castle Peak Power Company Limited.

Chan Kin Ming

Current position/responsibilities

Senior Director - Financial Control (Hong Kong), CLP Power

Mr. Chan is responsible for the financial control within the Scheme of Control business.

Titles, qualifications and education

CFA, CPA, MBA

Past/Other experience

Mr. Chan had held various management roles in Gas Supply Development, Corporate Strategy, Commercial Development, Planning & Business Development of CLP Power before he was appointed to his present position in January 2017. He is also a Director of Hong Kong LNG Terminal Limited, Hong Kong Nuclear Investment Company Limited, CLP Nuclear Business Liaison Limited, CLP Energy Services (Holding) Limited and a number of other subsidiary companies of the CLP Group.

Cheung Po Chung

Current position/responsibilities

Senior Director - Power Systems, CLP Power

Mr. Cheung manages the transmission and distribution systems serving Hong Kong.

Titles, qualifications and education

MHKIE, CEng, MIET, BEng, MSc

Mr. Cheung holds a Bachelor of Engineering in Electrical Engineering from the Hong Kong Polytechnic University and a Master of Technology Management from the Hong Kong University of Science and Technology.

Past/Other experience

Mr. Cheung has over 28 years of experience in the power industry. Before taking up the current role, he has held various senior management positions in Asset Management, Technical Services, Power Grid Operations and Retail Business. He was the Senior Director - Customer & Business Development of CLP Power before assuming his current role in March 2018. Mr. Cheung is a Director of CLP Energy Services (Holding) Limited and a number of other subsidiary and affiliated companies of CLP Group. In serving the community, he is a Director at the Board of the Hong Kong Green Building Council, and the Vice Chairman of the Energy and Power Group of the Federation of Hong Kong Industries.

Lena Low

Current position/responsibilities

Senior Director - Customer & Business Development, CLP Power

Ms. Low is responsible for business development, customer operations and marketing functions of CLP Power.

Titles, qualifications and education

MBA, University of Adelaide

Bachelor of Arts & Social Sciences - Statistics, National University of Singapore

Past/Other experience

Ms. Low has over 20 years of experience in leading large scale business and operations across various industries including IT, banking and telecommunications. Before joining CLP, Ms. Low held senior positions in Microsoft, United Overseas Bank Ltd and was most recently, Managing Director - Regional Customer Centre in Development Bank of Singapore (DBS). She assumed her current position in March 2018.

TAXATION

The following summary of certain British Virgin Islands, Hong Kong and EU tax consequences of the purchase, ownership and disposition of the Securities is based upon laws, regulations, rulings and decisions now in effect, all of which are subject to change (possibly with retroactive effect). The summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Securities and does not purport to deal with the consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of the Securities should consult their own tax advisors concerning the application of British Virgin Islands, Hong Kong and EU tax laws to their particular situations as well as any consequences of the purchase, ownership and disposition of the Securities arising under the laws of any other taxing jurisdiction.

British Virgin Islands

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

In addition, the Securities will not be liable to any stamp duty in the British Virgin Islands. Gains derived from the sale of Securities by persons who are not otherwise liable to British Virgin Islands income tax will not be subject to British Virgin Islands income tax. The British Virgin Islands currently has no relevant capital gains tax, estate duty, inheritance tax or gift tax.

Hong Kong

Withholding Tax

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

Profits Tax

Hong Kong profits tax is charged on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business.

Under the Inland Revenue Ordinance (Cap. 112) of Hong Kong (the “**Inland Revenue Ordinance**”) as it is currently applied, Hong Kong profits tax may be charged on revenue profits arising on the sale, disposal or redemption of the Securities where such sale, disposal or redemption is or forms part of a trade, profession or business carried on in Hong Kong.

Interest on the Securities will be subject to Hong Kong profits tax where such interest is received by or accrues to:

- (a) a financial institution (as defined in the Inland Revenue Ordinance and arises through or from the carrying on by the financial institution of its business in Hong Kong, notwithstanding that the moneys in respect of which the interest is received or accrues are made available outside Hong Kong; or

- (b) a corporation carrying on a trade, profession or business in Hong Kong by way of interest derived from Hong Kong and such interest is in respect of the funds of that trade, profession or business; or a person, other than a corporation, carrying on a trade, profession or business in Hong Kong by way of interest derived from Hong Kong and such interest is in respect of the funds of that trade, profession or business.

Stamp Duty

No Hong Kong stamp duty will be chargeable upon the issue or subsequent transfer of the Securities (for so long as the register of Holders of the Securities is maintained outside Hong Kong).

SUBSCRIPTION AND SALE

The Issuer and the Guarantor have entered into a subscription agreement with Crédit Agricole Corporate and Investment Bank, J.P. Morgan Securities plc, the Hongkong and Shanghai Banking Corporation Limited, Mizuho Securities Asia Limited and Standard Chartered Bank (Hong Kong) Limited dated 23rd October, 2019 (the “**Subscription Agreement**”), pursuant to which and subject to certain conditions contained therein, the Issuer has agreed to issue, the Guarantor has agreed to guarantee and the Joint Lead Managers have severally and not jointly agreed with the Issuer and the Guarantor to subscribe for the principal amount of Securities.

The Joint Lead Managers are offering the Securities in accordance with the terms of the Subscription Agreement and subject to certain conditions contained in the Subscription Agreement, including, *inter alia*, the receipt by the Joint Lead Managers of documentation related to the issuance and sale of the Securities, officer’s certificates and legal opinions. The Subscription Agreement may be terminated by the Joint Lead Managers in certain circumstances prior to payment of the Securities. The Subscription Agreement provides that the Issuer and the Guarantor will jointly and severally indemnify the Joint Lead Managers and their affiliates against certain liabilities in connection with the offer and sale of the Securities. The Subscription agreement provides that the obligations of the Joint Lead Managers are subject to certain conditions precedent and entitles the Joint Lead Managers to terminate in certain circumstances prior to payment being made to the Issuer.

The Issuer or, as the case may be, the Guarantor will pay the Joint Lead Managers’ customary commissions in connection with the offering and will reimburse the Joint Lead Managers for certain fees and expenses incurred in connection with the offering.

The Joint Lead Managers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities (“**Banking Services or Transactions**”). The Joint Lead Managers and their respective affiliates may have, from time to time, performed, and may in the future perform, various Banking Services and/or Transactions for the Issuer, the Guarantor and/or their respective affiliates for which they have received, or will receive, fees and expenses.

The Joint Lead Managers propose to offer the Securities for resale in transactions not requiring registration under the Securities Act pursuant to Regulation S.

If a jurisdiction requires that the offering of the Securities be made by a licensed broker or dealer and the Joint Lead Managers or any affiliate of the Joint Lead Managers are licensed brokers or dealers in that jurisdiction, the offering of the Securities shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of the Issuer in such jurisdiction.

New Issue of the Securities

The Securities are a new issuance of securities with no established trading market. Application will be made for the listing of, and permission to deal in, the Securities by way of debt issues to Professional Investors only (as described in this Offering Circular) on the Hong Kong Stock Exchange. However, no assurance can be given as to the liquidity of any trading market for the Securities. A liquid or active public trading market for the Securities may not develop. If an active trading market for the Securities does not develop, the market price and liquidity of the Securities may be adversely affected. If the Securities are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, the performance of the Issuer and the Guarantor and other factors.

Price Stabilisation and Short Positions

In connection with the offering, The Hongkong and Shanghai Banking Corporation Limited as Stabilising Manager or any person acting on its behalf may, to the extent permitted by applicable laws and directives, engage in transactions that stabilise or otherwise affect the market price of the Securities. These transactions consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of the Securities. If the Stabilising Manager or its agent create a short position in the Securities in

connection with the offering (i.e. if the Stabilising Manager or its agent sells more Securities than are set forth on the cover page of this Offering Circular), the Stabilising Manager or its agent may reduce that short position by purchasing Securities in the open market. In general, purchases of a Security for the purpose of stabilisation or to reduce a short position could cause the price of the Securities to be higher than it might be in the absence of such purchases. There is no assurance, however, that the Stabilising Manager or its agent will undertake stabilisation action. Any stabilisation action may begin on or after the date adequate public disclosure of the terms of the offer of the Securities is made and, if begun, may be ended at any time and must be brought to an end after a limited period.

Neither the Issuer, the Guarantor nor the Stabilising Manager makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Securities. In addition, neither the Issuer nor the Stabilising Manager makes any representation that the Stabilising Manager or its agent will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

Other Relationships

In connection with the offering of the Securities, the Joint Lead Managers and/or their respective affiliates, or affiliates of the Issuer or the Guarantor, may purchase the Securities for its or their own account (without a view to distributing such Securities). Such entities may hold or sell such Securities or purchase further Securities for their own account in the secondary market or deal in any other securities of the Issuer or the Guarantor, and therefore, they may offer or sell the Securities or other securities otherwise than in connection with the Offering. Accordingly, references herein to the Securities being ‘offered’ should be read as including any offering of the Securities to the Joint Lead Managers and/or their respective affiliates, or affiliates of the Issuer or the Guarantor for their own account. Such entities are not expected to disclose such transactions or the extent of any such investment, otherwise than in accordance with any legal or regulatory obligation to do so. Furthermore, it is possible that only a limited number of investors may subscribe for a significant proportion of the Securities. If this is the case, liquidity of trading in the Securities may be constrained (see “*Risk Factors — An active trading market for the Securities may not develop*”). The Issuer, the Guarantor and the Joint Lead Managers are under no obligation to disclose the extent of the distribution of the Securities amongst individual investors.

Each of the Joint Lead Managers and/or their respective affiliates may enter into transactions, including, without limitation, credit derivatives, including asset swaps, repackaging and credit default swaps relating to the Securities or other securities of the Issuer or the Guarantor at the same time as the offer and sale of the Securities or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Securities to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchaser of the Securities). Certain of the Joint Lead Managers or their affiliates that have a lending relationship with the Issuer and/or the Guarantor routinely hedge their credit exposure to the Issuer and/or the Guarantor consistent with their customary risk management policies. Typically, such Joint Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Issuer’s and/or the Guarantor’s securities, including potentially the Securities offered hereby. Any such short positions could adversely affect future trading prices of the Securities offered hereby. The Joint Lead Managers and their affiliates may make investment recommendations and/or publish or express independent research views (positive or negative) in respect of the Securities or other financial instruments of the Issuer or the Guarantor, and may recommend to their clients that they acquire long and/or short positions in the Securities or other financial instruments.

The Joint Lead Managers and certain of their respective subsidiaries and affiliates may hold shares or other securities in the Guarantors as beneficial owners, on behalf of clients or in the capacity of investment advisors.

Selling Restrictions to the Offering

United States

The Securities and the Guarantee have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Joint Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Securities and the Guarantee: (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Issue Date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Securities and the Guarantee during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Securities and the Guarantee within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

The Securities and the Guarantee are being offered and sold outside of the United States to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Securities and the Guarantee, an offer or sale of Securities and the Guarantee within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

Prohibition of Sales to EEA

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Securities to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression “**retail investor**” means a person who is one (or more) of the following:
 - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or
 - (ii) a customer within the meaning of Directive (EU) 2016/97 (“**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

United Kingdom

Each Joint Lead Manager has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the “**FSMA**”)) received by it in connection with the issue or sale of any Securities in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and
- (b) it has complied and will comply with all applicable provisions of the FSMA (and all rules and regulations made under the FSMA) with respect to anything done by it in relation to any Securities in, from or otherwise involving the United Kingdom.

Hong Kong

Each Joint Lead Manager has represented and agreed that:

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

The PRC

Each Joint Lead Manager has represented and agreed that the Securities are not being offered or sold and may not be offered or sold, directly or indirectly, in the People’s Republic of China (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by applicable laws of the People’s Republic of China.

British Virgin Islands

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

For Residents of the British Virgin Islands only

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

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

Japan

The Securities have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the “Financial Instruments and Exchange Act”). Accordingly, each Joint Lead Manager has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Securities in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

Singapore

Each Joint Lead Manager has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager has represented and agreed that it has not offered or sold any Securities or caused Securities to be made the subject of an invitation for subscription or purchase and will not offer or sell any Securities or cause the Securities to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Securities, whether directly or indirectly, to any person in Singapore other than:

- (a) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the “SFA”)) pursuant to Section 274 of the SFA;
- (b) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA; or
- (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Securities are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

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

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Securities pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Singapore SFA Product Classification — In connection with Section 309B of the SFA and the CMP Regulations 2018, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Securities are “prescribed capital markets products” (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

General

No action has been or will be taken that would, or is intended to, permit a public offering of the Securities, or the possession or distribution of this Offering Circular or any amendment or supplement thereto or any offering or publicity material relating to the Securities, in any country or jurisdiction where action for that purpose is required.

GENERAL INFORMATION

Clearing Systems

The Securities have been accepted for clearance through Euroclear and Clearstream, Luxembourg under Common Code number 206345918 and the International Securities Identification Number for the Securities is XS2063459189.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, S.A., 42 Avenue JF Kennedy, L-1855 Luxembourg. The Securities will not be cleared or settled through the Central Clearing and Settlement System of the Hong Kong Exchanges and Clearing Limited.

Listing of the Securities

Application will be made to the Hong Kong Stock Exchange for the listing of, the Securities by way of debt issues to Professional Investors only. It is expected that dealing in, and listing of, the Securities on the Hong Kong Stock Exchange will commence on 7th November, 2019.

Authorisations

The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Securities. The issue of the Securities was approved by the Board of Directors of the Issuer on 10 October 2019. The Guarantor has obtained all necessary consents, approvals and authorisations in connection with the giving of the Guarantee. The giving of the Guarantee was approved by the Finance and General Committee of the Guarantor on 10 October 2019.

Available Documents

So long as any of the Securities are outstanding, copies of the following documents will be available for inspection by Holders at the registered office of the Issuer and the Guarantor and copies of items (iii) and (iv) at the principal place of business of the Trustee at all reasonable times during normal business hours (being between 9:00 a.m. and 3:00 p.m.) following prior written request and proof of holding and identity satisfactory to the Trustee:

- (i) the Memorandum and Articles of Association of the Issuer and the Articles of Association of the Guarantor;
- (ii) the audited consolidated annual financial statements of the Guarantor in respect of the financial year ended 31 December 2018;
- (iii) the Trust Deed; and
- (iv) the Agency Agreement.

Significant or Material Change

Save as disclosed in this Offering Circular, there has been no significant or material adverse change in the financial or trading position of each of the Issuer and the Guarantor since 31 December 2018.

Litigation

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

Auditor

The Issuer has not published and does not propose to publish any financial statements. The independent auditor of the Guarantor is PricewaterhouseCoopers, Certified Public Accountants, who has audited the Guarantor's consolidated financial statements, without qualification, in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants for the financial year ended 31st December 2018. Solely in respect of the listing of the Securities on the Hong Kong Stock Exchange, PricewaterhouseCoopers has given and not withdrawn its written consent to the inclusion of its audit report in relation to the Guarantor included in this Offering Circular in the form and context in which it appears.

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SUMMARY OF FINANCIAL STATEMENTS

The information on pages F-3 to F-8 has been extracted from the audited consolidated financial statements of the Guarantor and the information on page F-9 has been extracted from the Scheme of Control (SoC) Statement of the Guarantor. For the convenience of the reader, the U.S. dollar amounts for 2018 have been added. The U.S. dollar balances have been calculated using a rate of HK\$7.8 to U.S.\$1.00. These translations should not be construed as representations that the Hong Kong dollar amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated.

The Summary of financial Statements contained in this Offering Circular does not constitute the Guarantor's statutory annual consolidated financial statements for the financial year ended 31st December, 2018 but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

As the Guarantor is a private company, the Guarantor is not required to deliver its financial statements to the Registrar of Companies, and has not done so.

The Company's auditor has reported on the financial statements for the year ended 31st December, 2018. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis; and did not contain a statement under either sections 406(2), 407(2) or (3) of the Companies Ordinance.

CLP POWER HONG KONG LIMITED
CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Year ended 31st December,		
	2017	2018	2018
	HK\$M	HK\$M	US\$M
Revenue	39,485	40,872	5,240
Expenses			
Fuel	(11,901)	(13,102)	(1,680)
Purchases of nuclear electricity	(5,380)	(5,543)	(711)
Staff expenses	(1,455)	(1,468)	(188)
Net other operating expenses	(2,610)	(2,846)	(365)
Depreciation and amortisation	(5,019)	(5,245)	(672)
	<u>(26,365)</u>	<u>(28,204)</u>	<u>(3,616)</u>
Operating profit	13,120	12,668	1,624
Finance costs	(1,052)	(1,015)	(130)
Finance income	32	25	3
Share of results of a joint venture, net of income tax	157	169	22
Profit before income tax	<u>12,257</u>	<u>11,847</u>	<u>1,519</u>
Income tax expenses	<u>(1,960)</u>	<u>(1,977)</u>	<u>(254)</u>
Profit for the year	<u>10,297</u>	<u>9,870</u>	<u>1,265</u>
Earnings attributable to:			
Shareholders	9,211	8,815	1,130
Perpetual capital securities holders	249	250	32
Non-controlling interests	837	805	103
	<u>10,297</u>	<u>9,870</u>	<u>1,265</u>

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

	Year ended 31st December,		
	2017	2018	2018
	HK\$M	HK\$M	US\$M
Profit for the year	<u>10,297</u>	<u>9,870</u>	<u>1,265</u>
Other comprehensive income			
Items that can be reclassified to profit or loss			
Cash flow hedges	(39)	(65)	(8)
Costs of hedging	(160)	29	3
Exchange differences on translation	54	(40)	(5)
Other comprehensive income for the year, net of tax	<u>(145)</u>	<u>(76)</u>	<u>(10)</u>
Total comprehensive income for the year	<u>10,152</u>	<u>9,794</u>	<u>1,255</u>
Total comprehensive income attributable to:			
Shareholders	9,053	8,744	1,120
Perpetual capital securities holders	249	250	32
Non-controlling interests	850	800	103
	<u>10,152</u>	<u>9,794</u>	<u>1,255</u>

CLP POWER HONG KONG LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31st December,		
	2017 HK\$M	2018 HK\$M	2018 US\$M
Non-current assets			
Fixed assets	105,636	108,958	13,969
Leasehold land under operating leases	5,191	5,281	677
Goodwill and intangible assets	10,208	9,965	1,278
Interests in and loan to a joint venture	1,254	1,151	148
Derivative financial instruments	268	198	25
	<u>122,557</u>	<u>125,553</u>	<u>16,097</u>
Current assets			
Inventory-stores and fuel	1,724	1,736	223
Trade and other receivables	2,552	2,643	339
Derivative financial instruments	170	45	6
Current account with ultimate holding company	46	59	8
Current accounts with fellow subsidiaries	59	34	4
Current accounts with a joint venture	2	2	-
Deposits, bank balances and cash	3,452	2,398	307
	<u>8,005</u>	<u>6,917</u>	<u>887</u>
Current liabilities			
Bank loans and other borrowings	(6,315)	(6,523)	(836)
Customers' deposits	(5,218)	(5,474)	(702)
Derivative financial instruments	(129)	(271)	(35)
Fuel clause account	(2,212)	(901)	(116)
Current accounts with fellow subsidiaries	(1,344)	(1,653)	(212)
Advances from other non-controlling interests	(1,514)	(1,513)	(194)
Trade and other payables	(4,494)	(5,070)	(650)
Dividend payable	(2,710)	(4,700)	(603)
Income tax payable	(449)	(502)	(64)
	<u>(24,385)</u>	<u>(26,607)</u>	<u>(3,412)</u>
Net current liabilities	<u>(16,380)</u>	<u>(19,690)</u>	<u>(2,525)</u>
Total assets less current liabilities	<u>106,177</u>	<u>105,863</u>	<u>13,572</u>

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

	As at 31st December,		
	2017 HK\$M	2018 HK\$M	2018 US\$M
Financed by:			
Equity			
Share capital			
2,488.32 million shares issued and fully paid	20,400	20,400	2,615
Reserves	21,341	22,840	2,928
Shareholders' funds	41,741	43,240	5,543
Perpetual capital securities	5,791	5,791	743
Other non-controlling interests	6,817	6,634	851
	<u>54,349</u>	<u>55,665</u>	<u>7,137</u>
Non-current liabilities			
Bank loans and other borrowings	34,251	32,324	4,144
Deferred tax liabilities	13,836	14,128	1,811
Derivative financial instruments	1,121	1,079	138
Scheme of Control (SoC) reserve accounts	977	998	128
Asset decommissioning liabilities	860	991	127
Other non-current liabilities	783	678	87
	<u>51,828</u>	<u>50,198</u>	<u>6,435</u>
Equity and non-current liabilities	<u>106,177</u>	<u>105,863</u>	<u>13,572</u>

CLP POWER HONG KONG LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	<u>Attributable to Shareholders</u>			<u>Perpetual Capital Securities</u>	<u>Non- controlling Interests</u>	<u>Total Equity</u>	<u>Total Equity</u>
	<u>Share Capital</u>	<u>Reserves</u>	<u>Total</u>				
	<u>HK\$M</u>	<u>HK\$M</u>	<u>HK\$M</u>	<u>HK\$M</u>	<u>HK\$M</u>	<u>HK\$M</u>	<u>US\$M</u>
Balance at 1st January 2017	20,400	19,195	39,595	5,791	1,803	47,189	6,050
Profit for the year	-	9,211	9,211	249	837	10,297	1,320
Other comprehensive income for the year	-	(158)	(158)	-	13	(145)	(19)
Transfer to fixed assets	-	3	3	-	1	4	1
Contribution from other non-controlling interests of a subsidiary	-	-	-	-	5,115	5,115	656
Dividends paid							
2016 final	-	(2,450)	(2,450)	-	-	(2,450)	(314)
2017 interim	-	(4,460)	(4,460)	-	-	(4,460)	(572)
Distributions to perpetual capital securities holders	-	-	-	(249)	-	(249)	(32)
Dividends paid to other non-controlling interests of a subsidiary	-	-	-	-	(952)	(952)	(122)
Balance at 31st December 2017	<u>20,400</u>	<u>21,341</u>	<u>41,741</u>	<u>5,791</u>	<u>6,817</u>	<u>54,349</u>	<u>6,968</u>
Balance at 1st January 2018	20,400	21,341	41,741	5,791	6,817	54,349	6,968
Profit for the year	-	8,815	8,815	250	805	9,870	1,265
Other comprehensive income for the year	-	(71)	(71)	-	(5)	(76)	(10)
Transfer to fixed assets	-	(45)	(45)	-	(19)	(64)	(8)
Dividends paid/provided							
2017 final	-	(2,500)	(2,500)	-	-	(2,500)	(320)
2018 interim	-	(4,700)	(4,700)	-	-	(4,700)	(603)
Distributions to perpetual capital securities holders	-	-	-	(250)	-	(250)	(32)
Dividends paid to other non-controlling interests of a subsidiary	-	-	-	-	(964)	(964)	(123)
Balance at 31st December 2018	<u>20,400</u>	<u>22,840</u>	<u>43,240</u>	<u>5,791</u>	<u>6,634</u>	<u>55,665</u>	<u>7,137</u>

CLP POWER HONG KONG LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31st December,

	2017	2018	2018
	HK\$M	HK\$M	US\$M
Operating activities			
Net cash inflow from operations	16,538	17,847	2,288
Income tax paid	(1,637)	(1,612)	(207)
Net cash inflow from operating activities	<u>14,901</u>	<u>16,235</u>	<u>2,081</u>
Investing activities			
Capital expenditure	(7,643)	(8,437)	(1,082)
Addition of other intangible assets	(24)	(31)	(4)
Proceeds from disposal of fixed assets and leasehold land	84	95	12
Capitalised interest paid	(201)	(242)	(31)
Dividends received from a joint venture	125	80	10
Decrease in advances to a joint venture	157	129	17
(Decrease)/increase in deposits with maturities of more than three months	(3,052)	815	104
Net cash outflow from investing activities	<u>(10,554)</u>	<u>(7,591)</u>	<u>(974)</u>
Net cash inflow before financing activities	<u>4,347</u>	<u>8,644</u>	<u>1,107</u>
Financing activities			
Increase/(decrease) in short-term loans	587	(64)	(8)
Proceeds from long-term borrowings	7,617	2,865	367
Repayment of long-term borrowings	(6,227)	(4,345)	(557)
Interest paid	(864)	(939)	(120)
Interest received	32	25	3
Decrease in advances from other non-controlling interests	(79)	(1)	-
Distributions paid to perpetual capital securities holders	(249)	(250)	(32)
Dividends paid to shareholders	(4,200)	(5,210)	(668)
Dividends paid to other non-controlling interests of a subsidiary	(952)	(964)	(123)
Net cash outflow from financing activities	<u>(4,335)</u>	<u>(8,883)</u>	<u>(1,138)</u>
Net increase/(decrease) in cash and cash equivalents	12	(239)	(31)
Cash and cash equivalents at beginning of year	388	400	51
Cash and cash equivalents at end of year	<u>400</u>	<u>161</u>	<u>20</u>
Analysis of cash and cash equivalents			
Deposits, bank balances and cash	3,452	2,398	307
Less: Deposits with maturities of more than three months	(3,052)	(2,237)	(287)
Cash and cash equivalents	<u>400</u>	<u>161</u>	<u>20</u>

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

	12 months ended 31st December 2017 HK\$M	9 months ended 30th September 2018 HK\$M	9 months ended 30th September 2018 US\$M	3 months ended 31st December 2018 HK\$M	3 months ended 31st December 2018 US\$M
Scheme of Control Revenue	39,259	32,023	4,106	9,063	1,161
Expenses					
Operating costs	4,405	3,385	434	1,149	147
Fuel	11,901	10,021	1,285	3,081	395
Purchases of nuclear electricity	5,380	4,564	585	979	126
Provision for asset decommissioning	(56)	219	28	(88)	(11)
Depreciation	4,706	3,778	484	1,153	148
Operating interest	994	750	96	246	32
Taxation	1,989	1,589	204	412	52
	29,319	24,306	3,116	6,932	889
Profit after taxation	9,940	7,717	990	2,131	272
Interest on increase in customers' deposits	-	-	-	1	-
Interest on borrowed capital	976	789	101	266	34
Adjustment for performance incentives	(54)	(16)	(2)	(89)	(11)
Adjustment required under the Scheme of Control (being share of profit on sale of electricity to Mainland China attributable to the Companies)	(79)	(43)	(6)	-	-
Profit for Scheme of Control	10,783	8,447	1,083	2,309	295
Transfer from/(to) Tariff Stabilisation Fund	42	(135)	(17)	(56)	(7)
Permitted Return	10,825	8,312	1,066	2,253	288
Deduct Interest on / Adjustment for					
Increase in customers' deposits as above	-	-	-	1	-
Borrowed capital as above	976	789	101	266	34
Performance incentives as above	(54)	(16)	(2)	(89)	(11)
Tariff Stabilisation Fund to Rate Reduction Reserve	4	7	1	4	-
	926	780	100	182	23
Net Return	9,899	7,532	966	2,071	265
EEF/CESF Contribution	(22)	(16)	(2)	(48)	(6)
Net Return after EEF/CESF Contribution	9,877	7,516	964	2,023	259
Divisible as follows:					
CLP Power	6,763	5,149	660	1,369	176
CAPCO	3,114	2,367	304	654	83
	9,877	7,516	964	2,023	259
CLP Power's share of net return after EEF/CESF Contribution					
CLP Power	6,763	5,149	660	1,369	176
Interest in CAPCO	2,180	1,656	212	458	59
	8,943	6,805	872	1,827	235

EXHIBIT A

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS
AND SCHEME OF CONTROL STATEMENT
OF CLP POWER HONG KONG LIMITED
FOR THE YEAR ENDED 31ST DECEMBER, 2018**

The information in this Exhibit A has been extracted from the audited consolidated financial statements and Scheme of Control Statement of the Guarantor for the year ended 31st December, 2018. References to page numbers in this Exhibit A are to pages of such documents.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF CLP POWER HONG KONG LIMITED
中華電力有限公司
(Incorporated in Hong Kong with limited liability)**

Opinion

What we have audited

The consolidated financial statements of CLP Power Hong Kong Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 8 to 60, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF CLP POWER HONG KONG LIMITED (CONTINUED)**
中華電力有限公司
(Incorporated in Hong Kong with limited liability)

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the directors' report and the Scheme of Control Statement, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF CLP POWER HONG KONG LIMITED (CONTINUED)**
中華電力有限公司
(Incorporated in Hong Kong with limited liability)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF CLP POWER HONG KONG LIMITED (CONTINUED)**
中華電力有限公司
(Incorporated in Hong Kong with limited liability)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 13 February 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2018

	<i>Note</i>	2018 HK\$M	2017 HK\$M
Revenue	5	<u>40,872</u>	<u>39,485</u>
Expenses			
Fuel	23	(13,102)	(11,901)
Purchases of nuclear electricity	23	(5,543)	(5,380)
Staff expenses		(1,468)	(1,455)
Net other operating expenses		(2,846)	(2,610)
Depreciation and amortisation	10,11	<u>(5,245)</u>	<u>(5,019)</u>
		<u>(28,204)</u>	<u>(26,365)</u>
Operating profit	6	12,668	13,120
Finance costs	7	(1,015)	(1,052)
Finance income	7	25	32
Share of results of a joint venture, net of income tax	13	<u>169</u>	<u>157</u>
Profit before income tax		11,847	12,257
Income tax expense	8	<u>(1,977)</u>	<u>(1,960)</u>
Profit for the year		<u>9,870</u>	<u>10,297</u>
Earnings attributable to:			
Shareholders		8,815	9,211
Perpetual capital securities holders		250	249
Non-controlling interests		<u>805</u>	<u>837</u>
		<u>9,870</u>	<u>10,297</u>

The notes on pages 14 to 60 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 2018**

	2018 HK\$M	2017 HK\$M
Profit for the year	<u>9,870</u>	<u>10,297</u>
Other comprehensive income		
Items that can be reclassified to profit or loss		
Cash flow hedges	(65)	(39)
Costs of hedging	29	(160)
Exchange differences on translation	<u>(40)</u>	<u>54</u>
Other comprehensive income for the year, net of tax	<u>(76)</u>	<u>(145)</u>
Total comprehensive income for the year	<u>9,794</u>	<u>10,152</u>
Total comprehensive income attributable to:		
Shareholders	8,744	9,053
Perpetual capital securities holders	250	249
Non-controlling interests	<u>800</u>	<u>850</u>
	<u>9,794</u>	<u>10,152</u>

The notes on pages 14 to 60 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	<i>Note</i>	2018 HK\$M	2017 HK\$M
Non-current assets			
Fixed assets	<i>10(A)</i>	108,958	105,636
Leasehold land under operating leases	<i>10(B)</i>	5,281	5,191
Goodwill and other intangible assets	<i>11</i>	9,965	10,208
Interests in and loan to a joint venture	<i>13</i>	1,151	1,254
Derivative financial instruments	<i>14</i>	198	268
		<u>125,553</u>	<u>122,557</u>
Current assets			
Inventory-stores and fuel		1,736	1,724
Trade and other receivables		2,643	2,552
Derivative financial instruments	<i>14</i>	45	170
Current account with ultimate holding company		59	46
Current accounts with fellow subsidiaries		34	59
Current account with a joint venture		2	2
Deposits, bank balances and cash		2,398	3,452
		<u>6,917</u>	<u>8,005</u>
Current liabilities			
Bank loans and other borrowings	<i>18</i>	(6,523)	(6,315)
Customers' deposits		(5,474)	(5,218)
Derivative financial instruments	<i>14</i>	(271)	(129)
Fuel clause account		(901)	(2,212)
Current accounts with fellow subsidiaries		(1,653)	(1,344)
Advances from other non-controlling interests	<i>15</i>	(1,513)	(1,514)
Trade and other payables		(5,070)	(4,494)
Dividend payable		(4,700)	(2,710)
Income tax payable		(502)	(449)
		<u>(26,607)</u>	<u>(24,385)</u>
Net current liabilities		<u>(19,690)</u>	<u>(16,380)</u>
Total assets less current liabilities		<u>105,863</u>	<u>106,177</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 31 DECEMBER 2018

	<i>Note</i>	2018 HK\$M	2017 HK\$M
Financed by:			
Equity			
Share capital			
2,488.32 million shares issued and fully paid		20,400	20,400
Reserves	<i>16</i>	<u>22,840</u>	<u>21,341</u>
Shareholders' funds		43,240	41,741
Perpetual capital securities	<i>17</i>	5,791	5,791
Other non-controlling interests	<i>17</i>	<u>6,634</u>	<u>6,817</u>
		<u>55,665</u>	<u>54,349</u>
Non-current liabilities			
Bank loans and other borrowings	<i>18</i>	32,324	34,251
Deferred tax liabilities	<i>20</i>	14,128	13,836
Derivative financial instruments	<i>14</i>	1,079	1,121
Scheme of Control (SoC) reserve accounts	<i>19</i>	998	977
Asset decommissioning liabilities	<i>19</i>	991	860
Other non-current liabilities		<u>678</u>	<u>783</u>
		<u>50,198</u>	<u>51,828</u>
Equity and non-current liabilities		<u>105,863</u>	<u>106,177</u>

William Mocatta
Chairman

Chiang Tung Keung
Managing Director

13 February 2019

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Attributable to Shareholders			Perpetual Capital Securities HK\$M	Other Non- controlling Interests HK\$M	Total Equity HK\$M
	Share Capital HK\$M	Reserves HK\$M	Total HK\$M			
Balance at 1 January 2017	20,400	19,195	39,595	5,791	1,803	47,189
Profit for the year	-	9,211	9,211	249	837	10,297
Other comprehensive income for the year	-	(158)	(158)	-	13	(145)
Transfer to fixed assets	-	3	3	-	1	4
Contribution from other non-controlling interests of a subsidiary	-	-	-	-	5,115	5,115
Dividends paid/provided						
2016 final	-	(2,450)	(2,450)	-	-	(2,450)
2017 interim	-	(4,460)	(4,460)	-	-	(4,460)
Distributions to perpetual capital securities holders	-	-	-	(249)	-	(249)
Dividends paid to other non-controlling interests of a subsidiary	-	-	-	-	(952)	(952)
Balance at 31 December 2017	<u>20,400</u>	<u>21,341</u>	<u>41,741</u>	<u>5,791</u>	<u>6,817</u>	<u>54,349</u>
Balance at 1 January 2018	20,400	21,341	41,741	5,791	6,817	54,349
Profit for the year	-	8,815	8,815	250	805	9,870
Other comprehensive income for the year	-	(71)	(71)	-	(5)	(76)
Transfer to fixed assets	-	(45)	(45)	-	(19)	(64)
Dividends paid/provided						
2017 final	-	(2,500)	(2,500)	-	-	(2,500)
2018 interim	-	(4,700)	(4,700)	-	-	(4,700)
Distributions to perpetual capital securities holders	-	-	-	(250)	-	(250)
Dividends paid to other non-controlling interests of a subsidiary	-	-	-	-	(964)	(964)
Balance at 31 December 2018	<u>20,400</u>	<u>22,840</u>	<u>43,240</u>	<u>5,791</u>	<u>6,634</u>	<u>55,665</u>

The notes on pages 14 to 60 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	<i>Note</i>	2018 HK\$M	2017 HK\$M
Operating activities			
Net cash inflow from operations	<i>21(A)</i>	17,847	16,538
Income tax paid		(1,612)	(1,637)
Net cash inflow from operating activities		<u>16,235</u>	<u>14,901</u>
Investing activities			
Capital expenditure		(8,437)	(7,643)
Addition of other intangible assets		(31)	(24)
Proceeds from disposal of fixed assets and leasehold land		95	84
Capitalised interest paid		(242)	(201)
Dividends received from a joint venture		80	125
Decrease in advances to a joint venture		129	157
Decrease/(increase) in deposits with maturities of more than three months		815	(3,052)
Net cash outflow from investing activities		<u>(7,591)</u>	<u>(10,554)</u>
Net cash inflow before financing activities		<u>8,644</u>	<u>4,347</u>
Financing activities			
(Decrease)/increase in short-term borrowings	<i>21(B)</i>	(64)	587
Proceeds from long-term borrowings		2,865	7,617
Repayment of long-term borrowings		(4,345)	(6,227)
Interest paid		(939)	(864)
Interest received		25	32
Decrease in advances from other non-controlling interests		(1)	(79)
Distributions paid to perpetual capital securities holders		(250)	(249)
Dividends paid to shareholders		(5,210)	(4,200)
Dividends paid to other non-controlling interests of a subsidiary		(964)	(952)
Net cash outflow from financing activities		<u>(8,883)</u>	<u>(4,335)</u>
Net (decrease)/increase in cash and cash equivalents		(239)	12
Cash and cash equivalents at beginning of year		400	388
Cash and cash equivalents at end of year		<u>161</u>	<u>400</u>
Analysis of cash and cash equivalents			
Deposits, bank balances and cash		2,398	3,452
Less: Deposits with maturities of more than three months		(2,237)	(3,052)
Cash and cash equivalents		<u>161</u>	<u>400</u>

The notes on pages 14 to 60 are an integral part of these consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. General information

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

The principal activity of the Company continues to be the generation and supply of electricity. Particulars of the Company's subsidiaries are set out in Note 12. The Company and its subsidiaries are collectively referred to as the "Group" in the financial statements.

The financial operations of CLP Power Hong Kong Limited (CLP Power) and its major subsidiary, Castle Peak Power Company Limited, (collectively the SoC Companies) are governed by the Scheme of Control (SoC) Agreement entered with the Hong Kong Government. The SoC Agreement which took effect from 1 October 2008 expired on 30 September 2018 (2008 SoC). A new SoC Agreement immediately became effective on 1 October 2018 (2018 SoC). The main features of these SoC Agreements are summarised on pages 61 to 63, which are unaudited by PricewaterhouseCoopers.

These financial statements have been approved by the Board of Directors on 13 February 2019.

2. Significant accounting policies

The significant accounting policies applied in the preparation of these financial statements are set out below:

(a) Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). They have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities (including derivative financial instruments) which are carried at fair value.

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

(i) New HKFRS effective 1 January 2018

The HKICPA has issued a number of new HKFRS, interpretation and amendments to HKFRS that are first effective for the current accounting period of the Group. Those that are relevant to the Group's financial statements are as follows:

- Annual Improvements to HKFRSs 2014-2016 Cycle
- HK(IFRIC)-Int 22 Foreign Currency Transactions and Advance Consideration
- HKFRS 15 Revenue from Contracts with Customers

The adoption of the interpretation and amended standards has had no significant impact on the results and the financial position of the Group.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(a) Basis of preparation (continued)

(i) New HKFRS effective 1 January 2018 (continued)

The new HKFRS 15 establishes a new framework for revenue recognition. This replaces HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard introduces a five-step model to determine when to recognise revenue and at what amount. Under the five-step model, revenue is recognised when control of goods or services is transferred to a customer and at the amount to which the entity expects to be entitled. Depending on the nature of the contracts, revenue is either recognised over time or at a point in time.

The principal activity of the Group is the generation and supply of electricity. Considering the nature of the principal activity, the adoption of HKFRS 15 does not have material impact on the Group's revenue recognition.

(ii) New HKFRS effective after 2018 and have not yet been adopted

The following new standard, interpretation and amendments to standards have been issued and are effective after 2018. The Group has not early adopted them for the year ended 31 December 2018.

- Annual Improvements to HKFRSs 2015-2017 Cycle
- Amendments to HKFRS 9 Prepayment Features with Negative Compensation
- Amendments to HKAS 19 Plan Amendment, Curtailment or Settlement
- Amendments to HKAS 28 Long-term Interests in Associates and Joint Ventures
- HK(IFRIC)-Int 23 Uncertainty over Income Tax Treatments
- HKFRS 16 Leases

Except for HKFRS 16 as described below, the adoption of these interpretation and amended standards is not expected to have any significant impact on the results and the financial position of the Group.

HKFRS 16 introduces a substantial change to lease accounting. The standard requires lessees to account for almost all leases under a single on-balance sheet model similar to finance leases under the current accounting standard, HKAS 17 Leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Recognition for the lessor will remain essentially unchanged. HKFRS 16 has a mandatory effective date of 1 January 2019.

The Group has reassessed all lease contracts as well as contracts which do not satisfy the lease definition under the current standard. There are no existing contracts that are not classified as a lease under HKAS 17 but will satisfy the definition of a lease under HKFRS 16.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(a) Basis of preparation (continued)

(ii) New HKFRS effective after 2018 and have not yet been adopted (continued)

For the existing material lease contracts, the Capacity Purchase Contract entered into by Hong Kong Pumped Storage Development Company, Limited (PSDC) is identified as an operating lease under HKAS 17, however it does not meet the definition of a lease under HKFRS 16. As at 31 December 2018, the commitments related to the Capacity Purchase Contract of PSDC amounted to HK\$1,592 million.

HKFRS 16 requires the Group to recognise the right-of-use assets and lease liabilities for all lease contracts including those which are currently identified as operating leases. However, for operating leases that would expire within 12 months from 1 January 2019, the Group will apply the short-term lease exemption. The accounting of these short-term leases is similar to the accounting for an operating lease under HKAS 17.

The Group intends to adopt the modified retrospective application for the transition arrangement, which means that the cumulative impact on the adoption of HKFRS 16 will be adjusted to the opening balance of retained earnings at 1 January 2019 and the comparatives will not be restated.

(b) Basis of consolidation

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

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.

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

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

(c) Joint ventures

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.

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

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(d) Fixed assets and leasehold land

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

Depreciation of fixed assets and amortisation of leasehold land is based on the rates which reflect the pattern in which the assets' economic benefits are consumed.

(i) In respect of the fixed assets and leasehold land commissioned before 1 January 2014, the net book values as at 31 December 2013 are being written off uniformly over the remainder of their useful lives as set out in (iii) below.

(ii) Fixed assets and leasehold land commissioned on or after 1 January 2014 are depreciated/amortised on a straight-line basis over the useful lives as set out in (iii) below commencing from the date of commissioning.

(iii) Useful lives of fixed assets and leasehold land

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

* Useful lives of the generating plants have been extended by 10 – 20 years to 35 – 45 years after mid-life refurbishments.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(d) Fixed assets and leasehold land (continued)

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

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

(e) Leases

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

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 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. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the lease 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 liability for each period.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(f) Impairment of non-financial assets

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

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

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

(g) Goodwill and other intangible assets

(i) Goodwill

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

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

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

(ii) Other intangible assets

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

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(h) Derivative financial instruments and hedging activities

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

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the hedging relationship meets the hedge effectiveness requirements.

(i) Fair value hedges

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

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

(ii) Cash flow hedges

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

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

When a hedging instrument expires or is sold, terminated or exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss remains in equity at that time is accounted for according to the nature of the underlying transactions (as discussed above) once the hedged cash flow occurs. 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.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(h) Derivative financial instruments and hedging activities (continued)

(iii) Derivatives not qualifying for hedge accounting

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

(iv) Costs of hedging

Foreign currency basis spread of financial instruments may be separated and excluded from the designated hedging instruments. In such case, the Group treats the excluded elements as costs of hedging. The fair value changes of these elements are recognised in a separate component of equity to the extent that the contract terms are aligned with the attributes of the hedged exposure. For time-period related hedged items, these elements at the date of designation (to the extent that it relates to the hedged item) are amortised on a systematic and rational basis to profit or loss over the period. For transaction related hedged items, the cumulative change of these elements is included in the initial carrying amount of any non-financial asset recognised when the hedged transaction occurs or is recognised in profit or loss if the hedged transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or when a hedge no longer meets the criteria for hedge accounting, the costs of hedging deferred in equity at that time remains in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the costs of hedging that has been deferred in equity is reclassified to profit or loss immediately.

(i) Trade and other receivables

Trade and other receivables are recognised initially at transaction price and subsequently stated at amortised cost using the effective interest method, less allowances for expected credit losses. The Group measures the loss allowance for its trade receivables at an amount equal to the lifetime expected credit losses. The amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to its recognised amount is recognised in profit or loss, as an impairment loss or a reversal of an impairment loss. Trade and other receivables are written off (either partially or in full) when there is no reasonable expectation of recovery.

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the trade receivables. Expected credit losses on trade receivables are calculated by using the provision matrix approach. Trade receivables are categorised by common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The provision matrix is determined based on historical observed default rates over the expected life of the trade receivables and is adjusted for forward-looking estimates. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(i) Trade and other receivables (continued)

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

(j) Inventory

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

(k) Fuel Clause Account

The cost of fuel consumed is passed on to the customers. Any variations between the actual cost of fuel and the fuel cost billed to customers are captured in the Fuel Clause Account. The balance on the account (inclusive of interest) represents amounts over-recovered or under-recovered and is treated as an amount due to or from customers. CLP Power may adjust fuel related tariff from time to time, including on a monthly basis in accordance with the 2018 SoC, to reflect changes in the cost of fuels consumed by the SoC Companies for the generation of electricity.

(l) Cash and cash equivalents

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.

(m) Trade and other payables

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

(n) Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred tax liability is settled. Deferred tax is also provided on temporary differences arising on investments in joint ventures, except where the timing of the reversal of temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(o) Borrowings, finance costs and interest income

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 liabilities for at least 12 months after the end of the reporting period.

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 fixed assets which necessarily take a substantial period of time to get ready for their intended use.

Interest income is recognised on a time proportion basis using the effective interest method.

(p) Employee benefits

(i) Retirement benefits

The Company operates and participates in a number of defined contribution plans. The assets of these plans are held in separate trustee-administered funds. The pension plans are funded by payments from employees and by the participating companies, and provide benefits linked to contributions and investment returns on the plans. The Company 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.

Forfeited contributions (by employers on behalf of employees who leave the plan prior to vesting fully in such contributions) are not used to offset existing contributions but are credited to a reserve account of that pension plan, and are available for distribution at the discretion of the employers.

Contributions to the defined contribution plans are recognised as an expense in profit or loss in the year in which they are incurred, except to the extent that they are capitalised as part of the cost of qualifying assets.

(ii) Incentive bonus and employee leave entitlement

Provisions are made for the estimated liability for incentive bonus and employee leave entitlement as a result of services rendered by employees up to the end of the reporting period, where there is a contractual obligation or past practice has created a constructive obligation.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(q) Revenue

Revenue from contracts with customers primarily represents sales of electricity. Sales of electricity are based on actual and accrued consumption during the year.

Other revenue is recognised when the related income is earned or receivable.

(r) Foreign currency

Items included in the financial statements of each of the Group entities are measured in Hong Kong dollars, which is the currency of the primary economic environment in which each group entity operates (functional currency). The consolidated financial statements are presented in Hong Kong dollars, which is the Group's presentation currency.

Foreign currency transactions are translated into Hong Kong dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation 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 equity as qualifying cash flow hedges.

For the purpose of consolidation, net assets of joint ventures that have a functional currency different from the Group's presentation currency are translated using the closing rate at the end of the reporting period; and the share of results of joint ventures are translated at the average exchange rate for the reporting period. All resulting exchange differences are recognised in other comprehensive income and as a separate component of equity.

(s) Related parties

Related parties are individuals and companies, including subsidiaries, fellow subsidiaries, joint ventures, associated companies and key management personnel, where the individual or company has the ability, directly or indirectly, to control or 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.

NOTES TO THE FINANCIAL STATEMENTS

3. Financial risk management

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise the impact of exchange rate and interest rate fluctuations on the Group's electricity tariff and financial performance. The Group uses different derivative financial instruments to manage its exposure in these areas. All derivative financial instruments are employed solely for hedging purposes.

Risk management for the Group is carried out by the CLP Group's central treasury department (Group Treasury) under policies approved by the Board of Directors or the Finance & General Committee of those companies. The Group has written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and cash management.

(i) Foreign exchange risk

The Group's potential foreign currency exposures primarily arise from the Company's significant foreign currency obligations relating to its debts denominated in foreign currency, nuclear power purchase off-take commitments, other fuel-related payments and major capital projects payments.

Under the SoC, the SoC Companies are allowed to pass-through foreign exchange gains and losses arising from future non-capital projects related commercial transactions and recognised liabilities which are denominated in a currency other than Hong Kong dollar, thus retaining no significant foreign exchange risk of such payments over the long term. The Group uses forward contracts and currency swaps to hedge all its debt repayment obligations denominated in foreign currencies for the full tenor, and a significant portion of its U.S. dollar obligations on fuel and nuclear power purchases, provided that for U.S. dollar the hedging can be accomplished at rates below the Hong Kong Government's historical target peg rate of HK\$7.8 : US\$1. The objective is to reduce the potential impact of foreign exchange movement on electricity tariffs. The Group also uses forward contracts to manage the foreign exchange risks arising from non-Hong Kong dollar payment obligations for major capital projects, for which the exchange gains and losses are capitalised.

At the end of the reporting period, the fair value movement of the derivative financial instruments in a cash flow hedge relationship is recorded in equity. The extent of the impact to the cash flow hedge reserve under equity due to exchange rate movements, with all other variables held constant, is as follows:

	2018 HK\$M	2017 HK\$M
Increase/(decrease) in cash flow hedge reserve		
Hong Kong dollar against U.S. dollar		
If weakened by 0.6% (2017: 0.6 %)	83	70
If strengthened by 0.6% (2017: 0.6 %)	(83)	(70)

NOTES TO THE FINANCIAL STATEMENTS

3. Financial risk management (continued)

(a) Financial risk factors (continued)

(i) Foreign exchange risk (continued)

	2018 HK\$M	2017 HK\$M
Increase/(decrease) in cash flow hedge reserve		
Hong Kong dollar against Euro		
If weakened by 6% (2017: 3.0%)	16	21
If strengthened by 6% (2017: 3.0%)	(16)	(21)

(ii) Interest rate risk

The Group's interest rate risk mainly arises from debt borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk, and 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 Group has determined a preferred fixed/floating interest rate mix appropriate for its business profile which is subject to annual review. As at 31 December 2018, 62% (2017: 59%) of the Group's borrowings were at fixed rates.

The sensitivity analysis on page 27 presents the effects on the post-tax profit for the year (as a result of change in interest expense on floating rate borrowings) and equity (as a result of change in the fair value of derivative instruments which qualify as cash flow hedges). Such amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged items affect profit or loss, and offset one another in the profit or loss.

The analysis has been determined based on the exposure to interest rates for both derivative and non-derivative financial instruments at the end of the reporting period. For floating rate borrowings, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. The sensitivity to interest rates used is considered reasonable given the market forecasts available at the end of the reporting period and under the economic environments in which the Group operates, with all other variables held constant.

NOTES TO THE FINANCIAL STATEMENTS

3. Financial risk management (continued)

(a) Financial risk factors (continued)

(ii) Interest rate risk (continued)

	2018 HK\$M	2017 HK\$M
Hong Kong dollar		
If interest rates were 1.0% (2017: 0.7 %) higher		
Post-tax profit for the year	(109)	(95)
Equity – cash flow hedge reserve	-	-
If interest rates were 1.0% (2017: 0.7 %) lower		
Post-tax profit for the year	109	95
Equity – cash flow hedge reserve	<u>-</u>	<u>-</u>
Australian dollar		
If interest rates were 1.0% (2017: 1.0%) higher		
Post-tax profit for the year	-	-
Equity – cash flow hedge reserve	4	5
If interest rates were 1.0% (2017: 1.0%) lower		
Post-tax profit for the year	-	-
Equity – cash flow hedge reserve	<u>(4)</u>	<u>(5)</u>

(iii) Credit risk

The Group has no significant concentrations of credit risk with respect to the sales of electricity as the customer base is widely dispersed in different sectors and industries. The Group has established a credit policy to allow electricity sale customers to settle their bills within two weeks after bill issuance. To limit the credit risk exposure, the Group has a policy to require cash deposits or bank guarantee from customers for an amount determined from time to time by reference to the usage of the customers, and in the normal course of events will not exceed the highest expected charge for 60 days. For all the deposits held, customers are paid a floating market interest rate equivalent to the HSBC bank saving rate. The customers' deposits are treated on the statement of financial position as current liabilities on the basis that they are repayable on demand. At 31 December 2018, such cash deposits amounted to HK\$5,474 million (2017: HK\$5,218 million) and the bank guarantees stood at HK\$796 million (2017: HK\$798 million).

NOTES TO THE FINANCIAL STATEMENTS

3. Financial risk management (continued)

(a) Financial risk factors (continued)

(iii) Credit risk (continued)

The Group determines the provision for expected credit losses by grouping together trade receivables with similar credit risk characteristics and collectively assessing them for likelihood of recovery, taking into account prevailing economic conditions. The Group classifies its trade receivables by nature of customer accounts. These include active accounts and terminated accounts. For trade receivables relating to accounts which are long overdue with significant amounts or known insolvencies or non-response to collection activities, they are assessed individually for impairment allowance. The table below summaries the expected credit losses on the trade receivables of the Group.

	Lifetime Expected Credit Loss Rate	Gross Carrying Amount HK\$M	Lifetime Expected Credit Loss HK\$M	Net Carrying Amount HK\$M
As at 31 December 2018				
Active accounts				
Provision on individual basis	100%*	1	(1)	-
Provision on collective basis	0%*	2,105	-	2,105
Terminated accounts				
Provision on individual basis	100%	8	(8)	-
Provision on collective basis	18%	4	(1)	3
		<u>2,118</u>	<u>(10)</u>	<u>2,108</u>
As at 31 December 2017				
Active accounts				
Provision on individual basis	100%*	2	(2)	-
Provision on collective basis	0%*	1,954	-	1,954
Terminated accounts				
Provision on individual basis	100%	5	(5)	-
Provision on collective basis	25%	6	(2)	4
		<u>1,967</u>	<u>(9)</u>	<u>1,958</u>

* Expected credit loss is close to zero as these trade receivables are mostly secured by cash deposits or bank guarantees from customers and have no recent history of default.

The impaired trade receivables were provided under the allowance account which balance at 31 December 2018 amounted to HK\$10 million (2017: HK\$9 million).

NOTES TO THE FINANCIAL STATEMENTS

3. Financial risk management (continued)

(a) Financial risk factors (continued)

(iii) Credit risk (continued)

On the treasury side, all finance-related hedging transactions and deposits of the Group entities are made with counterparties with good credit quality in conformance to the Group treasury policies to minimise credit exposure. Good credit ratings from reputable credit rating agencies is an important criterion in the selection of counterparties. The credit quality of counterparties will be closely monitored over the life of the transaction. The Group further assigns mark-to-market limits to its financial counterparties to reduce credit risk concentrations relative to the underlying size and credit strength of each counterparty; and regularly monitors potential exposures to all counterparties utilising value-at-risk methodology.

(iv) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and making available an adequate amount of committed credit facilities with staggered maturities to reduce refinancing risk in any year and to fund working capital, debt servicing, dividend payments and capital investments. The Group maintains significant flexibility to respond to opportunities and events by ensuring that committed credit lines are available to meet future funding requirements. Management also monitors rolling forecasts of the Group's undrawn borrowing facilities and cash and cash equivalents on the expected cash flow.

The table below analyses the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, derivative financial liabilities (both net settled and gross settled) and derivative financial assets (gross settled) based on the contractual undiscounted cash flows:

	Within 1 year HK\$M	Between 1 and 2 years HK\$M	Between 2 to 5 years HK\$M	Over 5 years HK\$M	Total HK\$M
As at 31 December 2018					
Non-derivative financial liabilities					
Bank loans	5,487	2,921	814	780	10,002
Other borrowings	2,336	4,805	9,774	19,314	36,229
Customers' deposits	5,474	-	-	-	5,474
Fuel clause account	901	-	-	-	901
SoC reserve accounts	-	-	-	998	998
Asset decommissioning liabilities	-	-	-	991	991
Current accounts with fellow subsidiaries	1,653	-	-	-	1,653
Advances from non-controlling interests	1,513	-	-	-	1,513
Trade and other payables	5,070	-	-	-	5,070
	<u>22,434</u>	<u>7,726</u>	<u>10,588</u>	<u>22,083</u>	<u>62,831</u>

NOTES TO THE FINANCIAL STATEMENTS

3. Financial risk management (continued)

(a) Financial risk factors (continued)

(iv) 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
As at 31 December 2018					
Derivatives financial liabilities - net settled					
Forward foreign exchange contracts	3	-	-	-	3
Interest rate swaps	26	18	33	29	106
	<u>29</u>	<u>18</u>	<u>33</u>	<u>29</u>	<u>109</u>
Derivatives financial liabilities - gross settled					
Gross contractual amounts payable					
Forward foreign exchange contracts	12,983	48	-	-	13,031
Cross currency interest rate swaps	1,517	523	5,755	11,863	19,658
	<u>14,500</u>	<u>571</u>	<u>5,755</u>	<u>11,863</u>	<u>32,689</u>
Gross contractual amounts receivable					
Forward foreign exchange contracts	(12,954)	(47)	-	-	(13,001)
Cross currency interest rate swaps	(1,391)	(452)	(5,053)	(11,698)	(18,594)
	<u>(14,345)</u>	<u>(499)</u>	<u>(5,053)</u>	<u>(11,698)</u>	<u>(31,595)</u>
Net payable	<u>155</u>	<u>72</u>	<u>702</u>	<u>165</u>	<u>1,094</u>
Derivatives financial assets - gross settled					
Gross contractual amounts payable					
Forward foreign exchange contracts	10,670	169	-	-	10,839
Cross currency interest rate swaps	250	4,017	2,431	370	7,068
	<u>10,920</u>	<u>4,186</u>	<u>2,431</u>	<u>370</u>	<u>17,907</u>
Gross contractual amounts receivable					
Forward foreign exchange contracts	(10,699)	(173)	-	-	(10,872)
Cross currency interest rate swaps	(299)	(4,089)	(2,443)	(467)	(7,298)
	<u>(10,998)</u>	<u>(4,262)</u>	<u>(2,443)</u>	<u>(467)</u>	<u>(18,170)</u>
Net receivable	<u>(78)</u>	<u>(76)</u>	<u>(12)</u>	<u>(97)</u>	<u>(263)</u>
Total	<u>77</u>	<u>(4)</u>	<u>690</u>	<u>68</u>	<u>831</u>

NOTES TO THE FINANCIAL STATEMENTS

3. Financial risk management (continued)

(a) Financial risk factors (continued)

(iv) 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
As at 31 December 2017					
Non-derivative financial liabilities					
Bank loans	6,577	1,837	3,812	537	12,763
Other borrowings	1,028	2,305	10,828	21,488	35,649
Customers' deposits	5,218	-	-	-	5,218
Fuel clause account	2,212	-	-	-	2,212
SoC reserve accounts	-	-	-	977	977
Asset decommissioning liabilities	-	-	-	860	860
Current accounts with fellow subsidiaries	1,344	-	-	-	1,344
Advances from non-controlling interests	1,514	-	-	-	1,514
Trade and other payables	4,494	-	-	-	4,494
	<u>22,387</u>	<u>4,142</u>	<u>14,640</u>	<u>23,862</u>	<u>65,031</u>

NOTES TO THE FINANCIAL STATEMENTS

3. Financial risk management (continued)

(a) Financial risk factors (continued)

(iv) 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
As at 31 December 2017					
Derivatives financial liabilities - net settled					
Interest rate swaps	38	27	43	30	138
	<u>38</u>	<u>27</u>	<u>43</u>	<u>30</u>	<u>138</u>
Derivatives financial liabilities - gross settled					
Gross contractual amounts payable					
Forward foreign exchange contracts	241	5,861	-	-	6,102
Cross currency interest rate swaps	462	498	3,033	14,598	18,591
	<u>703</u>	<u>6,359</u>	<u>3,033</u>	<u>14,598</u>	<u>24,693</u>
Gross contractual amounts receivable					
Forward foreign exchange contracts	(242)	(5,839)	-	-	(6,081)
Cross currency interest rate swaps	(436)	(436)	(2,417)	(14,222)	(17,511)
	<u>(678)</u>	<u>(6,275)</u>	<u>(2,417)</u>	<u>(14,222)</u>	<u>(23,592)</u>
Net payable	<u>25</u>	<u>84</u>	<u>616</u>	<u>376</u>	<u>1,101</u>
Derivatives financial assets - gross settled					
Gross contractual amounts payable					
Forward foreign exchange contracts	16,795	183	161	-	17,139
Cross currency interest rate swaps	1,216	253	6,472	831	8,772
	<u>18,011</u>	<u>436</u>	<u>6,633</u>	<u>831</u>	<u>25,911</u>
Gross contractual amounts receivable					
Forward foreign exchange contracts	(16,954)	(197)	(177)	-	(17,328)
Cross currency interest rate swaps	(1,308)	(318)	(6,593)	(850)	(9,069)
	<u>(18,262)</u>	<u>(515)</u>	<u>(6,770)</u>	<u>(850)</u>	<u>(26,397)</u>
Net receivable	<u>(251)</u>	<u>(79)</u>	<u>(137)</u>	<u>(19)</u>	<u>(486)</u>
Total	<u>(226)</u>	<u>5</u>	<u>479</u>	<u>357</u>	<u>615</u>

NOTES TO THE FINANCIAL STATEMENTS

3. Financial risk management (continued)

(b) Hedge accounting

The Group seeks to apply, wherever possible, hedge accounting to present its financial statements in accordance with the economic purpose of the hedging activity. The Group determines the economic relationship between the hedged items and the hedging instruments by reviewing the critical terms. As a result the Group concludes that the risk being hedged for the hedged items and risk inherent in the hedging instruments are sufficiently aligned. There is no inherent mismatch in the hedging relationship. Certain ineffectiveness can arise during the hedging process. The main source of hedge ineffectiveness is considered to be the effects of re-designation of the hedging relationships and the counterparty credit risks on the hedging instruments.

For hedges on debt related transactions, the Group applies cross currency interest rate swaps and interest rate swaps to mitigate exposures arising from the fluctuations in foreign currencies and/or interest rates of debt. In most of the cases, the hedging instruments have a one-to-one hedge ratio with the hedged items. In view of the nature of the hedging activities, no significant ineffectiveness is expected at inception.

For hedges on non-debt related transactions, the Group uses forward contracts to manage its foreign exchange risk arising from fuel and nuclear purchases obligations, and payments for major capital projects. The Group hedges a high portion of committed and highly probable forecast transactions.

NOTES TO THE FINANCIAL STATEMENTS

3. Financial risk management (continued)

(b) Hedge accounting (continued)

The tables below summarise the effect of the hedge accounting on financial position and performance of the Group:

Cash flow hedges

	Notional amount of hedging instruments HK\$M	Carrying amount of hedging instruments Assets/ (Liabilities) HK\$M	Favourable / (Unfavourable) changes in fair value used for measuring ineffectiveness		Hedging losses/(gains) recognised in cash flow hedge reserve HK\$M	Hedge ineffectiveness charged to profit or loss ⁽ⁱ⁾ HK\$M	Amount reclassified from cash flow hedge reserve and credited/(charged) to profit or loss	
			Hedging instruments HK\$M	Hedged items HK\$M			Hedged items affected profit or loss ⁽ⁱ⁾ HK\$M	Hedged future cash flows no longer expected to occur ⁽ⁱ⁾ HK\$M
As at 31 December 2018								
Debt related transactions								
Interest rate risk ⁽ⁱⁱ⁾	20,956	(597)	(54)	51	54	-	(30)	-
Non-debt related transactions								
Foreign currency risk	17,520	15	99	(99)	(99)	-	153	-
As at 31 December 2017								
Debt related transactions								
Interest rate risk ⁽ⁱⁱ⁾	21,925	(567)	266	(263)	(273)	7	497	-
Non-debt related transactions								
Foreign currency risk	16,980	164	137	(141)	(137)	-	(41)	-

Fair value hedges

	Notional amount of hedging instruments HK\$M	Carrying amount of hedged items HK\$M	Accumulated fair value hedge adjustments included in hedged items HK\$M	Favourable / (Unfavourable) changes in fair value used for measuring ineffectiveness		Hedge ineffectiveness credited to finance costs HK\$M
				Hedging instruments HK\$M	Hedged items HK\$M	
As at 31 December 2018						
Debt related transactions						
Interest rate risk ⁽ⁱⁱ⁾	6,963	(6,639)	299	(141)	143	(2)
As at 31 December 2017						
Debt related transactions						
Interest rate risk ⁽ⁱⁱ⁾	5,981	(5,797)	156	61	(58)	(3)

Note:

- (i) Hedge ineffectiveness and amounts reclassified from cash flow hedge reserve on non-debt and debt related transactions are recognised in fuel and purchase of nuclear electricity and finance costs respectively.
(ii) Also includes foreign currency risk for foreign currency debts.

NOTES TO THE FINANCIAL STATEMENTS

3. Financial risk management (continued)

(b) Hedge accounting (continued)

The reconciliation of the components in equity that arise in connection with hedge accounting and an analysis of other comprehensive income by risk category are as follows:

	Interest rate risk HK\$M	Foreign exchange risk HK\$M	Total HK\$M
<u>Cash Flow Hedge Reserve</u>			
Balance at 1 January 2017	381	2	383
Hedging gains	273	137	410
Reclassification to profit or loss			
Hedged items affect profit or loss	(497)	41	(456)
Related deferred tax	37	(30)	7
Transfer to hedged assets	-	4	4
Balance at 31 December 2017	<u>194</u>	<u>154</u>	<u>348</u>
Balance at 1 January 2018	194	154	348
Hedging (losses)/gains	(54)	99	45
Reclassification to profit or loss			
Hedged items affect profit or loss	30	(153)	(123)
Related deferred tax	4	9	13
Transfer to hedged assets	-	(62)	(62)
Balance at 31 December 2018	<u>174</u>	<u>47</u>	<u>221</u>
			HK\$M
<u>Costs of Hedging Reserve - Foreign currency basis spread</u>			
Balance at 1 January 2017			64
Changes due to transaction related hedged items:			
Fair value losses			(24)
Reclassification to profit or loss			(3)
Changes due to time-period related hedged items:			
Fair value losses			(182)
Amortisation to profit or loss			18
Related deferred tax			31
Balance at 31 December 2017			<u>(96)</u>
Balance at 1 January 2018			(96)
Changes due to transaction related hedged items:			
Fair value losses			(39)
Reclassification to profit or loss			21
Transfer to hedged assets			(3)
Changes due to time-period related hedged items:			
Fair value gains			41
Amortisation to profit or loss			12
Related deferred tax			(5)
Balance at 31 December 2018			<u>(69)</u>

Note:

(i) Also includes foreign currency risk for foreign currency debts.

NOTES TO THE FINANCIAL STATEMENTS

3. Financial risk management (continued)

(c) Fair value estimation and hierarchy of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using appropriate valuation techniques and making assumptions that are based on market conditions existing at the end of each reporting period.

For the Group's financial instruments that are not measured at fair value, their carrying values approximate their fair values.

Financial instruments measured at fair value are 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).

NOTES TO THE FINANCIAL STATEMENTS

3. Financial risk management (continued)

(c) Fair value estimation and hierarchy of financial instruments (continued)

The following table presents the fair value hierarchy for those financial instruments carried at fair value in the statement of financial position at 31 December.

	Level 1 HK\$M	Level 2 HK\$M	Level 3 HK\$M	Total HK\$M
As at 31 December 2018				
Financial assets				
Forward foreign exchange contracts	-	34	-	34
Cross currency interest rate swaps	-	150	-	150
Interest rate swaps	-	59	-	59
	<u>-</u>	<u>243</u>	<u>-</u>	<u>243</u>
Financial liabilities				
Forward foreign exchange contracts	-	31	-	31
Cross currency interest rate swaps	-	1,216	-	1,216
Interest rate swaps	-	103	-	103
	<u>-</u>	<u>1,350</u>	<u>-</u>	<u>1,350</u>
As at 31 December 2017				
Financial assets				
Forward foreign exchange contracts	-	190	-	190
Cross currency interest rate swaps	-	193	-	193
Interest rate swaps	-	55	-	55
	<u>-</u>	<u>438</u>	<u>-</u>	<u>438</u>
Financial liabilities				
Forward foreign exchange contracts	-	37	-	37
Cross currency interest rate swaps	-	1,079	-	1,079
Interest rate swaps	-	134	-	134
	<u>-</u>	<u>1,250</u>	<u>-</u>	<u>1,250</u>

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 2018 and 2017, there were no transfers between Level 1 and Level 2 of the fair value hierarchy.

The valuation technique and inputs used in the fair value measurements within Level 2 are as follows:

Financial Instruments	<u>Valuation technique</u>	<u>Significant inputs</u>
Forward foreign exchange contracts	Discounted cash flow	Observable exchange rates
Cross currency interest rate swaps	Discounted cash flow	Observable exchange rates and swap rates of respective currency
Interest rate swaps	Discounted cash flow	Observable swap rates of respective currency

NOTES TO THE FINANCIAL STATEMENTS

3. Financial risk management (continued)

(d) Offsetting financial assets and financial liabilities

The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements:

	Effect of offsetting in the consolidation statement of financial position			Related amounts not offset in the consolidated statement of financial position ⁽ⁱ⁾		
	Gross amounts recognised HK\$M	Gross amounts offset HK\$M	Net amounts included in the respective line HK\$M	Financial instruments HK\$M	Financial collateral received/pledged HK\$M	Net amount HK\$M
At 31 December 2018						
Financial assets						
Trade and other receivables	2,117	-	2,117	⁽ⁱⁱ⁾ (2,117)	(2,117)	-
Derivative financial instruments	205	-	205	(201)	-	4
	<u>2,322</u>	<u>-</u>	<u>2,322</u>	<u>(201)</u>	<u>(2,117)</u>	<u>4</u>
Financial liabilities						
Customers' deposits	5,474	-	5,474	(2,117)	-	3,357
Derivative financial instruments	1,313	-	1,313	(201) ⁽ⁱⁱ⁾	-	1,112
	<u>6,787</u>	<u>-</u>	<u>6,787</u>	<u>(2,318)</u>	<u>-</u>	<u>4,469</u>
At 31 December 2017						
Financial assets						
Trade and other receivables	1,884	-	1,884	⁽ⁱⁱ⁾ (296)	(1,884)	-
Derivative financial instruments	426	-	426	(296)	-	130
	<u>2,310</u>	<u>-</u>	<u>2,310</u>	<u>(296)</u>	<u>(1,884)</u>	<u>130</u>
Financial liabilities						
Customers' deposits	5,218	-	5,218	(1,884)	-	3,334
Derivative financial instruments	1,238	-	1,238	(296) ⁽ⁱⁱ⁾	-	942
	<u>6,456</u>	<u>-</u>	<u>6,456</u>	<u>(2,180)</u>	<u>-</u>	<u>4,276</u>

Notes:

- (i) Under HKFRS, amounts cannot be offset if the rights of set-off are conditional on a future event e.g. default of payment.
- (ii) 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.

NOTES TO THE FINANCIAL STATEMENTS

3. Financial risk management (continued)

(e) Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern, maintain a strong credit rating and a healthy capital ratio to support its business and to enhance shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and business strategies. To maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders or raise and repay debts. The Group's capital management objectives, policies or processes were unchanged during 2018 and 2017.

The Group monitors capital using "total debt to total capital" ratio. This ratio at 31 December 2018 and 2017 were as follows:

	2018 HK\$M	2017 HK\$M
Total debt ⁽ⁱ⁾	38,847	40,566
Total equity ⁽ⁱⁱ⁾	57,178	55,863
Total capital ⁽ⁱⁱⁱ⁾	96,025	96,429
Total debt to total capital ratio	40.5%	42.1%

Notes:

- (i) Total debt equals bank loans and other borrowings
- (ii) Total equity equals equity plus the advances from non-controlling interests
- (iii) Total capital equals total debt plus total equity

NOTES TO THE FINANCIAL STATEMENTS

4. Critical accounting estimates and judgements

(a) 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 and shall not accrue to the benefit of its shareholders save as provided for by the SoC. CLP Power also has the obligation to maintain the Fuel Clause Account, which represents the difference between an agreed standard cost of fuel and the actual fuel costs.

The Group considers that CLP Power is required under the SoC to discharge its obligations arising from the SoC upon the expiry of the SoC Agreement such that these account balances meet the definition of a liability.

(b) Asset impairment

The Group conducts impairment reviews of material non-financial assets whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. The Group also tests annually whether goodwill has suffered any impairment in accordance with the relevant accounting standards.

Determining whether an asset or a cash generating unit is impaired requires an estimation of the value in use, which requires the Group to estimate the future cash flows, a growth rate and a pre-tax discount rate in order to calculate the present value. Where the expected cash flows are less than the asset's carrying amount, an impairment loss may arise. During 2018, after reviewing the business environment as well as the Group's strategies and performances of the material non-financial assets, management concluded that there was no material impairment for goodwill and other long-lived assets (2017: no impairment for goodwill and other long-lived assets). The latest annual impairment models for goodwill indicated that sufficient headroom (meaning the excess of the recoverable amount over carrying value) existed. It is considered that any reasonably possible changes in the assumptions used in the models would not affect the impairment assessment result at 2018 year end.

NOTES TO THE FINANCIAL STATEMENTS

4. Critical accounting estimates and judgements (continued)

(c) Asset retirement obligations

CLP Power has been investing in the transmission and distribution network to supply electricity to the customers in its supply area in Hong Kong. As CLP Power expects that the land sites being used for the transmission and distribution network will continue to be used for the distribution of electricity supply to its customers, it is currently considered remote that the network would be removed from the existing land sites. Therefore in accordance with applicable accounting standards, asset retirement obligations for these assets have not been recognised by CLP Power.

In 2017 the Hong Kong Government released the Climate Action Plan 2030+ with a tightened carbon reduction target by 2030. As part of the new development plan agreed with the Hong Kong Government during 2018, Castle Peak Power Company Limited (CAPCO) will retire the coal-fired generation units at Castle Peak “A” Station (CPA) between 2022 to 2025. Following this retirement, the removal of CPA’s coal-fired generation units has become probable. It is also envisaged that with the Government’s continued commitment to reduce carbon intensity, the removal of CAPCO’s other fossil-fuel generation units from the existing land sites may be possible at some point of time in the future. Under the SoC, CAPCO makes a periodic charge to accrue in the statement of financial position a liability balance to be utilised in discharging asset decommissioning costs if and when incurred. CAPCO considers that the dismantling obligation for the CPA units is covered under the asset decommissioning liability accrued under the SoC as at 31 December 2018. While no provision for asset retirement obligations for the other generation units of CAPCO has been recognised, it is expected that if such an obligation be incurred, it will be met by the deferred liability accrued and the cost recovery mechanism under the SoC.

(d) Revenue recognition

CLP Power records revenue for the sale of electricity under the accrual accounting method. An electricity sale is recognised when electricity is supplied and consumed by the customers. The revenue is measured on the basis of periodic cycle meter readings and include an estimated accrual for the value of the electricity consumed from the meter reading date to the end of the reporting period (unbilled revenue). The unbilled revenue is calculated using estimates including consumption quantity based on electricity sent-out adjusted by loss factors, pattern of residential and non-residential consumption, weather and certain other factors. Unbilled revenue of the Group (included in trade and other receivables) totalled HK\$852 million at 31 December 2018 (2017: HK\$682 million).

NOTES TO THE FINANCIAL STATEMENTS

5. Revenue

The Group's revenue primarily represents sales of electricity, which is recognised over time, and is disaggregated as follows:

	2018 HK\$M	2017 HK\$M
Revenue from contracts with customers		
Sales of electricity – Local	40,552	38,245
– Export	430	916
Transfer for SoC (from)/to revenue (Note 19)	(322)	98
Others	121	110
	<u>40,781</u>	<u>39,369</u>
Other revenue	91	116
	<u>40,872</u>	<u>39,485</u>

6. Operating profit

	2018 HK\$M	2017 HK\$M
Operating profit is stated after charging/(crediting):		
Staff costs		
Salaries and other costs	1,286	1,271
Retirement benefits costs	182	184
Auditor's remuneration		
Audit	9	9
Permissible non-audit services	4	1
Net loss on disposal of fixed assets	412	333
Net fair value (gain)/loss on derivative financial instruments		
- Reclassified from cash flow hedge reserve and costs of hedging reserve to purchase of nuclear electricity and fuel	(132)	38
- Transactions not qualifying as hedges	17	(42)
Net exchange loss/(gain)	33	(36)
	<u> </u>	<u> </u>

NOTES TO THE FINANCIAL STATEMENTS

7. Finance costs and income

	2018 HK\$M	2017 HK\$M
Finance costs:		
Interest expenses on		
Bank loans and overdrafts	166	172
Other borrowings	986	857
Tariff Stabilisation Fund ^(a)	11	4
Customers' deposits and others	73	128
Other finance charges	53	66
Net fair value loss/(gain) on derivative financial instruments		
Reclassified from cash flow hedge reserve and costs of hedging reserve	42	(479)
Fair value hedges	143	(58)
Transactions not qualifying as hedges	(14)	36
Ineffectiveness of cash flow hedges	-	7
Ineffectiveness of fair value hedges	(2)	(3)
(Gain)/loss on hedged items in fair value hedges	(143)	58
Other net exchange (gain)/loss	(36)	517
	<u>1,279</u>	<u>1,305</u>
Less: amount capitalised ^(b)	<u>(264)</u>	<u>(253)</u>
	<u>1,015</u>	<u>1,052</u>
Finance income	<u>25</u>	<u>32</u>

Note:

- (a) In accordance with the provisions of the SoC Agreements, CLP Power is required to credit, to a Rate Reduction Reserve in its financial statements, a charge of the average of one-month Hong Kong Interbank Offered Rate on the average balance of the Tariff Stabilisation Fund (Note 19).
- (b) Finance costs have been capitalised at average interest rate of 3.23% (2017: 2.77%) per annum.

8. Income tax expense

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

	2018 HK\$M	2017 HK\$M
Current income tax	1,665	1,621
Deferred tax	312	339
	<u>1,977</u>	<u>1,960</u>

NOTES TO THE FINANCIAL STATEMENTS

8. Income tax expenses (continued)

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profit for the year. Income tax on profits assessable outside Hong Kong has been provided at 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:

	2018 HK\$M	2017 HK\$M
Profit before income tax (excluding share of results of a joint venture)	11,678	12,100
Calculated at an income tax rate of 16.5% (2017: 16.5%)	1,927	1,997
Income not subject to tax	(50)	(69)
Expenses not deductible for tax purposes	35	37
Effect of direct tax rates in other jurisdictions	12	11
Revenue adjustment for SoC not subject to tax (Note 19)	53	(16)
Income tax expense	<u>1,977</u>	<u>1,960</u>

9. Dividends

	2018		2017	
	HK\$ Per share	HK\$M	HK\$ Per share	HK\$M
Interim dividends provided for / paid	1.88	4,700	1.79	4,460
Final dividend proposed	1.01	2,500	1.01	2,500
	<u>2.89</u>	<u>7,200</u>	<u>2.80</u>	<u>6,960</u>

NOTES TO THE FINANCIAL STATEMENTS

10. Fixed assets and leasehold land under operating leases

(A) Fixed assets

	Land Leased HK\$M	Buildings HK\$M	Plant, Machinery and Equipment HK\$M	Total HK\$M
Net book value at 1 January 2017	260	15,563	86,819	102,642
Additions	-	729	7,285	8,014
Transfers and disposals	(19)	(52)	(379)	(450)
Depreciation	(7)	(515)	(4,048)	(4,570)
Net book value at 31 December 2017	<u>234</u>	<u>15,725</u>	<u>89,677</u>	<u>105,636</u>
Cost	327	26,774	155,637	182,738
Accumulated depreciation	(93)	(11,049)	(65,960)	(77,102)
Net book value at 31 December 2017	<u>234</u>	<u>15,725</u>	<u>89,677</u>	<u>105,636</u>
Net book value at 1 January 2018	234	15,725	89,677	105,636
Additions	-	1,262	7,400	8,662
Transfers and disposals	(18)	(35)	(487)	(540)
Depreciation	(7)	(540)	(4,253)	(4,800)
Net book value at 31 December 2018	<u>209</u>	<u>16,412</u>	<u>92,337</u>	<u>108,958</u>
Cost	305	27,967	161,147	189,419
Accumulated depreciation	(96)	(11,555)	(68,810)	(80,461)
Net book value at 31 December 2018	<u>209</u>	<u>16,412</u>	<u>92,337</u>	<u>108,958</u>

(B) Leasehold land under operating leases

The prepayment for the interest in leasehold land under operating lease is analysed as follows:

	2018 HK\$M	2017 HK\$M
Net book value at 1 January	5,191	5,312
Additions	261	54
Amortisation	(171)	(175)
Net book value at 31 December	<u>5,281</u>	<u>5,191</u>
Cost	6,474	6,213
Accumulated amortisation	(1,193)	(1,022)
Net book value at 31 December	<u>5,281</u>	<u>5,191</u>

NOTES TO THE FINANCIAL STATEMENTS

11. Goodwill and other intangible assets

	Goodwill ^(a) HK\$M	Capacity right ^(b) HK\$M	Total HK\$M
Net carrying value at 1 January 2017	5,545	4,913	10,458
Additions	-	24	24
Amortisation	-	(274)	(274)
Net carrying value at 31 December 2017	<u>5,545</u>	<u>4,663</u>	<u>10,208</u>
Cost	5,545	5,663	11,208
Accumulated amortisation	-	(1,000)	(1,000)
Net carrying value at 31 December 2017	<u>5,545</u>	<u>4,663</u>	<u>10,208</u>
Net carrying value at 1 January 2018	5,545	4,663	10,208
Additions	-	31	31
Amortisation	-	(274)	(274)
Net carrying value at 31 December 2018	<u>5,545</u>	<u>4,420</u>	<u>9,965</u>
Cost	5,545	5,694	11,239
Accumulated amortisation	-	(1,274)	(1,274)
Net carrying value at 31 December 2018	<u>5,545</u>	<u>4,420</u>	<u>9,965</u>

NOTES TO THE FINANCIAL STATEMENTS

11. Goodwill and intangible assets (continued)

Notes:

- (a) Goodwill arose from the acquisition of CAPCO in 2014. 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 2018 based on an approved Business Plan which has a forecast covering a period of ten years and necessary updates. Projections for a period of greater than five years have been used on the basis that a longer projection period represents the long dated nature of our electricity supply assets and a more appropriate reflection of future cash flows from anticipated legislative, regulatory and structural changes in the industry.

The key assumptions used in the value in use calculations are as follows:

- Goodwill arising from CAPCO acquisition has been allocated to CLP Power and CAPCO as a combined cash generating unit as the acquisition is considered beneficial to the whole Scheme of Control business.
 - The electricity tariff for the supply of electricity in meeting the demand of customers in Hong Kong over the forecast periods is determined with reference to the rate-setting mechanism under the Scheme of Control.
 - The forecast for electricity demand is based on the load forecast to support local infrastructure development and meeting customer load requirements, maintaining safety and supply reliability, and meeting environmental requirements.
 - Expenditures for the supply of electricity in meeting the forecast demand are based on committed purchase contracts where applicable, and inputs on costs trend as specific to the electricity business in Hong Kong. Such forecast aligns with the projection in the Business Plan for our Hong Kong electricity business, with capital expenditures for the periods to year 2023 aligned with those forecasted in the approved development plan.
 - Terminal value of the cash-generating unit is adopted to estimate the cash flows to be generated for the periods beyond ten years. This is expressed as a multiple of net asset values which corresponds to our return model based on fixed assets investment. The terminal value is a multiple of 1.2 times of the net asset values forecasted as at the end of 2028.
 - The cash flow projections are discounted using a pre-tax discount rate of 9.73% (2017: 9.81%), or a post-tax return of 8.00% (2017: 8.00%) which reflects the Scheme of Control return rate applicable to the electricity business in Hong Kong.
- (b) Capacity right represents the right to use 50% of the pumped storage capacity of Phase 1 of the Guangzhou Pumped Storage Power Station in Conghua, Guangzhou and the corresponding right to use the associated transmission facilities until 2034.

NOTES TO THE FINANCIAL STATEMENTS

12. Subsidiaries

The table below lists the subsidiaries of the Group at 31 December 2018:

Name	% of Ownership Interest at 31 December 2017 and 2018	Place of Incorporation / Business
Castle Peak Power Company Limited	70%	Hong Kong
Castle Peak Power Finance Company Limited*	70%	British Virgin Islands
Hong Kong Pumped Storage Development Company, Limited	100%	Hong Kong
CLP Power Hong Kong Financing Limited	100%	British Virgin Islands
CLP Power HK Finance Ltd.	100%	British Virgin Islands
CLP Energy Infrastructure Limited	100%	Hong Kong

* Indirectly held through CAPCO

Summarised financial information of CAPCO which has material non-controlling interests is set out below:

	2018 HK\$M	2017 HK\$M
Results for the year		
Revenue	<u>17,232</u>	<u>16,105</u>
Profit for the year	3,061	3,168
Other comprehensive income for the year	<u>(16)</u>	<u>44</u>
Total comprehensive income for the year	<u>3,045</u>	<u>3,212</u>
Dividends paid to non-controlling interests	<u>964</u>	<u>952</u>
Net assets		
Non-current assets	32,235	30,000
Current assets	7,517	8,966
Current liabilities	(10,366)	(11,364)
Non-current liabilities	<u>(11,579)</u>	<u>(9,563)</u>
	<u>17,807</u>	<u>18,039</u>
Cash flows		
Net cash inflow from operating activities	3,502	3,235
Net cash outflow from investing activities	(659)	(3,795)
Net cash (outflow)/inflow from financing activities	<u>(2,971)</u>	<u>688</u>
Net (decrease)/increase in cash and cash equivalents	<u>(128)</u>	<u>128</u>

NOTES TO THE FINANCIAL STATEMENTS

13. Interests in and loan to a joint venture

	2018 HK\$M	2017 HK\$M
ShenGang Natural Gas Pipeline Company Limited		
Interests in a joint venture - share of net assets	843	799
Loan	308	455
	<u>1,151</u>	<u>1,254</u>

ShenGang Natural Gas Pipeline Company Limited (SNGPC) was incorporated in Mainland China and is 40% owned by the Company's wholly owned subsidiary, CLP Energy Infrastructure Limited. SNGPC owns and operates the Second West-East Natural Gas Pipeline Hong Kong Branch Line which transports natural gas from Shenzhen to Hong Kong.

The loan to SNGPC is unsecured, carries interest at 90% (2017: 90%) of the People's Bank of China's over five years Renminbi benchmark lending rate and with final maturity in June 2022. The current portion of the loan of HK\$123 million (2017: HK\$130 million) was included in other receivables in the statement of financial position. There was no impairment recognised on the loan at 31 December 2018 and 2017.

Summarised financial information and the Group's share of the net assets and capital commitments in SNGPC as at 31 December and its share of the profits for the year then ended are as follows:

	2018 HK\$M	2017 HK\$M
Revenue	997	964
Depreciation and amortisation	(132)	(129)
Interest expenses	(59)	(72)
Other expenses	(239)	(234)
Profit before income tax	<u>567</u>	<u>529</u>
Income tax expense	(145)	(136)
Profit for the year	<u>422</u>	<u>393</u>
Other comprehensive income	-	-
Total comprehensive income	<u>422</u>	<u>393</u>
Group's share		
Profit for the year	169	157
Other comprehensive income	-	-
Total comprehensive income	<u>169</u>	<u>157</u>
Dividends from SNGPC	<u>85</u>	<u>122</u>

NOTES TO THE FINANCIAL STATEMENTS

13. Interests in and loan to a joint venture (continued)

	2018 HK\$M	2017 HK\$M
Non-current assets	3,168	3,459
Cash and cash equivalents	144	11
Other current assets	55	52
Current financial liabilities (excluding trade and other payables)	(308)	(325)
Other current liabilities	(139)	(32)
Non-current financial liabilities (excluding trade and other payables)	(770)	(1,136)
Other non-current liabilities	(41)	(31)
Net assets	<u>2,109</u>	<u>1,998</u>
Group's share of net assets	<u>843</u>	<u>799</u>
Group's capital commitments	<u>-</u>	<u>-</u>

14. Derivative financial instruments

	2018		2017	
	Assets HK\$M	Liabilities HK\$M	Assets HK\$M	Liabilities HK\$M
Cash flow hedges				
Forward foreign exchange contracts	28	13	178	14
Cross currency interest rate swaps	147	761	183	727
Interest rate swaps	32	15	27	50
Fair value hedges				
Cross currency interest rate swaps	3	455	10	352
Interest rate swaps	-	86	-	84
Not qualifying as hedges				
Forward foreign exchange contracts	6	18	12	23
Interest rate swaps	27	2	28	-
	<u>243</u>	<u>1,350</u>	<u>438</u>	<u>1,250</u>
Analysed as:				
Current	45	271	170	129
Non-current	198	1,079	268	1,121
	<u>243</u>	<u>1,350</u>	<u>438</u>	<u>1,250</u>

As at 31 December 2018, the contractual maturity profile of the hedging instruments from the end of the reporting period is summarised below:

Forward foreign exchange contracts	Up to 2 years
Cross currency interest rate swaps	Up to 12 years
Interest rate swaps	Up to 9 years

NOTES TO THE FINANCIAL STATEMENTS

15. Advances from non-controlling interests

The advances from non-controlling interests represented the advances from China Southern Power Grid International (HK) Co., Limited (CSGHK) to CAPCO. Pursuant to the agreement between the shareholders of CAPCO, both CLP Power and CSGHK are required to provide shareholders' advances pro rata to their shareholdings in CAPCO. The advances are unsecured, interest free and repayable on demand. The advances are denominated in Hong Kong dollar (2017: mainly in Hong Kong dollar).

16. Reserves

	Translation Reserve HK\$M	Cash Flow Hedge Reserve HK\$M	Costs of Hedging Reserve HK\$M	Retained Profits HK\$M	Total HK\$M
Balance at 1 January 2017	(77)	383	64	18,825	19,195
Earnings attributable to shareholders	-	-	-	9,211	9,211
Other comprehensive income					
Exchange differences on translation of a joint venture	54	-	-	-	54
Cash flow hedges					
Net fair value gains	-	367	-	-	367
Reclassification to profit or loss	-	(455)	-	-	(455)
Tax on the above items	-	14	-	-	14
Costs of hedging					
Net fair value losses	-	-	(181)	-	(181)
Amortisation/reclassification to profit or loss	-	-	16	-	16
Tax on the above items	-	-	27	-	27
Total comprehensive income attributable to shareholders	54	(74)	(138)	9,211	9,053
Transfer to fixed assets	-	3	-	-	3
Dividends paid/provided					
2016 final	-	-	-	(2,450)	(2,450)
2017 interim	-	-	-	(4,460)	(4,460)
Balance at 31 December 2017	<u>(23)</u>	<u>312</u>	<u>(74)</u>	<u>21,126</u>	<u>21,341</u>
Balance at 1 January 2018	(23)	312	(74)	21,126	21,341
Earnings attributable to shareholders	-	-	-	8,815	8,815
Other comprehensive income					
Exchange differences on translation of a joint venture	(40)	-	-	-	(40)
Cash flow hedges					
Net fair value gains	-	46	-	-	46
Reclassification to profit or loss	-	(118)	-	-	(118)
Tax on the above items	-	12	-	-	12
Costs of hedging					
Amortisation/reclassification to profit or loss	-	-	35	-	35
Tax on the above items	-	-	(6)	-	(6)
Total comprehensive income attributable to shareholders	(40)	(60)	29	8,815	8,744
Transfer to fixed assets	-	(44)	(1)	-	(45)
Dividends paid/provided					
2017 final	-	-	-	(2,500)	(2,500)
2018 interim	-	-	-	(4,700)	(4,700)
Balance at 31 December 2018	<u>(63)</u>	<u>208</u>	<u>(46)</u>	<u>22,741</u>	<u>22,840</u>

NOTES TO THE FINANCIAL STATEMENTS

17. Perpetual capital securities and Other non-controlling interests

A total of US\$750 million perpetual capital securities was issued by a wholly owned subsidiary, CLP Power HK Finance Ltd. in 2014. The securities are perpetual, non-callable in the first 5.5 years and entitle the holders to receive distributions at a distribution rate of 4.25% per annum in the first 5.5 years, floating thereafter and with fixed step up margins at year 10.5 and at year 25.5, payable semi-annually in arrears, cumulative and compounding. The distributions are at the Group's discretion, if the issuer and CLP Power, as guarantor of the securities, do not (a) declare or pay dividends to their shareholders or (b) cancel or reduce their share capitals within each distribution payment period.

The other non-controlling interests represented CSGHK's pro-rata share of HK\$5,115 million (2017: HK\$5,115 million) of redeemable shareholder capital of CAPCO. The redeemable shareholder capital is subordinated, unsecured, interest free and has no fixed terms of repayment. CAPCO can, at its sole discretion, redeem all or part of the redeemable shareholder capital at any time after 31 December 2032.

As the perpetual capital securities and redeemable shareholder capital 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 purposes regarded as part of non-controlling interests.

18. Bank loans and other borrowings

	2018 HK\$M	2017 HK\$M
Current		
Short-term bank loans	4,094	4,158
Current portion of		
- Long-term bank loans	1,131	2,157
- Notes under MTN programme	1,298	-
	6,523	6,315
Non-current		
- Long-term bank loans	4,217	5,748
- Notes under MTN programme	28,107	28,503
	32,324	34,251
Total bank loans and other borrowings	38,847	40,566

During the year, CLP Power Hong Kong Financing Limited issued senior unsecured notes of HK\$1,000 million under its Medium Term Note (MTN) programme for general corporate purposes of CLP Power.

As at 31 December 2018 and 2017, all of the Group's borrowings are either denominated in or hedged into Hong Kong dollar.

NOTES TO THE FINANCIAL STATEMENTS

19. Scheme of Control (SoC) reserve accounts

The Tariff Stabilisation Fund, Rate Reduction Reserve and Rent and Rates Refunds of CLP Power are collectively referred to as SoC reserve accounts. The respective balances at the end of the year are:

	2018 HK\$M	2017 HK\$M
SoC reserve accounts		
Tariff Stabilisation Fund (A)	941	746
Rate Reduction Reserve (B)	11	4
Rent and Rates Refunds (C)	46	227
	<u>998</u>	<u>977</u>

The movements in SoC reserve accounts during the year are shown as follows:

(A) Tariff Stabilisation Fund

	2018 HK\$M	2017 HK\$M
As at 1 January	746	786
Transfer from Rate Reduction Reserve	4	2
Transfer under the SoC (i)		
- transfer for SoC from/(to) revenue (Note 5)	322	(98)
- charge for asset decommissioning (ii)	(131)	56
As at 31 December	<u>941</u>	<u>746</u>

- (i) Under the SoC Agreement, if the gross tariff revenue in a period is less than or exceeds the total of the SoC operating costs, permitted return and taxation charges, such deficiency shall be deducted from, or such excess shall be added to, the Tariff Stabilisation Fund. In any period, the amount of deduction from or addition to the Tariff Stabilisation Fund is recognised as a revenue adjustment to the extent that the return and charges under the SoC are recognised in the profit or loss (Note 5).
- (ii) Under the SoC, a periodic charge to accrue 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\$991 million (2017: HK\$860 million) recognised under the SoC represents a liability of the Group.

(B) Rate Reduction Reserve

	2018 HK\$M	2017 HK\$M
As at 1 January	4	2
Transfer to Tariff Stabilisation Fund	(4)	(2)
Interest expense charged to profit or loss (Note 7)	11	4
As at 31 December	<u>11</u>	<u>4</u>

NOTES TO THE FINANCIAL STATEMENTS

19. Scheme of Control (SoC) reserve accounts (continued)

(C) Rent and Rates Refunds

CLP Power has been challenging the amount of Government rent and rates levied dating back to the year of assessment 2001/02. In 2018, CLP Power reached a settlement with the Hong Kong Government in respect of the appeals for rating years from 2001/02 to 2007/08. For the remaining years under appeal, final resolution remains subject to the application of the Lands Tribunal judgments, which were in favour of CLP Power, to the rent and rates amounts for each of these years.

Interim refunds totalling HK\$1,868 million have been paid by the Hong Kong Government on a without prejudice basis since 2012, this includes interim refunds for the appeal years 2008/09 to 2012/13 of HK\$757 million. Upon settlement of the appeals for the years from 2001/02 to 2007/08 in 2018, a further refund of HK\$186 million was received in full and final settlement for those years.

Using the refunds received from the Government, CLP Power has provided customers with the Rent and Rates Special Rebate. Including the rebate of HK\$367 million paid in 2018, the Rent and Rates Special Rebate made by CLP Power has reached an aggregate of HK\$2,008 million.

For the remaining years under appeal, CLP Power maintains that it will recover no less than the interim refunds received to date for these years in the final outcome of these years.

The rent and rates refunds are classified within the SoC reserve accounts, and the Rent and Rates Special Rebate to customers was offset against these refunds received.

	2018 HK\$M	2017 HK\$M
Rent and Rates Refunds Received	2,054	1,868
Rent and Rates Special Rebate	<u>(2,008)</u>	<u>(1,641)</u>
	<u>46</u>	<u>227</u>

In the event that the final amount recovered on conclusion of the remaining appeals is less than the total amount rebated to customers in respect of these years, CLP Power will seek to recover any shortfall in the amounts of Rent and Rates Special Rebate already paid to customers. Similarly, if the final amount recovered for the remaining years exceeds the special rebates paid out, these additional amounts will be returned to customers.

NOTES TO THE FINANCIAL STATEMENTS

20. Deferred tax liabilities

The movement on the deferred tax liabilities account is as follows:

	Tax Depreciation on Fixed Assets		Deferred Revenue		Pumped Storage Capacity		Derivatives		Total	
	2018 HK\$M	2017 HK\$M	2018 HK\$M	2017 HK\$M	2018 HK\$M	2017 HK\$M	2018 HK\$M	2017 HK\$M	2018 HK\$M	2017 HK\$M
At 1 January	13,110	12,721	(157)	(168)	888	941	(5)	40	13,836	13,534
Charged/(credited) to profit or loss	352	389	12	11	(53)	(53)	1	(8)	312	339
Credited to other comprehensive income	-	-	-	-	-	-	(20)	(37)	(20)	(37)
At 31 December	<u>13,462</u>	<u>13,110</u>	<u>(145)</u>	<u>(157)</u>	<u>835</u>	<u>888</u>	<u>(24)</u>	<u>(5)</u>	<u>14,128</u>	<u>13,836</u>

21. Notes to the Consolidated Statement of Cash Flows

(A) Reconciliation of profit before income tax to net cash inflow from operations

	2018 HK\$M	2017 HK\$M
Profit before income tax	11,847	12,257
Adjustments for:		
Transfer for SoC	322	(98)
Net finance costs	972	1,014
Depreciation and amortisation	5,245	5,019
Net loss on disposal of fixed assets	412	333
Share of profits of a joint venture	(169)	(157)
Net fair value changes in financial instruments and exchange difference	48	(76)
Special fuel rebate to customers	-	(786)
Increase in customers' deposits	256	220
Decrease in fuel clause account	(1,382)	(782)
Net (decrease)/increase in rent and rates refunds	(181)	155
Increase in inventory	(12)	(271)
(Increase)/decrease in trade and other receivables	(102)	73
Increase in trade and other payables	270	51
Increase in current account with ultimate holding company	(13)	(8)
Increase/(decrease) in current accounts with fellow subsidiaries	334	(406)
Net cash inflow from operations	<u>17,847</u>	<u>16,538</u>

NOTES TO THE FINANCIAL STATEMENTS

21. Notes to the Consolidated Statement of Cash Flows (continued)

(B) Reconciliation of liabilities arising from financing activities

	Bank Loans and Other Borrowings HK\$M	Interest Payables HK\$M	Derivative Financial Instruments HK\$M	Advances from Non-controlling Interests HK\$M	Total HK\$M
Balance at 1 January 2017	38,013	161	1,145	6,692	46,011
Change from financing cash flows					
Proceeds from long-term borrowings	7,617	-	-	-	7,617
Repayment of long-term borrowings	(6,048)	-	(179)	-	(6,227)
Increase in short-term borrowings	587	-	-	-	587
Interest paid	-	(1,103)*	-	-	(1,103)
Decrease in advances from other non-controlling interests	-	-	-	(79)	(79)
Settlement of derivative financial instruments	-	-	38	-	38
Total changes from financing cash flows	2,156	(1,103)	(141)	(79)	833
Non-cash changes					
Fair value loss of derivative financial instruments to equity	-	-	95	-	95
Net exchange and translation difference	396	-	(58)	16	354
Interest charged	-	1,120*	(76)	-	1,044
Finance charge amortisation	1	(4)	-	-	(3)
Reclassification from advances from non-controlling interests	-	-	-	(5,115)	(5,115)
Balance at 31 December 2017	40,566	174	965	1,514	43,219
Balance at 1 January 2018	40,566	174	965	1,514	43,219
Change from financing cash flows					
Proceeds from long-term borrowings	2,865	-	-	-	2,865
Repayment of long-term borrowings	(4,357)	-	12	-	(4,345)
Decrease in short-term borrowings	(64)	-	-	-	(64)
Interest paid	-	(1,199)*	-	-	(1,199)
Decrease in advances from other non-controlling interests	-	-	-	(1)	(1)
Settlement of derivative financial instruments	-	-	18	-	18
Total changes from financing cash flows	(1,556)	(1,199)	30	(1)	(2,726)
Non-cash changes					
Fair value loss of derivative financial instruments to equity	-	-	1	-	1
Net exchange and translation difference	(167)	-	143	-	(24)
Interest charged	-	1,209*	(29)	-	1,180
Finance charge amortisation	4	-	-	-	4
Balance at 31 December 2018	38,847	184	1,110	1,513	41,654

* Including capitalised interest

NOTES TO THE FINANCIAL STATEMENTS

22. Commitments

- (A) Capital expenditure on fixed assets and leasehold land contracted but not recorded in the statement of financial position amounted to HK\$4,932 million (2017: HK\$4,630 million).
- (B) The Group's future aggregate minimum lease payments under operating lease to Guangdong Pumped Storage Company, Limited (GPSC) for the use of the land, other resources and infrastructural facilities at the Pumped Storage Power Station are as follows:

	2018 HK\$M	2017 HK\$M
Within one year	100	100
After one year but within five years	400	400
After five years	1,092	1,192
	<u>1,592</u>	<u>1,692</u>

23. Related party transactions

- (A) The following is a summary of significant transactions between the Group and related parties, which were carried out in the normal course of business during the year ended 31 December:

	2018 HK\$M	2017 HK\$M
Purchase of electricity from a fellow subsidiary (i)	6,750	6,540
Engineering works rendered by a fellow subsidiary (ii)	376	349

- (i) CLP Power is obliged to purchase from a fellow subsidiary, Hong Kong Nuclear Investment Company Limited (HKNIC), 70% of the output of Guangdong Daya Bay Nuclear Power Station (GNPS). The price paid by CLP Power for electricity generated by GNPS throughout the terms of the power purchase arrangement is determined by a formula based on GNPS's operating costs and a calculation of profits with reference to the capacity factors. The purchase of nuclear electricity under the arrangement was HK\$5,543 million (2017: HK\$5,380 million).

Under a separate purchase arrangement with HKNIC, CLP Power would purchase 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 above purchase arrangement, together with a fee associated with the additional purchase. As such additional purchase is mainly to replace the use of more expensive gas fuel, the related amount paid is included in fuel cost and amounted to HK\$1,207 million for 2018 (2017: HK\$1,160 million). In December 2018, another contract with similar terms was signed for the purchase of approximately 10% of additional nuclear for five years from January 2019 to end of 2023.

- (ii) The Group has entered into a number of engineering work contracts with a fellow subsidiary, CLP Engineering Limited, to develop, construct and maintain the Group's electricity supply facilities. The prices of the contracts are determined with reference to the prevailing market prices.

NOTES TO THE FINANCIAL STATEMENTS

23. Related party transactions (continued)

(B) Total remuneration of the Company's directors, who are the key management personnel of the Group, is as follows:

	2018 HK\$M	2017 HK\$M
Fees	-	-
Salaries, allowances and benefits in kind (Note)	45	50
Provident fund contributions and gratuity payment	4	5
	<u>49</u>	<u>55</u>

Note: The nature of these benefits in kind includes electricity allowance, the availability of a company vehicle for personal use, life insurance and medical benefits.

There are no loans, quasi-loans or other dealings in favour of directors, their controlled bodies corporate and connected entities (2017: None).

During the year and at the year end, no director of the Company had or has a material interest, directly or indirectly, in any significant transactions, arrangements and contracts in relation to the Company's business to which the Company was or is a party (2017: None).

24. Ultimate and immediate holding company

The ultimate holding company and the immediate holding company of the Group is CLP Holdings Limited, a company incorporated in Hong Kong and listed on the Stock Exchange of Hong Kong.

NOTES TO THE FINANCIAL STATEMENTS

25. Statement of financial position of the Company

	2018 HK\$M	2017 HK\$M
Non-current assets		
Fixed assets	105,367	103,581
Leasehold land under operating leases	1,779	1,817
Interests in subsidiaries	23,051	23,126
Derivative financial instruments	193	240
	<u>130,390</u>	<u>128,764</u>
Current assets		
Inventory	33	33
Trade and other receivables	2,357	2,241
Derivative financial instruments	26	86
Current account with ultimate holding company	59	44
Current accounts with subsidiaries and fellow subsidiaries	36	62
Deposits, bank balances and cash	109	177
	<u>2,620</u>	<u>2,643</u>
Current liabilities		
Bank loans and other borrowings	(3,376)	(1,716)
Finance lease obligations	(2,162)	(2,582)
Customers' deposits	(5,474)	(5,218)
Derivative financial instruments	(232)	(99)
Fuel clause account	(901)	(2,212)
Current accounts with subsidiaries and fellow subsidiaries	(3,012)	(2,715)
Trade and other payables	(2,909)	(2,670)
Dividend payables	(4,700)	(2,710)
Income tax payable	(312)	(327)
	<u>(23,078)</u>	<u>(20,249)</u>
Net current liabilities	<u>(20,458)</u>	<u>(17,606)</u>
Total assets less current liabilities	<u>109,932</u>	<u>111,158</u>
Financed by:		
Equity		
Share capital		
2,488.32 million shares issued and fully paid	20,400	20,400
Reserves (Note)	20,691	18,883
Shareholders' funds	<u>41,091</u>	<u>39,283</u>
Non-current liabilities		
Bank loans and other borrowings	31,089	34,891
Finance lease obligations	25,895	25,326
Deferred tax liabilities	9,799	9,503
Derivative financial instruments	1,060	1,105
Scheme of Control (SoC) reserve accounts	998	977
Other non-current liabilities	-	73
	<u>68,841</u>	<u>71,875</u>
Equity and non-current liabilities	<u>109,932</u>	<u>111,158</u>

William Mocatta
Chairman

Chiang Tung Keung
Managing Director

13 February 2019

NOTES TO THE FINANCIAL STATEMENTS

25. Statement of financial position of the Company (continued)

Note:

	Cash Flow Hedge Reserve HK\$M	Costs of Hedging Reserve HK\$M	Retained Profits HK\$M	Total HK\$M
Balance at 1 January 2017	383	64	16,577	17,024
Total comprehensive income for the year	(157)	(85)	9,011	8,769
Dividends paid/provided				
2016 final	-	-	(2,450)	(2,450)
2017 interim	-	-	(4,460)	(4,460)
Balance at 31 December 2017	<u>226</u>	<u>(21)</u>	<u>18,678</u>	<u>18,883</u>
Balance at 1 January 2018	226	(21)	18,678	18,883
Total comprehensive income for the year	(48)	28	9,028	9,008
Dividends paid/provided				
2017 final	-	-	(2,500)	(2,500)
2018 interim	-	-	(4,700)	(4,700)
Balance at 31 December 2018	<u>178</u>	<u>7</u>	<u>20,506</u>	<u>20,691</u>

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

Overview

In Hong Kong, CLP Power Hong Kong Limited (CLP Power) operates a vertically integrated electricity generation, transmission and distribution business. The generating plants in Hong Kong are owned by Castle Peak Power Company Limited (CAPCO), in which CLP Power originally owned 40% and was further increased to 70% in May 2014. CLP Power builds and operates CAPCO's power stations under contract and is the sole customer for CAPCO's electricity which CLP Power transmits and distributes to its customers in Kowloon and the New Territories. CLP Power owns the transmission and distribution network.

Since financial year 1964, the electricity-related operations of CLP Power and CAPCO (the SoC Companies) have been governed by a Scheme of Control (SoC) Agreement 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 is allowed to charge tariffs designed to recover the operating costs (including tax) and allowed net return of the SoC Companies.

The SoC Agreement which took effect from 1 October 2008 (2008 SoC) expired on 30 September 2018. The new SoC Agreement signed on 25 April 2017 between the SoC Companies and the Hong Kong Government immediately became effective 1 October 2018 (2018 SoC) for a term of over 15 years ending on 31 December 2033.

The 2018 SoC contains key principles that are similar to the 2008 SoC, including the 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 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. The Fuel Cost Adjustment may be adjusted from time to time, including on a monthly basis, to reflect changes in the cost of fuels consumed by the SoC Companies for the generation of electricity.

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

Tariff Setting Mechanism (continued)

Any difference between the actual profit for SoC operations and the permitted return for the year is transferred to or from a Tariff Stabilisation Fund. The Tariff Stabilisation Fund does not form part of distributable shareholders' funds and represents a liability in the accounts of CLP Power. A charge on the average balance of the Tariff Stabilisation Fund is credited to the Rate Reduction Reserve in the accounts of CLP Power, which balance as at the end of each year is to be transferred to the Tariff Stabilisation Fund in the following year.

Permitted and Net Return

The permitted and net return that the SoC Companies are allowed under the 2008 SoC and 2018 SoC are calculated as follows:

- The annual permitted return under the 2008 SoC is 9.99% of the SoC Companies' average net fixed assets other than renewable energy investments and 11% for renewable energy investments. Under the 2018 SoC, the annual permitted return is 8% of the SoC Companies' average net fixed assets.
- The net return under the SoC is the permitted return after the deduction or adjustment of the following items:
 - (a) interest on borrowed capital arranged for financing fixed assets, up to a maximum of 8% per annum under 2008 SoC; and 7% per annum under 2018 SoC;
 - (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, which under the 2008 SoC is 9.99% less an allowed interest charge up to 8% per annum on the average excess capacity expenditure being 50% of related fixed asset value; and under the 2018 SoC is 8% less an allowed interest charge up to 7% per annum on the average excess capacity expenditure being 100% of related fixed asset value;
 - (d) interest on the increase in average balance of the customers' deposits in excess of the balance as at 30 September 1998, up to 8% per annum under the 2008 SoC; and up to 7% per annum under the 2018 SoC;
 - (e) performance-linked incentives / penalties adjustments

	2008 SoC	2018 SoC
Operation performance related incentives / penalties	in the range of -0.03% to +0.03% on the average net fixed assets	in the range of -0.05% to +0.05% on average net fixed assets with more stringent targets and additional category for grid supply restoration
Energy efficiency and renewable performance incentives	a maximum of 0.07% on average net fixed assets	<ul style="list-style-type: none"> • a maximum of 0.315% on average net fixed assets • new incentive of 10% of renewable energy certificates sales revenue • five-year energy saving and renewable energy connections incentives with a maximum of 0.11% on the average net fixed assets at the final year of the five-year period
Demand response reduction incentive	-	a maximum of 0.025% on average net fixed assets

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

Permitted and Net Return (continued)

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.

Starting from year 2014, non-refundable contributions were made by the SoC Companies from the energy efficiency incentives earned under the 2008 SoC to an Energy Efficiency Fund (EEF) to promote energy saving for buildings. Under the 2018 SoC, 65% of the energy efficiency incentives earned are to be contributed to a CLP Community Energy Saving Fund (CESF) to support programmes in promotion of energy efficiency, use of renewable energy, the disadvantaged groups and other programmes as agreed with the Hong Kong Government

The calculations shown on next page are in accordance with the SoC and the agreements between the SoC Companies.

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

	Period from 1 October to 31 December 2018 HK\$M	9 months ended 30 September 2018 HK\$M	12 months ended 31 December 2017 HK\$M
Scheme of Control Revenue	9,063	32,023	39,259
Expenses			
Operating costs	1,149	3,385	4,405
Fuel	3,081	10,021	11,901
Purchases of nuclear electricity	979	4,564	5,380
Provision for asset decommissioning	(88)	219	(56)
Depreciation	1,153	3,778	4,706
Operating interest	246	750	994
Taxation	412	1,589	1,989
	6,932	24,306	29,319
Profit after taxation	2,131	7,717	9,940
Interest on increase in customers' deposits	1	-	-
Interest on borrowed capital	266	789	976
Adjustment for performance incentives	(89)	(16)	(54)
Adjustment required under the Scheme of Control (being share of profit on sale of electricity to Mainland China attributable to the Companies)	-	(43)	(79)
Profit for Scheme of Control	2,309	8,447	10,783
Transfer (to)/from Tariff Stabilisation Fund	(56)	(135)	42
Permitted Return	2,253	8,312	10,825
Deduct Interest on / Adjustment for			
Increase in customers' deposits as above	1	-	-
Borrowed capital as above	266	789	976
Performance incentives as above	(89)	(16)	(54)
Tariff Stabilisation Fund to Rate Reduction Reserve	4	7	4
	182	780	926
Net Return	2,071	7,532	9,899
CESF/EEF Contribution	(48)	(16)	(22)
Net Return after CESF/EEF Contribution	2,023	7,516	9,877
Divisible as follows:			
CLP Power	1,369	5,149	6,763
CAPCO	654	2,367	3,114
	2,023	7,516	9,877
CLP Power's share of net return after CESF/EEF Contribution			
CLP Power	1,369	5,149	6,763
Interest in CAPCO	458	1,656	2,180
	1,827	6,805	8,943

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