CLP 中電

2013 ANNUAL REPORT

POWERING ASIA RESPONSIBLY

1 **Our Approach to Integrated Reporting**
2 **A Snapshot of CLP in 2013**
8 **Chairman's Statement**
12 **CEO's Strategic Review**
20 **Our Assets and Investments**
24 **Shareholder Value and Engagement**

Financial Review

31 Financial Review

Performance and Business Outlook

46 Hong Kong
56 Australia
64 Chinese Mainland
72 India
79 Southeast Asia and Taiwan

Capitals

84 Financial Capital – our funding resources and capability
93 Natural Capital – our respect for the environment
96 Human Capital – our people and safety performance
100 Social and Relationship Capital – our values, reputation and community initiatives
104 Intellectual Capital – our expertise

Governance

110 Board of Directors and Senior Management
114 Corporate Governance Report
135 Risk Management Report
144 Audit Committee Report
147 Sustainability Committee Report
150 Human Resources & Remuneration Committee Report
160 Directors' Report

Financials

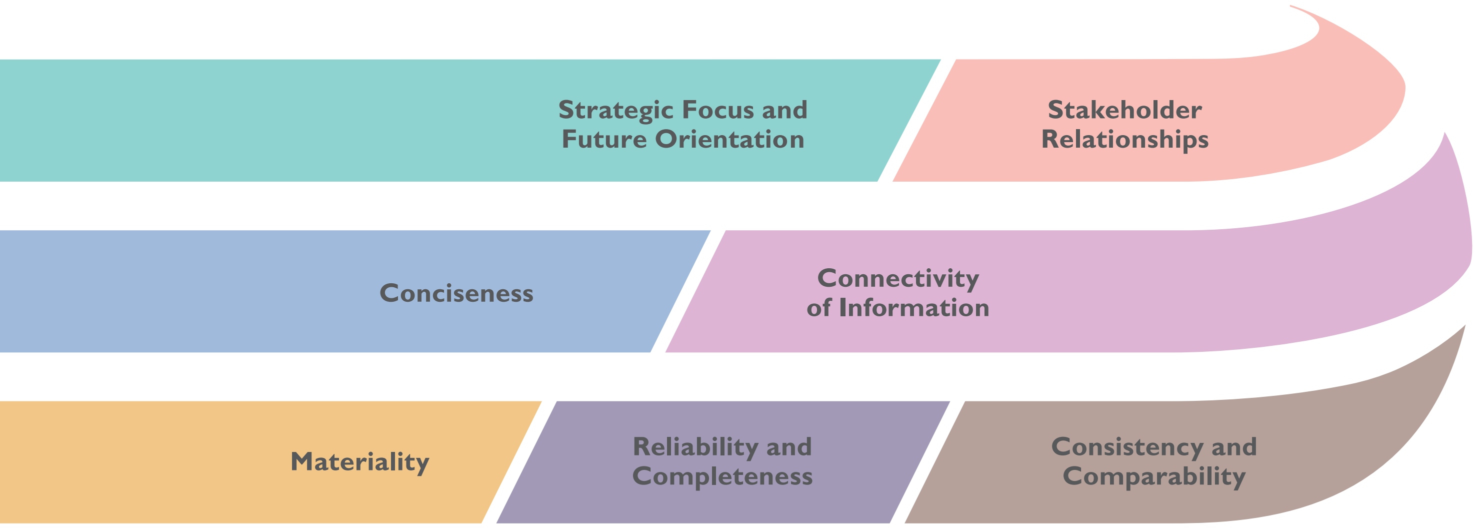
168 How Can You Approach Our Financial Statements?
170 Accounting Mini-series
173 Independent Auditor's Report
174 Financial Statements
256 Five-year Summaries

262 **How Can You Contact Us?**
262+ **Helping Our Community**

Our Approach to Integrated Reporting

This is CLP's third Integrated Annual Report. This Report has been guided by the International Integrated Reporting (<IR>) Framework published by the International Integrated Reporting Council in December 2013, although we have not followed the Framework rigidly. We believe this concept is appropriate as a means to explain to our stakeholders – capital providers in particular – how our strategy, governance, performance and prospects are intended to create value over the short, medium and long term.

The Seven Guiding Principles of the International <IR> Framework



To give a more holistic view of our activities in the five markets in which we operate, we have embedded the social and environmental aspects of our businesses in those markets into their respective "Performance and Business Outlook" chapters. At the same time, we have retained the Group-wide information in the "Capitals" section, where we describe the various "capitals" on which our business depends: financial, natural, human, social and relationship, as well as intellectual.

In preparing this Report, we have also responded to other relevant frameworks and guidelines, such as an approach by the Hong Kong Institute of Certified Public Accountants, as well as the Environmental, Social and Governance (ESG) Reporting Guide introduced by Hong Kong Exchanges and Clearing Limited (HKEx) that has been added to the Listing Rules as a "recommended best practice". Subject to consultation, the HKEx will likely increase the obligation level of certain ESG Guide disclosures to "comply or explain" by 2015.

Moreover, to provide our stakeholders with a connected view of the different aspects of our performance, we link our Annual Report to the online Sustainability Report, our website and other publications, as designated by the symbols SR and in the Report.

For the first time, we have also prepared an online snapshot of the Annual Report, which aims to give our stakeholders an overview of CLP's business model and captures the essence of our 2013 performance, both financial and non-financial, on a digital platform.

To enhance the quality of our annual reporting, we welcome any feedback on the content and format of our Reports. Please share your views with us by using the feedback form which accompanies this Annual Report.

A Snapshot of 2013 Annual Report

A SNAPSHOT OF CLP IN 2013

ABOUT THE CLP GROUP

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

BUSINESS DESCRIPTION	MAJOR EVENTS IN 2013
HONG KONG CLP has a vertically-integrated regulated business in Hong Kong, which is the core of our operations. We generate, distribute and provide a world-class electricity supply with a reliability rate of 99.999% to 2.4 million customers.	• Continued to deliver world-class reliability, environmental performance and excellent service to our customers • Concluded the Interim Review under the Scheme of Control Agreement • Received approval from the Government for the 2014–2018 Development Plan • Collaborated with China Southern Power Grid Co., Limited (CSG) to each acquire half of ExxonMobil's 60% interest in Castle Peak Power Company Limited (CAPCO); CLP will also purchase ExxonMobil's 51% stake in Hong Kong Pumped Storage Development Company, Limited (PSDC) • Completed the Hong Kong Branch Line project, a new gas receiving station and Black Point Power Station modifications to receive gas supplies from PetroChina's Second West-East Gas Pipeline
AUSTRALIA As EnergyAustralia, we operate an integrated energy business serving 2.7 million customers across southeast Australia. Our multi-billion dollar asset portfolio includes coal, gas and wind generation and gas storage facilities.	• Experienced ongoing lower electricity demand and suppressed wholesale prices, which impacted earnings from generation assets • Reduced the value of Yallourn Power Station and gas-fired assets due to lower sustained demand conditions, high likelihood of the removal of carbon pricing regime and increasing gas prices • Acquired the Mount Piper and Wallerawang power stations, removing reliance on the relatively high-cost and inflexible GenTrader arrangements • Saw a drop in residential sales due to higher unit prices, a rise in solar rooftop installations and take-up of energy efficiency programmes • Stabilised the new billing system and made good progress with rectifying issues related to the implementation of the system
CHINESE MAINLAND CLP has been in the Chinese mainland power industry since 1985. We are one of the largest external independent power producers with a focus on clean and low-carbon energy including nuclear and renewables.	• Achieved good performance at Fangchenggang Power Station; seeking final approval to build two further units on the same site • Commissioned our first solar project in the Chinese mainland, Jinchang Solar in Gansu Province, which has been performing well • Transferred our entire interest in Boxing Biomass to our joint venture partner • Continued to develop our wholly-owned Laiwu Phase I wind project in Shandong Province on schedule, with commissioning in January 2014 • Discontinued discussions with China General Nuclear Power Corporation (CGNPC) on the acquisition of a 17% shareholding in the Yangjiang Nuclear Power Project
INDIA CLP has a broad portfolio of power generation that includes coal, gas and renewable energy in India. We are the largest foreign player in the power industry and the biggest wind project developer, whether domestic or foreign.	• Achieved a significant improvement in availability at Jhajjar coal-fired power plant due to improved fuel security and quality • Continued to explore other sources of reasonably-priced domestic gas as fuel supply issues continued to affect Paguthan Power Plant • Won a long-running dispute on availability payments at Paguthan after the regulator upheld our claims against our off-taker • Commissioned three wind projects in Rajasthan and Gujarat and invested in the Jath wind project in Maharashtra • Signed a "pooled financing" agreement for our wind assets to mitigate project-specific risks, maximise value for investors and fund future growth
SOUTHEAST ASIA AND TAIWAN We entered the Southeast Asia power market in 1994. Currently, we have interests in Ho-Ping Power Station in Taiwan, the Lopburi solar project in Thailand and are co-developing two coal-fired projects in Vietnam.	• Settled on a tariff reduction scheme for Ho-Ping but continued administrative appeals and litigation against the penalty imposed by the Taiwan Fair Trade Commission • Completed an additional 8MW expansion to the Lopburi solar project • Made further headway in developing the Vung Ang II and Vinh Tan III coal-fired projects in Vietnam towards a final investment decision stage

2013 IN FIGURES

DELIVERING ECONOMIC VALUE

EARNINGS

Operating Earnings remained steady at

HK$9,307 million

1.1% decline from 2012

Total Earnings were

HK$6,060 million

down 27.1% from 2012

ACQUISITIONS

Announced plans to raise our stakes in CAPCO and PSDC for

HK$14,000 million

Acquired the Mount Piper and Wallerawang power stations in Australia for

HK$1,089 million

(A$157 million)

TOTAL DIVIDENDS

HK$2.57

per share, same as 2012

CARING FOR OUR COMMUNI

COMMUNITY INITIATIVES

33,522 people

directly benefited from CLP's community initiatives

CAREERS

6,968 people

were employed by CLP across the Asia-Pacific region

POWERING ASIA RESPONSIBLY

POWER GENERATION

147,021 million kWh

was sent out from power stations in which CLP has invested

CUSTOMER SERVICE

5.1 million

customer accounts were serviced by CLP (2.4 million in Hong Kong and 2.7 million in Australia)

CLIMATE CHANGE

0.82 kg CO_2/kWh

carbon emission intensity of CLP's electricity generation, increased for the first time since 2007 due mainly to the acquisition of the coal-fired generation assets in Australia and increased production from Jhajjar compared to its 2012 level

TIES

568 activities

were implemented

Staff volunteered

11,974 hours

RENEWABLE ENERGY

16.3 %

of CLP's generating capacity came from renewable energy sources in 2013, compared to 20.2% in 2012, mainly as a result of the acquisition of the coal-fired generation assets in Australia

SAFETY

One contractor fatality **0.16** LTIR **0.39** TRIR

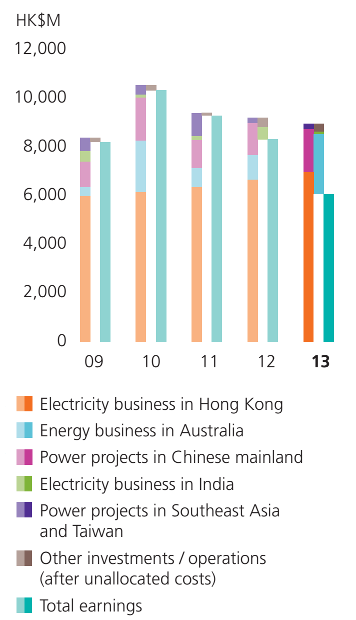
Lost Time Injury Rate (LTIR) and Total Recordable Injury Rate (TRIR) are industry standards to measure safety performance. TRIR is similar to 2012's level but LTIR is 14% higher largely due to two incidents in India

FINANCIAL HIGHLIGHTS

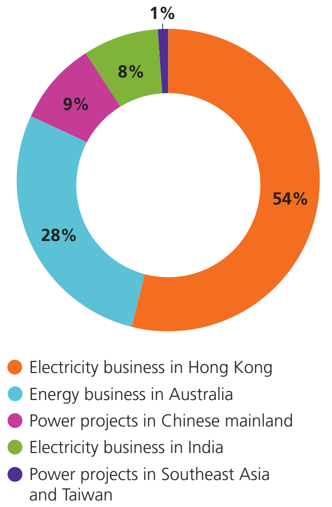
Operating earnings remained stable at HK$9.3 billion. Total earnings down 27.1% to HK$6.1 billion mainly due to impairment provisions made in Australia.

	2013	2012	Increase/ (Decrease) %
For the year *(in HK$ million)*			
Revenue			
Electricity business in Hong Kong (HK)	33,840	33,643	0.6
Energy business in Australia	64,976	66,843	(2.8)
Others	5,714	4,375	
Total	104,530	104,861	(0.3)
Earnings			
Electricity business in HK	6,966	6,654	4.7
Energy business in Australia	126	1,685	(92.5)
Other investments / operations	2,664	1,631	63.3
Unallocated net finance costs	(26)	(74)	
Unallocated Group expenses	(423)	(490)	
Operating earnings	9,307	9,406	(1.1)
One-off items from Australia	(2,582)	(685)	
Impairment provisions for Paguthan, CSEC Guohua and Shenmu in 2013 / Jhajjar and Boxing Biomass in 2012	(590)	(409)	
Divestment from Boxing Biomass	(75)	–	
Total earnings	6,060	8,312	(27.1)
Net cash inflow from operating activities	21,021	23,915	(12.1)
At 31 December *(in HK$ million)*			
Total assets	211,685	228,756	(7.5)
Total borrowings	56,051	66,198	(15.3)
Shareholders' funds	87,361	91,127	(4.1)
Per share *(in HK$)*			
Earnings per share	2.40	3.45	(30.4)
Dividends per share	2.57	2.57	–
Shareholders' funds per share	34.58	36.07	(4.1)
Ratios			
Return on equity [1] (%)	6.8	10.1	
Total debt to total capital [2] (%)	39.1	42.1	
Net debt to total capital [3] (%)	36.7	36.8	
Interest cover [4] (times)	3	4	
Price / Earnings [5] (times)	26	19	
Dividend yield [6] (%)	4.2	4.0	

Total Earnings



Total Assets in 2013



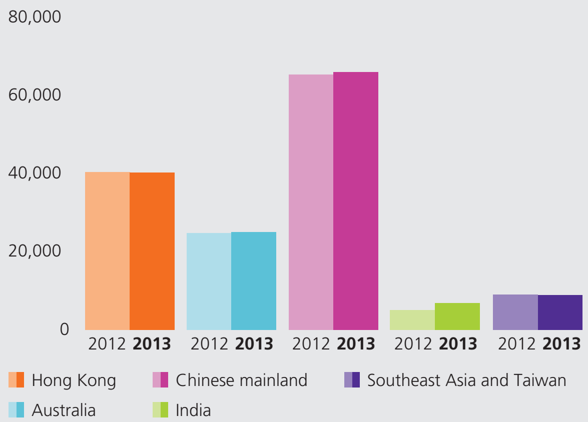
Notes:

1 Return on equity = Total earnings / Average shareholders' funds. The 2012 figure excluded the effect of the 5% share placement on 20 December 2012 to give a more accurate average shareholders' funds in 2012.
2 Total debt to total capital = Debt / (Equity + debt). Debt = Bank loans and other borrowings.
3 Net debt to total capital = Net debt / (Equity + net debt). Net debt = Debt – bank balances, cash and other liquid funds.
4 Interest cover = Profit before income tax and interest / (Interest charges + capitalised interest)
5 Price / Earnings = Closing share price on the last trading day of the year / Earnings per share
6 Dividend yield = Dividends per share / Closing share price on the last trading day of the year

NON-FINANCIAL HIGHLIGHTS

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

Our Sent Out

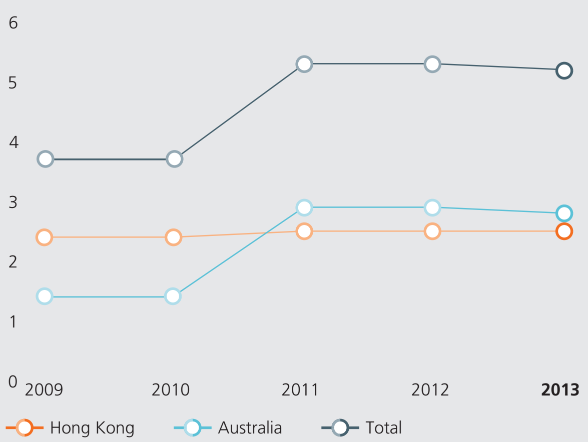


Our People

	Voluntary Turnover Rate (%)		Average Length of Service (years)		Average Training Per Head (days)	
	2012	**2013**[1]	2012	**2013**	2012	**2013**
Hong Kong	3.3	**1.9**	18.8	**18.5**	5.3	**6.0**
Australia[2]	10.5	**9.4**	6.6	**6.1**	3.6	**3.7**
Chinese mainland	7.0	**2.6**	13.0	**14.9**	13.1	**8.0**
India	6.2	**10.1**	4.1	**5.2**	3.7	**3.5**
Others	–	**–**	5.8	**–**	–	**–**

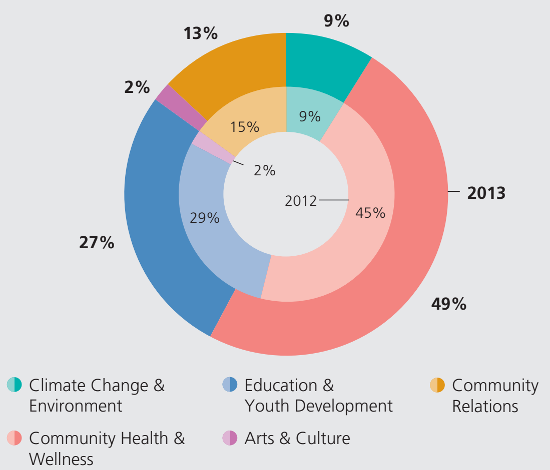
Notes: 1 Reporting approach updated in 2013
2 Exclude Mount Piper and Wallerawang which were acquired in Q4 2013

Our Customers



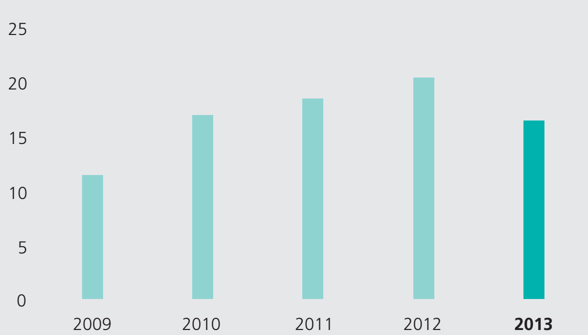
Our Community Initiatives

Spending by Themes



Our Renewable Energy Capacity

Total Renewable Energy Generation Capacity (%, equity basis)

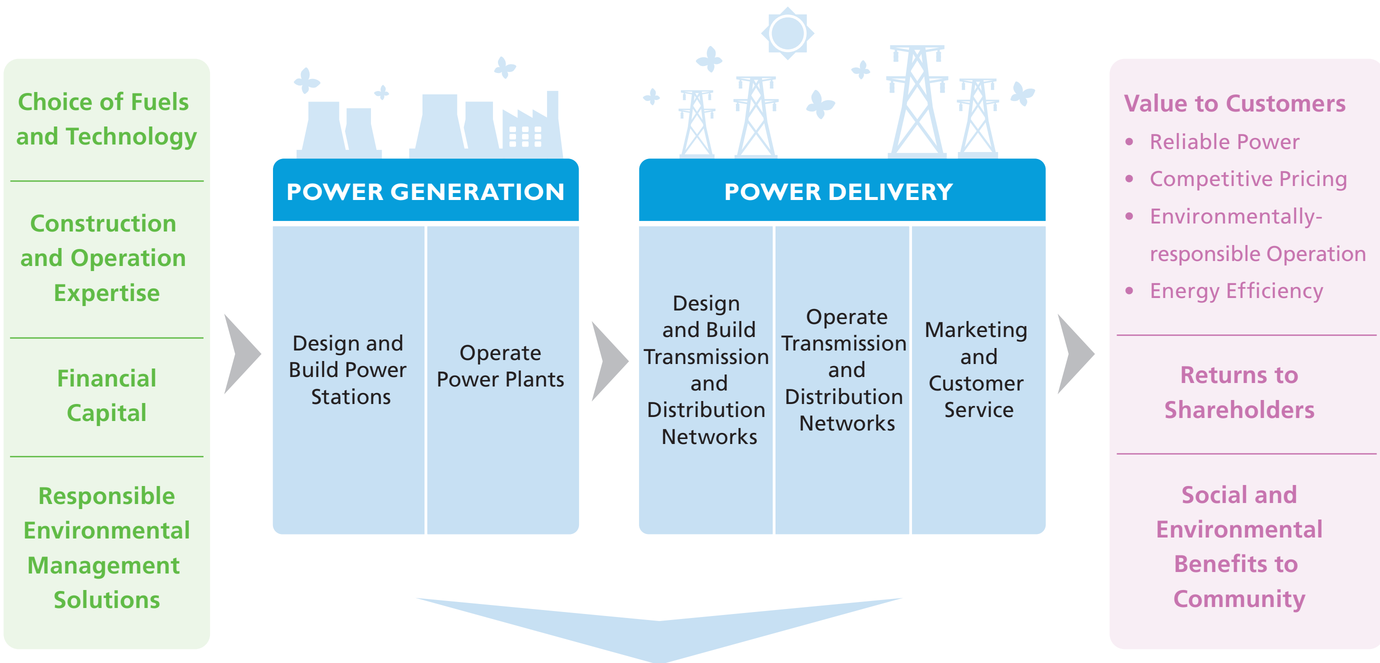


Renewable Energy Generation Capacity by Sources (% & MW, equity basis)

	2012		2013	
	%	MW	%	MW
Wind	16.3	2,215	12.5	1,987
Hydro	3.6	486	3.1	486
Solar	0.2	21	0.7	106
Biomass	0.1	12	0	0
Total	20.2	2,734	16.3	2,579

OUR BUSINESS MODEL

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



Strategy:

- Focus on our core market in Hong Kong where we operate a vertically-integrated electricity business under a regulatory regime and by way of a "Scheme of Control" Agreement that defines our roles and returns
- Diversify to selected markets in Asia Pacific to capitalise on their long-term growth potential
- Adopt a flexible and market-by-market approach, with a balanced portfolio reflecting our low-carbon journey

HONG KONG

(Vertically-integrated Electricity Business)

- Generation, transmission and distribution, retail
- Permitted return under a regulatory agreement
- Power purchase supplementing local generation
- Import of fuels with cost pass-through

CHINA, INDIA, SOUTHEAST ASIA AND TAIWAN

(Independent Power Producer)

- Electricity generation with sales to distributors or retailers through power purchase agreements
- Procurement of fuels from local and overseas sources
- Renewable energy as a key growth engine

AUSTRALIA

(Competitive Wholesale and Retail Energy Provider)

- Electricity generation with sales to wholesalers or grids
- Gas storage
- Electricity and gas retail operations for business and residential customers
- Fuel supplies from self-owned coal mines and procurement

CHAIRMAN'S STATEMENT

"The CAPCO acquisition underlines our confidence in the future of the city's power sector and our role in that future."

Dear Shareholders,

2013 was a year of great significance for the CLP Group, marked by the completion of a number of regulatory issues in Hong Kong, a mixed performance by our overseas investments and, perhaps most significant of all, our impending acquisition of a controlling interest in Castle Peak Power Company Limited (CAPCO), which reaffirms our commitment to Hong Kong. This decision brings to an amicable end the remarkable 50-year partnership with Exxon Mobil Corporation (ExxonMobil) and lays the foundation to a new strategic relationship of exciting potential with China Southern Power Grid Co., Limited (CSG).

In my Chairman's Statement this year, I wish to focus on CLP Power Hong Kong which is our core business. I also plan to dwell on the key aspects of the CAPCO transaction because it is such a landmark decision in CLP's history and it is fitting to acknowledge our long and rewarding relationship with ExxonMobil.

Before doing so, I would like to report the Company's results in 2013. The Group's operating earnings remained steady at HK$9,307 million, compared with HK$9,406 million in 2012. Group total earnings, which include non-recurring items, were HK$6,060 million, 27.1% lower than that in the previous year.

In 2013, our business in Hong Kong continued to perform well and our Mainland business achieved a record profit. In India, while we continue to face challenges, the coal supply situation that had weighed heavily on our operation improved significantly in the second half of 2013. The disappointing results from Australia continue to reflect the unprecedented structural changes that the Australian energy market is undergoing, evidenced by an oversupply of generating capacity, depressed wholesale prices and a pronounced decline in electricity demand. These difficult market conditions are likely to continue for some time. We expect that there will ultimately be a range of industry supply-side responses to these conditions. Meanwhile, we are rigorously assessing our own internal costs and moving to optimise the operation of our power stations in line with declining demand. We will continue to monitor the market closely and to advocate for practical and supportive government policies in relation to carbon taxes, renewable energy targets and gas supply that could also affect the value of our business.

The decline in total earnings was due to the non-cash impairment and other charges of HK$3,696 million in relation to a number of our assets in Australia, India and the Chinese mainland. The impairment in Australia relates to the decline in the value of our generation portfolio, where continuing

oversupply and the outlook for increasing gas prices have had a particularly negative impact relative to the Yallourn Power Station and our portfolio of gas-fired assets.

Notwithstanding the encouraging improvement in our operation in India, we took a HK$293 million provision for our gas-fired Paguthan Power Station to reflect changes to the Power Purchase Agreement and our revised view of the residual value of the plant, in light of the industry-wide long-term nature of the severe shortage of gas. Additionally, we made a provision of HK$297 million to the CSEC Guohua and Shenmu joint ventures, reflecting their recoverable amounts and recognised a loss of HK$75 million from the divestment of Boxing Biomass Power Station in the Chinese mainland.

Taking a Long-Term View

While these impairments are non-cash accounting charges, I recognise that the magnitude of these adjustments is disappointing. As I pointed out in the Interim Report, the nature of the power sector necessitates a long-term view – given the scale and lifespan of our investments and the array of stakeholders impacted by our operations, there is no quick-fix solution to the challenges that have weighed on the Group over the past year. However, there is no doubt that by focusing on those areas of the business where we can bring about further improved performance and enhanced results, we can continue to grow the Company in a way that will reward shareholders.

The Board and I have instructed Senior Management to make it their top priority in 2014 to address these challenges. In order to give shareholders a clearer picture of our Company's strategy as well as the prospects for further growth in the years ahead, I have asked our new Chief Executive Officer Richard Lancaster in his Strategic Review (which forms an important component of this Annual Report) to describe the various factors which impacted our operations and our plans to improve the fundamentals of the business.

Providing Reliable Clean Energy

Before moving on to our CAPCO transaction, I would like to touch on some key Hong Kong issues. In 2013, we completed the Interim Review of the Scheme of Control (SoC) Agreement and obtained approval from the Government for a new five-year development plan which takes our business through to 2018. We also achieved a record high for supply reliability during the year. In 2013, a typical CLP customer experienced well less than 2 minutes of unplanned interruptions in the year. To put that in context, a typical customer in New York, Sydney and London experienced unplanned power interruptions, per year, of 16-35 minutes over the period of 2010-2012.

In the first half of 2014 the Government is expected to launch a public consultation on energy policy and fuel mix to be used for electricity generation to meet its climate change challenge. Energy decisions should involve the community and the Government. Hong Kong has been enjoying a world-class supply reliability that tends to be taken for granted and while environmental performance is being improved and welcomed, the higher cost of cleaner energy is not well understood. The community should be made fully aware of the choices available, their implications and consequences so that the decision can be made wisely.

There have been calls for a review of the current regulatory regime, largely criticising the SoC for failing to meet the community's expectation. In fact, the SoC has been serving Hong Kong well for 50 years. Its terms have been evolving with time to reflect continuous refinements made to the regulatory framework and changing aspirations of the community. Most importantly, it has ensured the delivery of a highly reliable and environmentally friendly electricity supply at reasonable cost for Hong Kong.

The electricity industry is capital intensive, involving advanced technologies and very long lead times. It is crucial that a clear, fair and stable regulatory environment is provided to ensure that the significant capital investments can be delivered and a fair return is provided for a commercial company to continue its investment to ensure a sustainable electricity industry. We have been making this point over the past years, and we intend to step up our public engagement with customers and stakeholders so that they may gain a better understanding of the complex issues underlying these decisions.

Saluting a Remarkable 50-Year Relationship

Turning now to the CAPCO acquisition, for the record, I am delighted that in collaboration with CSG in November we reached agreement with our long-term partner ExxonMobil to each acquire half of its 60% interest in CAPCO. Following the completion of the transaction, CLP will hold 70% of CAPCO, while CSG will hold the remaining 30% stake.

As stated earlier, I intend to reflect on our long-term partnership with ExxonMobil and the rationale behind the acquisition of CAPCO shares with CSG. In doing so, I want to pay tribute to the foresight and vision displayed by ExxonMobil half a century ago, when our partnership was forged, and acknowledge the role it subsequently played in the development of the power sector in Hong Kong. At the same time, it gives me great pleasure to welcome our new partner CSG in CAPCO. This arrangement symbolises not just our commitment to Hong Kong, which is greater than ever, but a recognition of the closer integration of Hong Kong with Guangdong Province in the Mainland.

PRC Vice President Li Yuanchao meets a CLP delegation led by the Chairman at the Great Hall of the People

Above all, the acquisition reaffirms our commitment to continue to serve Hong Kong. CLP has been providing safe and reliable electricity to fuel Hong Kong's growth for over 110 years. The fact that we are investing HK$12 billion in the CAPCO acquisition underlines our confidence in the future of the city's power sector and our role in that future.

The prospects that this exciting acquisition brings would, however, not be as promising if it had not been for what went before it. Our longstanding alliance with ExxonMobil, then known as Standard Oil in the US or Esso elsewhere, was forged in 1964. Hong Kong – and the world – was a very different place then. Hong Kong's industrial prowess as one of the four so-called Asian Tigers was in full flow and the population was growing at an astonishing rate following large scale emigration from the Mainland. The economy was growing at a spectacular rate and the power industry was in need of massive investment to meet the insatiable energy demands that post-war Hong Kong was experiencing.

By pure chance, my father, the late Lord Kadoorie, had a meeting with the then Chairman of Standard Oil, Michael Haider. What followed were rounds of discussions that led to a joint venture in CAPCO, of which ExxonMobil owned 60% and CLP 40%. It was the largest commercial transaction that had ever taken place in the territory at that time and brought confidence all round. It was a strategic partnership that has served our Company – and Hong Kong – well. Indeed, the partnership has grown well beyond any point that could have been foreseen at the time. It has gone from strength to strength through the construction of the Tsing Yi, Castle Peak and Black Point power stations.

Over the years, the partnership has continued to deliver on its commitment to Hong Kong by pioneering the use of the best available technologies for environmental and operating efficiency, including the introduction of cleaner gas-fired power in the mid-1990s and the retrofitting of Castle Peak Power Station with world-class emissions reduction facilities in the late 2000s.

These initiatives have played an important role in improving the air quality of Hong Kong, as well as enhancing the efficiency of the delivery of power to the majority of our population, that is our customer base in Kowloon and the New Territories.

In the past decades, CAPCO played its part by making massive investments in Hong Kong's power generating capability. These investments paved the way for the prosperous development of Hong Kong, which we continue to enjoy to this day, and which will, in my view, continue for many more years to come.

Throughout this period, and in all of these investments, ExxonMobil has supported our focus and commitment to the highest safety standards. The safety disciplines and practices that ExxonMobil brought to our partnership have contributed to the first class safety record that CAPCO has achieved over the years. Indeed, the learnings CLP has gained through our partnership have enhanced our own capabilities and assisted us to deliver on our commitment to safety across all our business.

Strengthening a Strategic Partnership

Our new partnership with CSG in CAPCO is, in many respects, a natural extension for us in light of our successful cooperation over the years. Our two systems have been connected since CLP first supplied power to Guangdong in 1979, strengthened further when we began importing power from Daya Bay in 1994 and will become more closely interconnected with the closer integration of Hong Kong and Guangdong. The transaction will allow us to develop those arrangements into a strategic relationship. We anticipate being able to collaborate on other commercial opportunities as our partnership matures.

As I have noted above, we have enjoyed a long and successful partnership with ExxonMobil which for half a century has contributed to the power industry of Hong Kong. We look forward to further strengthening our strategic relationship with CSG, confident that what succeeded for us in the past can be replicated in the future.

Before I close, I would like to once again acknowledge with thanks the great service our former CEO, Andrew Brandler, has provided over the last 13 years. At the same time, I am delighted to welcome our new CEO Richard Lancaster, who has had a distinguished career in our Company since joining us in 1992. The Board and I are confident that the Company remains in very safe and reliable hands with Richard and his management team at the helm.

The Honourable Sir Michael Kadoorie
Hong Kong, 27 February 2014

CEO'S STRATEGIC REVIEW

" If I were asked to describe our current strategy in a word, I would choose *focus*."

In this, my first, Strategic Review I would like to start by underlining my commitment to repay the trust the Chairman and Board of Directors of CLP have placed in me by appointing me Chief Executive Officer. Second, I wish to acknowledge the solid foundation left to me by my predecessor, Andrew Brandler, who spent 13 successful years in this post. The task ahead of me is to build on this foundation, so that the Company continues to grow and prosper for the benefit of our shareholders and, on a larger scale, benefit Hong Kong and all the communities we serve.

In tackling my new responsibilities, I would stress that there will be no fundamental change to the Group's "2020 Vision". We plan to continue the strategic direction that was set out by the Board in 2009 and has guided us over the past five years. It is as well to remind ourselves from time to time of the keystones of that vision.

It is generally recognised that the operating environment in the energy markets in which we operate, has become more challenging in recent years. The regulatory issues we faced in Hong Kong in 2013 relating to the Interim Review of our SoC, the 2014-2018 Development Plan, and the 2014 Tariff Review are but one example. With the performances of some of our overseas operations continuing to be mixed, our near-term focus will be on strengthening those businesses.

We are prepared to roll up our sleeves to get those operations that are facing ongoing challenges running profitably and generating the return we would expect. Over the next few years, we plan to continue to grow the business at a measured pace.

In the following paragraphs, I shall outline the most pertinent issues in each of our major business streams and summarise our strategic direction for the businesses. I shall focus on the performance of Hong Kong and Australia as these two markets account for 95% of our revenue. More details will be discussed later in this Annual Report in the specific country sections.

Staying Focused

CLP has run very successful and reliable businesses for over a hundred years, particularly our core operation in Hong Kong. If I were asked to describe our current strategy in a word, the word I would choose is "focus".

In Hong Kong, we have a vertically integrated, regulated business which is the core of our operations. We generate, distribute and provide a world-class electricity supply to 2.4 million customers with a reliability rate of 99.999% – that takes focus and an unswerving commitment to doing things right for the benefit of our customers. Over the past decade, we have expanded our business outside of Hong Kong based on our view that a diversified portfolio would provide growth opportunities and reduce business concentration risks. We have focused our diversification in selected markets in Asia Pacific, including Australia, India, the Chinese mainland and in Southeast Asia. In these regional markets, we focus on parts of the electricity supply chain where foreign investors are able to establish a reasonable-sized business.

Hong Kong

In 2009, we issued *Towards a Greener Pearl River Delta – a Roadmap for Clean Energy Generation for Hong Kong*, which sets out CLP's vision for energy over the next decade. As our Energy Vision explains, the outlook for our Hong Kong business includes the development of clean and reliable electricity supplies on three levels:

- strengthening infrastructure integration;
- adopting a cleaner fuel mix; and
- promoting energy efficiency.

In 2013, we made some significant decisions that allow us to realise the commitments in our Energy Vision.

First and foremost, as noted by the Chairman in his Statement, we announced our plan to take control of CAPCO, which owns CLP's three power stations in Hong Kong, by teaming up with CSG to jointly acquire the 60% stake in CAPCO held by ExxonMobil. At completion, CLP will own a controlling 70% stake in CAPCO, up from 40% currently, while CSG will own the remaining 30%. Separately, CLP will also purchase ExxonMobil's 51% stake in Hong Kong Pumped Storage Development Company, Limited.

The CAPCO acquisition is significant as it gives CLP majority control over our core generating assets, enabling us to better coordinate our generation business with our transmission and distribution operations. It also reflects our confidence in the future of Hong Kong's power sector and reaffirms CLP's commitment to this city. As we have done in the past, we intend to continue to invest in our core market. In the run up to the completion of the transaction, we will continue to work with ExxonMobil and CSG to ensure a smooth transition. Importantly, as the Chairman has written, we look forward to further collaboration with CSG to bring further long-term benefits to Hong Kong. I believe this closer relationship with CSG puts us on a clear path to strengthen our infrastructure integration with Guangdong.

Notwithstanding the change in ownership, I want to stress that our action will in no way diminish our drive to providing a safe and reliable electricity supply, with continually improving environmental performance, excellent service and value for money for our customers. That is the CLP's way, and is not about to change now or in the future.

"Investing in our customer service is one of the most important aspects of our business that we need to get right, and I believe we have succeeded in doing so."

SoC Interim Review

Turning to the regulatory front, the 2013 Interim Review of the SoC Agreement with the Government was satisfactorily concluded in November 2013. One of the initiatives introduced by the Interim Review is the establishment of an Energy Efficiency Fund to carry out improvement works to enhance the energy efficiency of non-commercial buildings. CLP expects to contribute some HK$70 million to it. We welcome this as another significant step towards our Energy Vision, our goal of actively encouraging the community to use electricity wisely and our commitment to promoting energy efficiency and conservation.

Development Plan and Tariff Profile

Our Development Plan for January 2014 – September 2018 sets out what we will do over the five-year period to maintain CLP's supply reliability, meet growing demand and enhance environmental performance through supply and demand side measures, with projected capital expenditure totalling HK$34.1 billion. We are committed to delivering these capital projects on schedule, within budget and in a quality manner as we always have.

The Development Plan also establishes the approved Basic Tariff profile for the five years it covers. From now to 2018, the approved capital spending, together with operating costs, is expected to increase Basic Tariff by around 1.8% annually. This modest increase is the result of very prudent financial management and various initiatives to improve our work processes.

However, rising fuel costs remain a major challenge. While CLP does everything in its power to control the cost of producing electricity and distributing to our customers, there is little we can do to control the cost of the fuel we need to procure from the international marketplace which is determined by global supply and demand. As a result, rising fuel costs will continue to put pressure on our customers in Hong Kong. To meet tighter statutory emissions caps for power generation which come into effect in 2015, we will need to use more gas to generate electricity in place of cheaper coal. Our gas consumption in 2015 may need to double from 2014 levels to meet these requirements. Fuel cost pressures will continue to intensify with the increased use of more expensive gas, which is priced at international market levels. These pressures are particularly acute for CLP as we and our customers are shouldering about 90% of the territory-wide responsibility under the tighter emission caps.

CLP's key commitment is to make every effort to mitigate the impact of this tremendous challenge. At the same time, we will continue to care for the community by implementing a range of programmes to help our customers save energy and reduce their bills. To enhance information transparency and enable our customers to better understand the costs of fuels required to generate the electricity they need, we have been publishing data on energy costs for electricity generation and electricity sales each month on CLP's website.

We take no pleasure from having to pass on increases of any kind, but as a commercially and socially responsible company, we must act in a way that will enable us to continue the kind of safe and reliable service to our customers in a sustainable manner that is, frankly, the envy of other places around the world. It is worth repeating that the 99.999% reliability of our services in Hong Kong is one of the highest in the world. At the same time, our tariffs are among the lowest when compared to major cities such as Sydney, London and New York. I believe our customers expect and deserve nothing less.

Fuel Mix Consultation

In Hong Kong, our current balanced fuel mix of gas, coal and nuclear has served our society extremely well, providing a remarkably reliable electricity supply and giving CLP the flexibility to change our actual fuel mix year by year to optimise fuel costs and help manage tariffs. The Government is expected to launch a public consultation on the fuel mix to be used for future electricity generation in the first half of 2014. Great care and detailed planning are needed if this balanced portfolio of energy sources is to be changed significantly, so as to ensure that reliability can be maintained. On our part, CLP will provide information on the options available to help our community determine an appropriate policy, as we have pledged in our Energy Vision. After the Government and the community decide what the most appropriate future fuel mix for Hong Kong is, we will support the direction adopted and continue to deliver a reliable supply of electricity to our customers.

Australia

In 2013, the performance of EnergyAustralia continued to be affected by the decrease in wholesale electricity prices, continuing high levels of competition in energy retailing and extra costs associated with the implementation of the new Customer First (C1) billing and customer care system.

In the retail market, there has been a pronounced decline in electricity demand caused by rising prices, higher network costs, government renewable and energy efficiency programmes, growing popularity of rooftop solar photovoltaic systems and energy efficiency savings. The situation has not been helped by keen price competition amongst retailers. Business demand, meanwhile, has been hindered by a slowing manufacturing environment, in part due to rising energy costs, a high value Australian dollar and a slowing global economy.

2020 VISION

In 2009, the Board set out a "2020 Vision" of CLP as a diversified electricity company which:

HK

maintains its base and core operating business in Hong Kong;

holds a significant stake in a leading listed Australian energy supplier;

is the controlling shareholder of a listed energy company in India and Southeast Asia;

has a significant, but minority, stake in nuclear energy in Southern China;

invests in and operates, if available, transmission and distribution assets in India and in the Chinese mainland;

has largely exited minority positions in conventional coal-fired generation in the Mainland; and

is one of Asia's largest investors in clean and renewable energy.

Note: CLP remains on track towards this "2020 Vision", other than for the aspiration to become a controlling shareholder of a listed energy company in Southeast Asia due to capital constraints, the lack of opportunities for private sector participants and the availability of investments elsewhere.

Internally, EnergyAustralia is making good progress with the issues related to the implementation of C1 that have weighed on the company's performances for months. In the second half of 2013, C1 was stabilised and the registrations backlog and number of unbilled accounts have reduced substantially. C1 now provides a solid platform on which we can integrate the 1.4 million customer accounts currently being serviced by Ausgrid under a Transition Services Agreement. Once this is complete, we should see significant cost reductions in the retail business.

At the Yallourn Power Station and mine, the Morwell River Diversion reconstruction was completed and labour disputes have been resolved. We look forward to working together with our employees there to secure the future of the plant.

Simply put, we are actively addressing these internal issues and we are seeing improvement in the operation of the business.

Externally, the wholesale electricity market is continuing to see suppressed prices resulting from an oversupply of generation and falling demand. Demand is dropping due to a combination of factors including the closure of some energy-intensive industries and the growing popularity of domestic solar panels, often assisted by generous feed-in tariffs. As mentioned, the oversupply of electricity generation, aggravated by a rush to build renewable energy projects to meet Australia's Renewable Energy Target, is an industry-wide issue. It may take some years for the supply and demand situation to return to balance and this will require the closure of older, less competitive generation facilities.

In 2013, EnergyAustralia took a number of steps to improve the fundamentals of its business with the aim of reducing costs, increasing efficiency and enhancing capabilities. In the retail area, the focus has been on the stabilisation of our C1 system and planning for the integration of our Ausgrid customer base, as well as gaining efficiencies from reduction in bad and doubtful debt and labour costs. A corporate cost efficiency programme has already delivered saving and will continue to seek improvements across our support functions.

A number of initiatives have also been undertaken within our generation portfolio. We completed a majority sell-down of Waterloo Wind Farm, realising proceeds of A$228 million, while at Yallourn, a major optimisation study has resulted in modification of our maintenance investment strategies.

In addition, our acquisitions of Mount Piper Power Station and Wallerawang Power Station in New South Wales (NSW) enhance our operational flexibility and reduce the costs associated with operating these plants. Subsequent to a review of our capital and operating strategies in line with market conditions, we removed one of Wallerawang's two units from service.

In light of the challenging operating environment expected over the coming years, we have taken a decision to recognise a non-cash accounting impairment and other charges of HK$3,106 million after tax, primarily in relation to our investment at Yallourn and our gas-fired assets. Yallourn has suffered from declining demand and oversupply of base load energy in Victoria, which has led to overall lower actual and forecast wholesale electricity prices. Our gas-fired assets are impacted by declining demand and rising gas prices. Additionally, the strong likelihood of the removal of the current carbon tax regime may adversely affect our gas plants.

In spite of these impairments, there is considerable strength in our underlying portfolio, which is well diversified by geography, fuel type and operational mode. It is concentrated in Victoria and NSW, the largest retail markets in Australia. At the same time, our generating assets are supported by brown coal reserves, black coal supply contracts and development options, long-term gas contracts and gas storage operations. This diversity and flexibility allows us to effectively manage opportunities and risks across our portfolio in response to market conditions. EnergyAustralia will continue to assess market conditions and will actively review the optimum size, operating strategies and holding structure of its generation portfolio in response to these conditions.

Chinese Mainland

Our operation in the Chinese mainland had a record year as we continued to benefit from the reliable operating performance of Fangchenggang Power Station in Guangxi Region and the improved performance of our renewable portfolio. This underlines the merit of our focused strategy on the Mainland of selective investments in nuclear power, coal-fired generation and renewable energy, accompanied by the divestment of minority stakes in joint ventures with limited growth prospect. In line with this strategy, we sold our biomass plant at Boxing given the project has limited potential for growth.

Consistently good performance at Fangchenggang convinced us to embark on an expansion plan for the project, of which final approval is expected in the first half of 2014.

We aim to increase our renewable energy portfolio and, on top of our existing very successful wind and hydro projects, plan to develop more solar power projects. Thanks to the growing maturity of solar photovoltaic technology, a significant reduction in solar panel prices and attractive feed-in tariffs, we will continue to explore solar investment opportunities in addition to the Jinchang Solar Power Station in Gansu, our first majority-owned solar project.

While shareholders may note that we announced in September 2013 that talks with China General Nuclear Power Corporation regarding the acquisition of a 17% equity share in Yangjiang Nuclear Power Station have been discontinued, we remain confident of prospects for the Mainland's nuclear sector.

India

Fuel security, or the lack of it, has been a serious issue affecting our performance in India and the power industry as a whole. But I am pleased to report that we are seeing some turnaround in the situation for coal. Looking ahead, we are cautiously optimistic about the market.

For CLP India, the second half of 2013 was much better than the first half largely because we are now receiving both imported and domestic coal from various sources. As a result, our coal-fired power station at Jhajjar has been operating reliably with availability reaching 62.8% for the year despite the coal shortages earlier in the year. We finished 2013 strongly with the plant recording its highest ever availability figure of 98.2% in December. We are confident in sustaining this much improved operating position.

Affordable gas supply, meanwhile, remains sporadic following the depletion of existing domestic natural gas reserves. Although the underlying profitability of our gas-fired plant at Paguthan is protected under the existing Power Purchase Agreement as long as it is available for despatch, we will continue to explore other sources of reasonably-priced domestic gas to support the plant. Given these severe gas shortages, we have had to renegotiate some of the terms of the PPA at the request of the off-takers to address the resulting low levels of despatch and we have successfully reached agreement with them. In addition, we have revised the outlook on the residual value of the post-PPA operation. As a result, we made a one-off provision of HK$293 million in 2013 to reflect these changes. We believe that the renegotiated agreement will place the contractual arrangements for Paguthan on a sounder footing for the remainder of the PPA term.

A remarkable moment – our CEO shakes hands with Mr Wang Jiuling, Board Vice President of CSG, and Mr Steve Kane, Vice President of ExxonMobil International Holdings, at the contract signing ceremony of the CAPCO and PSDC acquisitions

For now and for the foreseeable future until the fuel security issues are addressed, while we continue to evaluate opportunities in the conventional space, we will focus our new investment on wind projects. We are already the leading wind project developer in India with over 1,000MW of committed assets. In future, we expect wind to continue to be an integral part of CLP's growth plans for India and our commitment to combatting climate change.

Southeast Asia and Taiwan

At present, we have two greenfield coal-fired power stations that have been under development for some years in Vietnam. These projects are maturing and, over the next 12 to 18 months, may advance to a point where CLP will have to decide whether to proceed or to monetise the value of the development work which has been completed.

CLP's remaining 20% stake in Ho-Ping Power Station in Taiwan might be regarded as a legacy investment, in the sense of being a minority shareholding with little expansion potential. However, Ho-Ping has provided a regular and stable contribution to the Group's earnings and cash flow, whilst making few demands on management time and resources.

Managing Climate Change

In 2007, we published our *Climate Vision 2050*, which laid out our voluntary commitment to reduce the carbon intensity of our generation portfolio by 2050. In 2010 after reviewing our performance, we decided to set new and more ambitious interim targets for 2020.

In 2013, the acquisition of the coal-fired Mount Piper and Wallerawang power stations in Australia and the planned increase in our shareholding of CAPCO will have moved us further away from those targets, but we remain firmly committed to our 2020 targets and confident of seeing them through to fruition. Given the scale of the acquisitions coming close together, we saw a significant increase in carbon intensity in 2013. However, with continued, steady investment in non-carbon emitting energy, we are optimistic that this trend will be reversed.

Funding Our Business

To fund the HK$14 billion CAPCO and PSDC acquisitions, we have executed loan facility agreements for HK$10 billion in addition to internal available resources and existing available banking facilities. We have not made the final decision on the long-term financing for this investment. The options and implications to our capital structure are still under review with a decision likely to be made closer to completion of the transaction. In any event, I can assure you that CLP remains financially strong and will continue to maintain our longstanding financially prudent strategies to obtain diversified funding from banks and capital markets at competitive rates.

The refinancing we completed in Australia in 2013 highlighted the strong support we received from our relationship banks. EnergyAustralia signed a A$2.1 billion loan syndication to extend and refinance its existing bank loan facilities, notwithstanding the fact that the company was on credit watch at the time.

We will continue to gauge our long-term financing needs in all markets and review our financing options from time to time. These options may include, but are not limited to, loans, bonds, hybrid securities and equity. We will regularly assess our portfolio and capitalise on our assets, if and when the right opportunities arise.

Controlling Costs

Owing to substantial rises in material, contract and labour costs in recent years, we are under heavy cost pressures both in and outside of Hong Kong. To ease those pressures, we will continue our prudent financial management, improve our work processes and efficiencies and control costs. One initiative we have employed is transferring staff from the Group to operating business units to take advantage of synergies and efficiency gains.

Investing in Customers

In my experience, customer service is one of the most important aspects of our business. We need to get it right, and by and large, I believe we have succeeded in doing so. CLP is in the business of delivering energy to the people of the Asia-Pacific region. We are delighted to be able to work with a range of business partners and suppliers who have helped us strengthen our customer service and become what we are today – one of the largest and most responsible energy providers in the region. On top of that, we have been highly privileged to serve our retail customers in Hong Kong and Australia. Continuing and improving on our excellent standards of customer service is a top priority.

Looking Ahead

For many years, CLP has been enjoying the service of a group of very loyal and long-serving colleagues. The consequence of this is a significant portion of staff including Senior Management have approached or are approaching retirement. 2013 saw some senior executives stepping down including Andrew Brandler and Peter Greenwood. The Managing Director of EnergyAustralia, Richard McIndoe, announced his resignation in December 2013 and we have begun a global recruitment process to identify and appoint his successor. In March 2014, Mark Takahashi, our Chief Financial Officer, will also leave CLP to join his family and pursue his future career in the United States while Peter Littlewood will retire from his current position as Group Director – Operations after 36 years of service at CLP. I would like to express my sincere thanks to them for their hard work and contribution to the Company over the past decades. Our sound succession planning process has ensured a smooth transition. Notwithstanding the changes, we will continue to adhere to the strategic direction set out by our Board.

In summary, 2013 has been a challenging yet exciting year, involving, as the Chairman has remarked in his Statement, the agreement to acquire a controlling share of CAPCO, the successful and satisfactory resolution of a number of regulatory issues in Hong Kong and improvements to some of our investments in Asia Pacific. None of this is to suggest complacency as we move into the next phase of growth. The changing socio-political environment in Hong Kong, the issues we continue to face in our regional investments and the ever-changing environment within our industry mean that as a team, we need to continue to focus and build on the strengths that have served the Group so well over such a long time. With the support of my colleagues, I intend to put my best efforts to that purpose.

Richard Lancaster
Hong Kong, 27 February 2014

Mr Chung Ka Kui, Ken
Engineer Trainee,
CLP Power Hong Kong

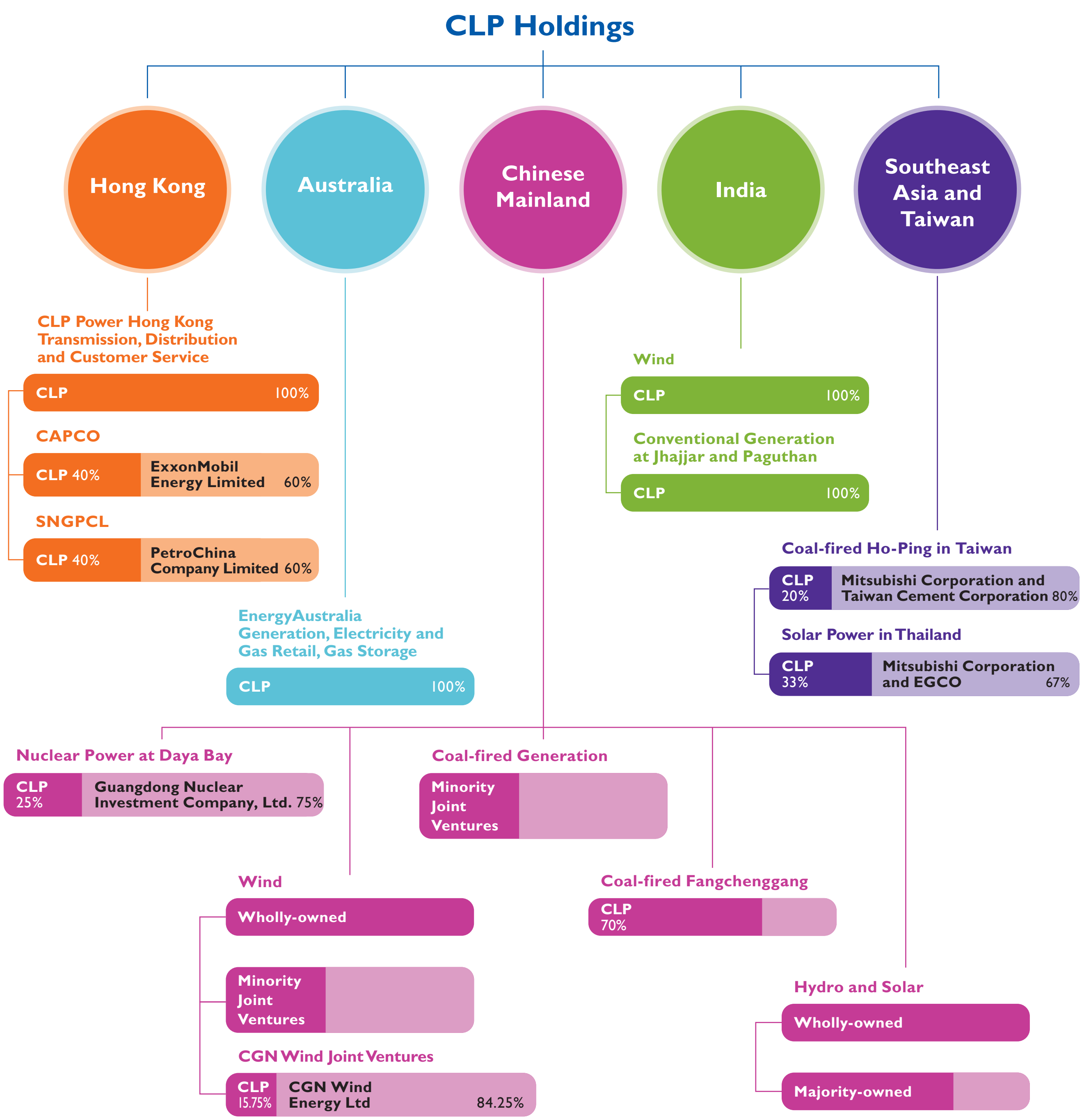
CLP has witnessed the departure of some senior managers recently. Will it affect the Company's operations?

Absolutely not. CLP has been in business for over 110 years. Our operations are mature and we have a depth of very experienced and talented managers throughout the organisation. All businesses face the reality of senior managers retiring or leaving for personal reasons. What is important is that we plan ahead and have a good succession planning process in place. As part of this process, we identify potential successors well in advance of vacancies arising and action development programmes to ensure that successors are ready with the necessary skills and experience to take over. In some cases it may be beneficial to hire externally to bring in new or specialised skills and expertise, but if the organisation's succession planning is working well then this should be the exception rather than the rule. In recent months, CLP has seen a smooth transition of several senior managers, including the CEO, and the majority of their successors have been internal appointees.

Richard Lancaster
Chief Executive Officer

OUR ASSETS AND INVESTMENTS

As at 31 December 2013, CLP comprised over 70 assets with more than 21,000MW of capacity (generation and purchase), 6 different energy sources and about 5.1 million customer accounts.



Chinese Mainland Investments Gross / Equity MW

Equity Interest

1. 25% — **Guangdong Nuclear Power Joint Venture Company, Limited (GNPJVC) 1,968 / 492MW**
GNPJVC constructed the **Guangdong Daya Bay Nuclear Power Station** (GNPS) at Daya Bay. GNPS is equipped with two 984MW Pressurised Water Reactors incorporating equipment from France and the United Kingdom. 70%[1] of electricity generated is supplied to Hong Kong, with the remaining 30% sold to Guangdong Province (廣東省)

2. 70% — **CLP Guangxi Fangchenggang Power Company Limited (Fangchenggang) 1,260 / 882MW**
Owns and operates two 630MW supercritical coal-fired units at Fangchenggang (防城港), Guangxi (廣西) with Guangxi Water & Power Engineering (Group) Co., Ltd.

3. 49% — **CLP Guohua Shenmu Power Company Limited (Shenmu) 220 / 108MW**
Owns and operates **Shenmu Power Station** in Shaanxi (陝西) (220MW) in joint venture with China Shenhua Energy

4. 30% — **CSEC Guohua International Power Company Limited (CSEC Guohua) 7,650 / 1,333MW[2]**
Ownership interests in five coal-fired power stations with China Shenhua Energy:
   - 100% of **Beijing Yire** (400MW)
   - 65% of **Panshan** in Tianjin (天津) (1,030MW)
   - 55% of **Sanhe I and II** in Hebei (河北) (1,300MW)
   - 50% of **Suizhong I and II** in Liaoning (遼寧) (3,600MW)
   - 65% of **Zhungeer II and III** in Inner Mongolia Autonomous Region (內蒙古自治區) (1,320MW)

5. 29.4% — **Shandong Zhonghua Power Company, Ltd. (SZPC) 3,060 / 900MW**
Owns four coal-fired power stations in Shandong (山東) with China Guodian Corporation and EDF International:
   - **Heze II** (600MW)
   - **Liaocheng I** (1,200MW)
   - **Shiheng I and II** (1,260MW)

6. 15.75% — **CGN Wind Power Company Limited (CGN Wind) 1,794 / 251MW[3]**
Owns and operates 1,794MW of wind projects in various parts of China

7. 50% — **CLP-CWP Wind Power Investment Limited (CLP-CWP Wind) 99 / 24MW[4]**
Owns two wind farms in Liaoning: 49% of **Qujiagou** (49.5MW) and 49% of **Mazongshan** (49.5MW)

8. 100% — **CLP (Laiwu) Renewable Energy Limited (Laiwu I Wind) 50 / 50MW**
Owns **Laiwu I Wind Farm** (49.5MW) in Shandong, which commenced operation in January 2014

9. 100% — **CLP (Penglai) Wind Power Ltd. (Penglai I Wind) 48 / 48MW**
Owns and operates **Penglai I Wind Farm** (48MW) in Shandong

10. 45% — **Huadian Laizhou Wind Power Company Limited (Laizhou Wind) 41 / 18MW**
Owns **Laizhou I Wind Farm** (40.5MW) in Shandong

11. 25% — **Huaneng Shantou Wind Power Company Limited (Nanao II Wind) 45 / 11MW (Nanao III Wind) 15 / 4MW**
Owns two wind farms in Guangdong: **Nanao II** (45MW) and **Nanao III** (15MW)

12. 49% — **Jilin Datang Wind Joint Ventures (Jilin Datang Wind) 148 / 73MW**
Owns three wind farms in Jilin (吉林): **Datong** (49.5MW), **Shuangliao I** (49.3MW) and **Shuangliao II** (49.5MW)

13. 100% — **Qian'an IW Power Company Limited (Qian'an I Wind) 50 / 50MW (Qian'an II Wind) 50 / 50MW**
Owns and operates two wind farms in Jilin: **Qian'an I** (49.5MW) and **Qian'an II** (49.5MW)

14. 49% — **Shandong Guohua Wind Joint Ventures (Shandong Guohua Wind) 445 / 218MW**
Owns nine wind farms in Shandong:
   - **Dongying Hekou** (49.5MW)
   - **Haifang** (49.5MW), suspended due to land issues
   - **Lijin I** (49.5MW)
   - **Lijin II** (49.5MW)
   - **Rongcheng I** (48.8MW)
   - **Rongcheng II** (49.5MW)
   - **Rongcheng III** (49.5MW)
   - **Zhanhua I** (49.5MW)
   - **Zhanhua II** (49.5MW)

15. 45% — **Shandong Huaneng Wind Joint Ventures (Shandong Huaneng Wind) 96 / 43MW**
Owns three wind farms in Shandong: **Changdao** (27.2MW), **Weihai I** (19.5MW) and **Weihai II** (49.5MW)

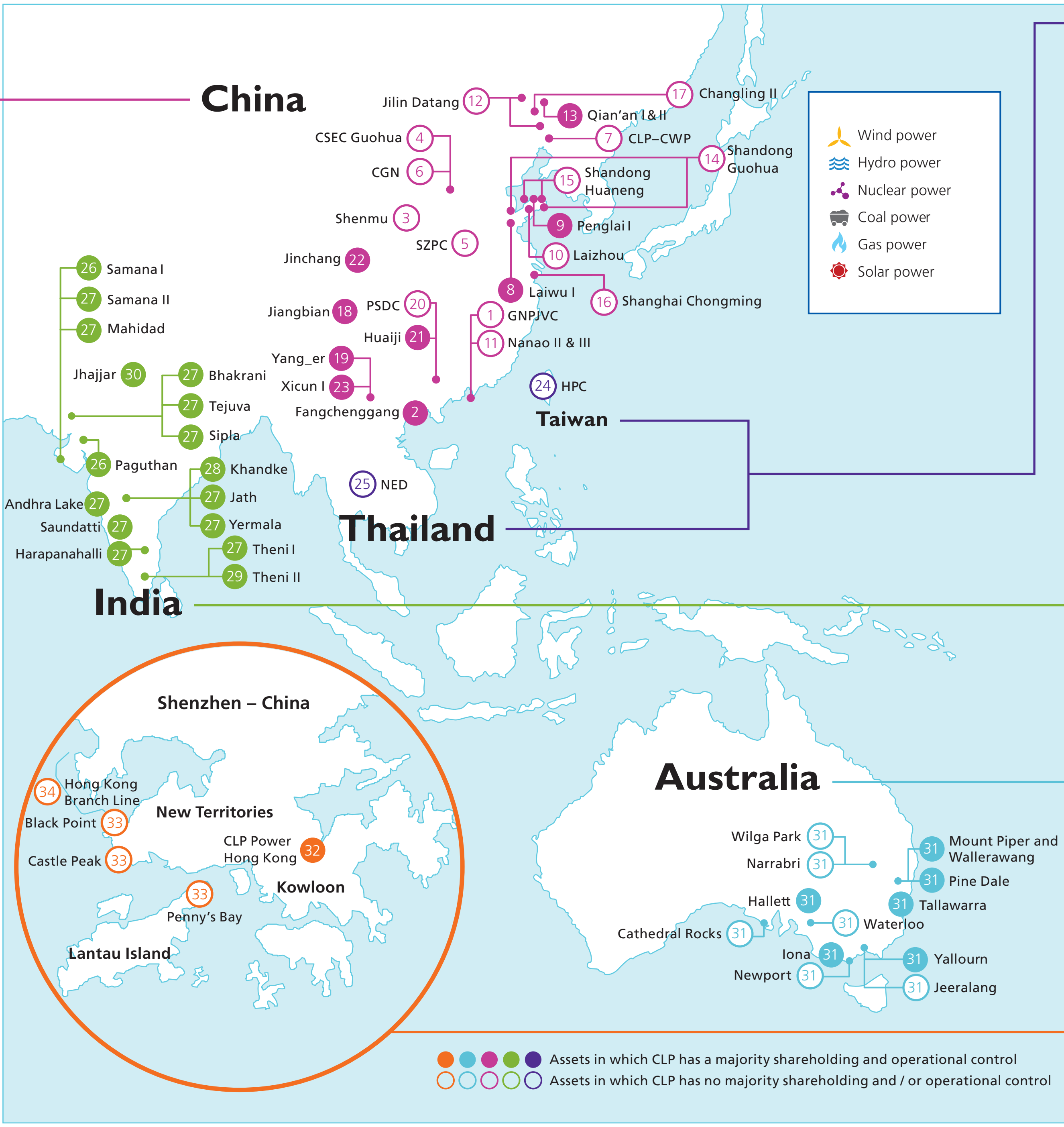
16. 29% — **Shanghai Chongming Beiyan Wind Power Generation Company Limited (Shanghai Chongming Wind) 48 / 14MW**
Owns **Chongming Wind Farm** (48MW) in Shanghai (上海)

17. 45% — **Sinohydro CLP Wind Power Company Limited (Changling II Wind) 50 / 22MW**
Owns **Changling II Wind Farm** (49.5MW) in Jilin

18. 100% — **CLP Sichuan (Jiangbian) Power Company Limited (Jiangbian Hydro) 330 / 330MW**
Owns and operates **Jiangbian Hydropower Station** (330MW) in Sichuan (四川)

19. 100% — **Dali Yang_er Hydropower Development Co., Ltd. (Yang_er Hydro) 50 / 50MW**
Owns and operates **Yang_er Hydropower Station** (50MW) in Yunnan (雲南)

20. 49% — **Hong Kong Pumped Storage Development Company, Limited (PSDC) 1,200 / 600 MW**
PSDC (of which ExxonMobil Energy Limited holds 51%) may use half of the 1,200MW pumped storage capacity of Phase 1 of the **Guangzhou Pumped Storage Power Station** until 2034



21	84.9%	Hydro	**Huaiji Hydropower Stations (Huaiji Hydro) 125 / 106MW** Owns and operates 12 small hydropower stations (125MW) in Guangdong
22	51%	Solar	**Jinchang Zhenxin PV Power Company Limited (Jinchang Solar) 85 / 43MW** Owns and operates **Jinchang Solar Power Station** (85MW) in Gansu (甘肅); which was commissioned in July 2013
23	100%	Solar	**CLP Dali (Xicun) Solar Power Co., Ltd (Xicun I Solar) 42 / 42MW** Owns **Xicun I Solar Power Station** (42MW) in Yunnan (雲南); project construction to be commenced in early 2014

Notes:

1 Agreement has been reached to increase the proportion of supply to Hong Kong to slightly above 70% in 2014 and to about 80% for the period from 2015 to 2018, with the remaining to be sold to Guangdong Province.

2 The 1,333 equity MW attributed to CLP, through its 30% equity interest in CSEC Guohua, takes into account that CSEC Guohua holds varying equity interests in the generating assets included in the 7,650 gross MW.

3 The 251 equity MW attributed to CLP, through its 15.75% equity interest in CGN Wind, takes into account that CGN Wind holds varying equity interests in the generating assets included in the 1,794 gross MW.

4 The 24 equity MW attributed to CLP, through its 50% equity interest in CLP-CWP Wind, takes into account that CLP-CWP Wind holds varying equity interests in the generating assets included in the 99 gross MW.

5 The 5,561 equity MW attributed to CLP, through its 100% equity interest in EnergyAustralia, takes into account that EnergyAustralia holds varying equity interests in the generating assets as well as capacity purchase from Cathedral Rocks, Ecogen and Waterloo included in the 5,662 gross MW.

6 In September 2013, EnergyAustralia acquired the Mount Piper and Wallerawang power stations, releasing EnergyAustralia from the fixed contractual commitments under the Delta Western GenTrader Agreements. These power stations are now wholly owned by EnergyAustralia.

7 CLP Power Hong Kong purchases its power from CAPCO, PSDC and GNPS. These sources of power amount to a total capacity of 8,888MW available to serve the Hong Kong electricity business.

Southeast Asia and Taiwan Investments Gross / Equity MW

Equity Interest

24 | 20%

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

25 | 33.3%

Natural Energy Development Co., Ltd. (NED) 63 / 21MW
NED owns and operates a solar farm in Lopburi Province in Central Thailand. An 8MW expansion was completed in May 2013, bringing the total capacity to 63MW. NED is a joint venture company with equal shareholding by CLP, Mitsubishi Corporation and Electricity Generating Public Company Limited

India Investments Gross / Equity MW

Equity Interest

26 | 100%

CLP India Private Limited (CLP India) 705 / 705MW
- **Paguthan Power Station** 655MW combined-cycle gas-fired power plant in Gujarat
  The plant is designed to run on natural gas with naphtha as alternate fuel
- **Samana Phase I** (50.4MW) in Gujarat

27 | 100%

CLP Wind Farms (India) Private Limited (CLP Wind Farms) 901 / 901 MW
- **Andhra Lake** (106.4MW) in Maharashtra
- **Bhakrani** (102.4MW) with 76MW commissioned and remainder under construction in Rajasthan
- **Harapanahalli** (39.6MW) in Karnataka
- **Jath** (130MW) under construction in Maharashtra
- **Mahidad** (50.4MW) with 33.6MW commissioned and remainder under construction in Gujarat
- **Samana Phase II** (50.4MW) in Gujarat
- **Saundatti** (72MW) in Karnataka
- **Sipla** (50.4MW) in Rajasthan; achieved full commissioning in March 2013
- **Tejuva** (100.8MW) under construction in Rajasthan
- **Theni Phase I** (49.5MW) in Tamil Nadu
- **Yermala** (148.8MW) under construction in Maharashtra

28 | 100%

CLP Wind Farms (Khandke) Private Limited (Khandke Wind) 50 / 50MW
Khandke (50.4MW) in Maharashtra

29 | 100%

CLP Wind Farms (Theni - Project II) Private Limited (Theni Phase II Project) 50 / 50MW
Theni Phase II (49.5MW) in Tamil Nadu

30 | 100%

Jhajjar Power Limited (JPL) 1,320 / 1,320 MW
Jhajjar Power Station (1,320MW) comprising two 660MW supercritical coal-fired units at Jhajjar, Haryana. Unit 1 and Unit 2 achieved commercial operation on 29 March 2012 and 19 July 2012 respectively

Australia Investments Gross / Equity MW

Equity Interest

31 | 100%

EnergyAustralia 5,662 / 5,561MW[5]
EnergyAustralia is an integrated generation and retail electricity and gas business in Victoria, South Australia, NSW, Queensland and the Australian Capital Territory, comprising:
- **Cathedral Rocks** (50% equity / 50% off-take) wind farm (66MW)
- **Ecogen** (Newport and Jeeralang) off-take from gas-fired power stations (966MW)
- **Hallett** gas-fired power station (203MW)
- **Iona** gas storage facility and processing plant (22PJ storage capacity)
- **Mount Piper** and **Wallerawang** coal-fired power stations (2,400MW)[6]
- **Narrabri** (20%) (500PJ of equity coal seam gas 3P reserves)
- **Pine Dale** black coal mine
- **Tallawarra** gas-fired power station (420MW)
- **Waterloo** (25% equity / 50% off-take) wind farm (111MW)
- **Wilga Park** (20%) gas-fired power station (16MW)
- **Yallourn** coal-fired power station and brown coal open-cut mine (1,480MW)

Hong Kong Investments

Equity Interest

32 | 100%

CLP Power Hong Kong Limited (CLP Power Hong Kong)[7]
CLP Power Hong Kong owns and operates the transmission and distribution system which includes:
- 555 km of 400kV lines, 1,587 km of 132kV lines, 27 km of 33kV lines and 12,328 km of 11kV lines
- 60,430 MVA transformers and 218 primary and 13,692 secondary substations in operation

33 | 40%

Castle Peak Power Company Limited (CAPCO)[7], 6,908MW of installed generating capacity
CAPCO owns and CLP Power Hong Kong operates:
- **Black Point Power Station (2,500MW)**
  One of the world's largest gas-fired power stations comprising eight combined-cycle turbines of 312.5MW each
- **Castle Peak Power Station (4,108MW)**
  Comprising four coal-fired units of 350MW each and another four units of 677MW each. Two of the 677MW units can use gas as a backup fuel. All units can use oil as a backup fuel
- **Penny's Bay Power Station (300MW)**
  Three diesel-fired gas turbine units of 100MW each

34 | 40%

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

SHAREHOLDER VALUE AND ENGAGEMENT

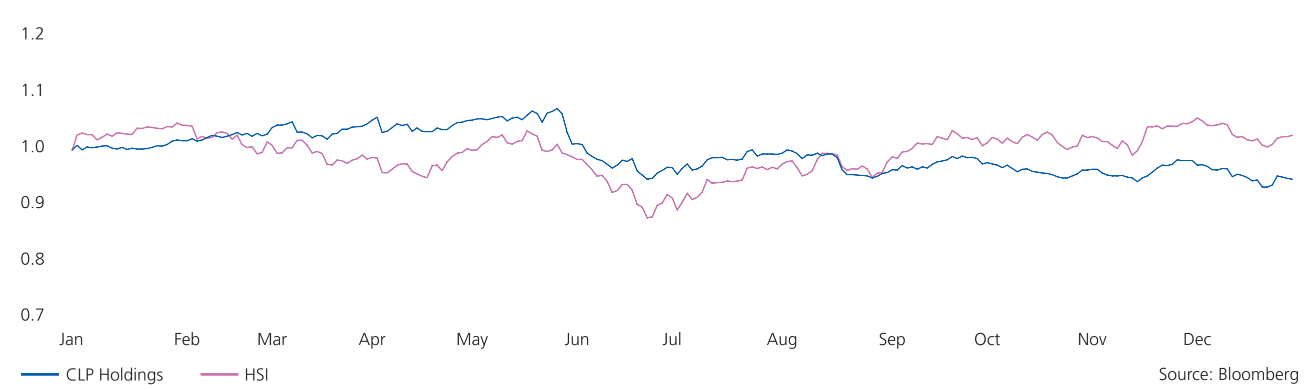
Our shareholders own the Company. They have placed their trust and confidence in our Board, Management and staff. We have a duty to deliver value to them through capital appreciation (the performance of CLP's share price over time) and the payment of dividends. We also have a duty to communicate to them openly and honestly on the performance of their investment, listen to their views and address their concerns.

Delivering Value to Shareholders

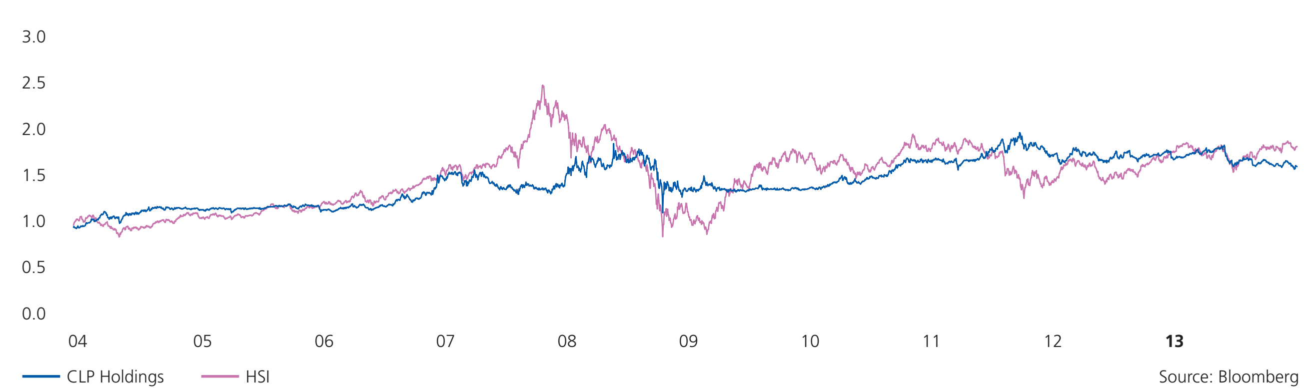
Through Share Price Performance

During 2013, CLP's share price outperformed the Hang Seng Index (HSI) during the first half of the year, but diverged as the Hong Kong equities market rebounded in the latter part of the year. The average closing price of CLP's shares was HK$64.55, with the highest closing price of HK$69.85 recorded on 28 May and the lowest closing price of HK$60.35 recorded on 19 December and 20 December.

1-year Relative Performance – CLP vs HSI (1 Jan 2013 – 31 Dec 2013) (Base: 31 December 2012 = 1.0)



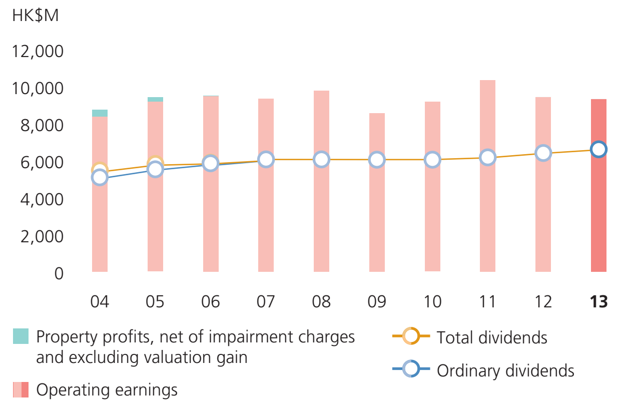
10-year Relative Performance – CLP vs HSI (1 Jan 2004 – 31 Dec 2013) (Base: 31 December 2003 = 1.0)



Through Dividend Payments

Our longstanding policy is to provide consistent increases in ordinary dividends, linked to the underlying earnings performance of the business. Our shareholders, whether institutional or retail investors, have repeatedly emphasised to us the importance they attach to a consistent and substantial dividend stream from their investment in CLP shares. The following charts demonstrate that we have maintained a stable dividend stream, despite fluctuations in earnings in recent years. In fact, our annual dividends have not decreased since 1960 – a solid record maintained over the past 53 years.

Earnings and Dividends (2004 – 2013)



Note: Earnings for 2004 and 2005 have been restated for the effect of the adoption of HK(IFRIC)-Int 4.

Earnings and Dividends Per Share (2004 – 2013)

Note: Earnings for 2004 and 2005 have been restated for the effect of the adoption of HK(IFRIC)-Int 4.

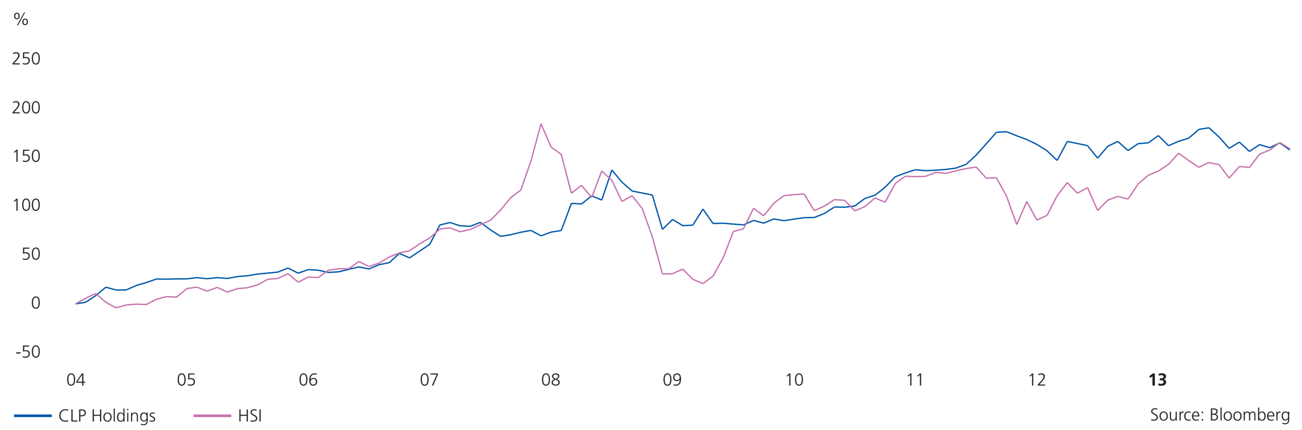
From 2004 to 2012, CLP's ordinary dividend payments were between 60% and 66% of operating earnings, except for 2009 when our payout ratio rose to 70% of operating earnings, due to a significant decline in earnings caused by the reduction in the permitted rate of return under the SoC. Earnings from the property development at Hok Un and the other property disposals were generally paid out as special dividends.

This year the Board has considered various factors in determining the dividend payments, which include stable operating earnings of the Group, significant reduction in total earnings due to non-cash impairment charges, shareholders' demand for stable dividend stream and CLP's healthy liquidity position. Accordingly, the Board declared a fourth interim dividend of HK$0.98 per share, same as 2012. Together with three interim dividends per share of HK$0.53 each paid during 2013, the dividend payout ratio of 2013 has risen to 70% of operating earnings.

Through Total Returns

Total returns to shareholders come from the combination of share price appreciation and dividend payments over time. During the past ten years CLP has provided stable growth in total returns. During the 10-year period from 2004 to 2013, CLP provided an annualised rate of return of 9.91%, as compared to 9.96% for the HSI.

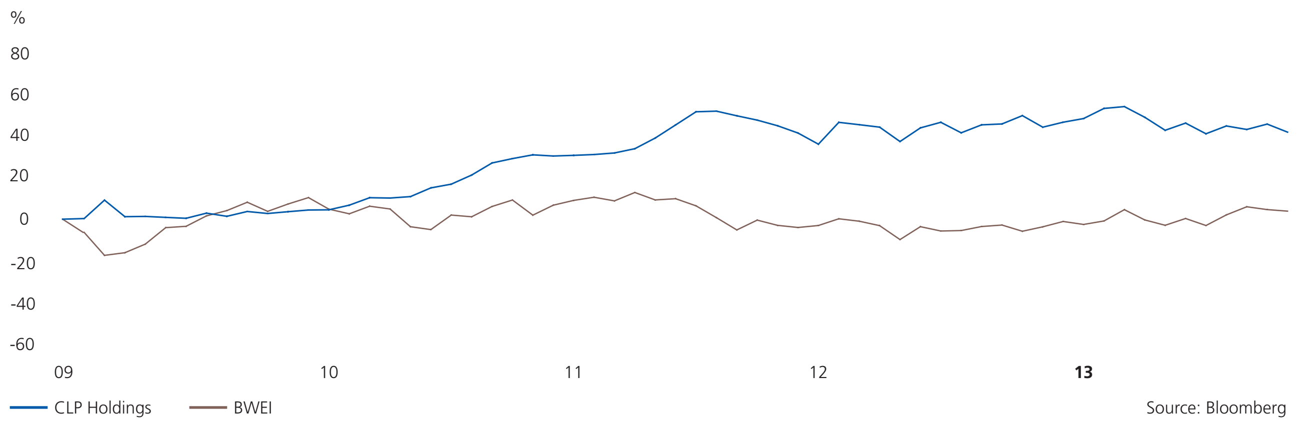
Total Returns – CLP vs HSI (2004 – 2013) (Base: 31 December 2003 = 0%)



Source: Bloomberg

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

Total Returns – CLP vs BWEI (2009 – 2013) (Base: 31 December 2008 = 0%)



Source: Bloomberg

Total Investment Worth of Different Types of Investment

As a publicly listed company, we recognise that our shareholders have many investment choices available to them, ranging from other listed shares to bank deposits. We cannot offer a comparison of the total returns from holding CLP shares with every other investment choice available to our shareholders. However, the majority of our registered shareholders have a Hong Kong presence of some sort (98% have their registered address in Hong Kong), and will tend to hold CLP shares as a conservative component within their investment portfolio. In this year's Annual Report, as in previous years, we look at the performance of some comparable investments which our shareholders might make. We have assumed that during the period of 1, 5 and 10 years prior to 31 December 2013, an investor has put HK$1,000 into each of these investments every year. We have then compared the total worth of these investments (including bonus shares and with dividends or interest reinvested) at the end of each of the three periods.

Investment Returns

	Total Investment Worth at 31 December 2013		
	1-Year Period HK$	5-Year Period HK$	10-Year Period HK$
CLP	983	5,874	15,287
Tracker Fund of Hong Kong	1,059	6,561	15,658
Power Assets Holdings	966	6,990	19,044
Hong Kong and China Gas	941	7,486	18,783
HK$ 1-Year Fixed Deposits	1,008	5,121	10,895

Adapted from Bloomberg / Reuters

Communicating Effectively with Shareholders

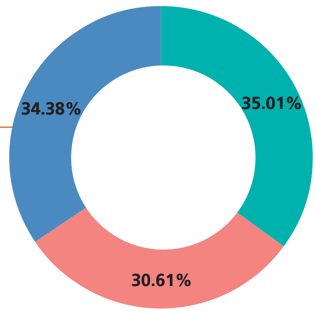
Shareholders will expect that the quality of the information they receive and CLP's commitment to the ongoing delivery of shareholder value are supported by strong and comprehensive systems and processes. Our Corporate Governance Report, from pages 114 to 134, explains how we fulfil this duty.

At the end of 2013, CLP had over 21,000 registered shareholders. The actual number of investors in CLP shares will be much greater, taking into account those people and organisations who have an indirect interest in our shares through intermediaries such as nominees, investment funds and the Central Clearing and Settlement System (CCASS) of Hong Kong. Our largest single shareholder is the Kadoorie Family (and interests associated with the Family) who have a combined shareholding of 35.01%. Even so, CLP is not a family-controlled company. The remaining 64.99% of our shares are held by a wide range of institutional investors, including those based in North America, Europe and Asia, as well as a considerable number of retail investors, who are mostly resident in Hong Kong.

Shareholdings as at 31 December 2013

Size of Registered Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares	% of Issued Share Capital
500 or below	2,331	10.96	717,307	0.03
501 – 1,000	3,783	17.79	2,993,601	0.12
1,001 – 10,000	10,071	47.36	43,274,508	1.71
10,001 – 100,000	4,530	21.31	131,882,685	5.22
100,001 – 500,000	447	2.10	91,466,273	3.62
Above 500,000	101[(1)]	0.48	2,256,116,196	89.30
Total	**21,263**	**100.00**	**2,526,450,570**[(2)]	**100.00**

Shareholding by Category



Notes:

(1) Information on the ten largest registered shareholders in the Company is set out on our website.

(2) 50.97% of all our issued shares were held through CCASS.

The scale of our shareholders' investment is reflected in a market capitalisation of CLP Holdings of HK$155 billion as at 31 December 2013. Our shares represent 1.55% by weighting of the HSI – Hong Kong's leading listed companies index.

The importance to CLP of an effective dialogue with shareholders and investors has been recognised by the establishment by the Board of a Shareholders' Communication Policy, which is published on our website. This Policy forms the basis for extensive and ongoing engagement with our shareholders and the investment community. The Audit Committee is responsible for the regular review of the effectiveness of this Policy.

We made no distinction between institutional investors and retail investors. We believe communication with our shareholders is a two-way process. We listen carefully to the views and feedback we receive. In the past year, issues which have been the main subjects of shareholders' queries and concerns have been:

- discussions with Hong Kong Government regarding SoC Interim Review and 2014-2018 Development Plan;
- the proposed CAPCO acquisition and strategic relationship with China Southern Power Grid (CSG);
- the challenging market conditions in Australia and business operations of EnergyAustralia;
- tariff and the development of nuclear power projects in the Chinese mainland;
- the fuel supply issues in India and Rupee depreciation;
- the ongoing delivery of value to shareholders, in particular our dividend policy and Senior Management transition; and
- corporate governance matters such as dilution effect of general mandate to issue shares and independence of auditors.

In this Annual Report we have made a particular effort to address each of these areas. For example, the Chairman's Statement focuses on our Hong Kong electricity business and the strategic relationship with CSG, whilst the CEO's Strategic Review addresses the Senior Management transition, and together with the coverage of our Australian, Chinese mainland and Indian investments from pages 56 to 78, offer an extensive description of the performance and outlook for these three markets. Further progress in the evolution of our corporate governance practices is disclosed in the Corporate Governance Report. In this section of the Annual Report, we have discussed the remaining area of primary investor interest – ongoing delivery of shareholder value.

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

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

- Our Annual Report, online Sustainability Report and Quarterly Statements – all of which provide information far in excess of legal and regulatory requirements.
- Our AGM – in the past 5 years, the attendance of shareholders at our AGMs has averaged about 925 (1,002 in 2013). This is an unusually high number for a Hong Kong company, including by comparison with other companies having a much larger number of registered shareholders.
- Management attended about 200 investor meetings, including participation in 11 investor conferences, and 12 non-deal roadshows to Asia, Europe and North America.
- Analyst briefings on the Company's interim and annual results, as well as on Hong Kong business updates. Presentation materials are available on our website.
- The Company Secretary has constant communications with institutional investors on corporate governance practices, including a Corporate Governance roadshow to London in 2013.
- The first-ever webcast on the environmental, social and governance aspects of the business was held in April 2013. The webcast is available on our website.
- Financial statistics for the recent years, latest investor information (such as share price, dividend information, calendar of important dates, etc.) are posted on our website and regularly updated.
- The CLP website, which includes information on the Company's corporate governance principles and practices, updates on the Group's affairs and other information for shareholders.

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

- Face to face dialogue, including the "Shareholders' Corner" at our AGM.
- Feedback forms sent out with our Annual Report to obtain shareholders' views on the Report and on additional information that they would like to receive in the following year's Annual Report, together with questions that they would like to have answered in the "Frequently Asked Questions" section of our website. We consider the feedback received and post answers on our website. We also send direct replies to shareholders in response to the specific questions that they raise.
- Comments, queries and research reports from equity analysts.
- Shareholders' hotline and investor relations' email contacts.
- Shareholder correspondence – our aim is to provide a substantive reply within seven days to written shareholder queries. If those queries raise a matter of more general interest to shareholders, we will seek to address this in subsequent corporate communications to all our shareholders.
- Shareholders' visits to our facilities. We believe that our Shareholders' Visit Programme, initiated in 2003, is unique amongst Hong Kong companies. Between November 2013 and April 2014, we expect to welcome about 3,000 shareholders and their guests, during 75 tours to our facilities at Energy Efficiency Exhibition Centre, Smart Grid Experience Centre and Eco Home. About 70 CLP colleagues, including our Chairman, Vice Chairman, Directors and Senior Management, have volunteered to participate as lunch hosts and ambassadors of the programme.

Shareholders' Dates 2014

- **15 DEC** 2014 Third Interim Dividend payable
- **4 DEC** 2014 Third Interim Dividend Book Close Day
- **20 OCT** 2014 Third Interim Dividend announced
- **15 SEP** 2014 Second Interim Dividend payable
- **4 SEP** 2014 Second Interim Dividend Book Close Day
- **14 AUG** 2014 Interim Results and Second Interim Dividend announced
- **13 JUN** 2014 First Interim Dividend payable
- **4 JUN** 2014 First Interim Dividend Book Close Day
- **19 MAY** 2014 First Interim Dividend announced
- **8 MAY** 2014 AGM
- **7-8 MAY** Voting at AGM Book Close Days
- **25 MAR** 2013 Fourth Interim Dividend payable
- **14 MAR** 2013 Fourth Interim Dividend Book Close Day
- **13 MAR** 2013 Annual Report uploaded on website
- **27 FEB** 2013 Annual Results and Fourth Interim Dividend announced

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

FINANCIAL REVIEW

How did our business performance create economic value for our capital providers?

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

FINANCIAL REVIEW

CLP GROUP'S FINANCIAL RESULTS AND POSITION AT A GLANCE

Financial statements are the scorecard of a business and the window to a company's operations. The Group's strategy drives investment decisions and business performance, the results of which then translate into a set of numbers in the financial statements. This chart summarises how we delivered economic value in 2013.

Strategy to Diversify Electricity Business

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

Outcome

- Group revenue[1] decreased slightly to HK$104,530 million. Excluding the negative translation effect, revenue from Australia increased as a result of higher generation revenue on higher pool prices (with the carbon tax embedded effective 1 July 2012), higher carbon compensation income and tariff uplifts. Revenue from India also increased as coal supply in Jhajjar improved.
- Operating earnings[2] remained stable. Reduction in earnings from Australia was compensated by higher earnings from Hong Kong, the Chinese mainland and India. EnergyAustralia's operating earnings were adversely affected by lower demand, decrease in wholesale prices (before carbon tax) and higher operating costs. Improved performance from both coal-fired (due to lower coal prices) and renewable projects in the Chinese mainland resulted in a record-high earnings of HK$2,131 million. Earnings from India improved as the operating loss from Jhajjar was significantly reduced on the back of higher availability with improved coal supply. Hong Kong electricity business remained as the major earnings contributor and contributed over 70% of the Group's operating earnings in both 2013 and 2012.
- One-off items[3] mainly included impairment and other provisions for EnergyAustralia's various generation assets of HK$3,106 million, which were partly offset by the gain on the acquisitions of Mount Piper and Wallerawang (HK$600 million) as the consideration paid was lower than the fair value of the net assets acquired. The other one-off items included provisions for the finance lease receivables of Paguthan (HK$293 million) and investments in CSEC Guohua and Shenmu (HK$297 million), costs of restoring Yallourn mine (HK$76 million) and divestment loss from Boxing Biomass (HK$75 million).
- The translation loss resulting from the depreciation of Australian dollar (-14.1%) and Indian rupee (-11.4%) closing rates, partially offset by the revaluation gain of Argyle Street site, accounted for the movement in other comprehensive income[4] for the year.
- Diversification of our investments was demonstrated in the Consolidated Statement of Financial Position. Out of the fixed assets, leasehold land and land use rights and investment property[5] of HK$130,903 million, 74.6% relates to our electricity business in Hong Kong. Goodwill and other intangible assets[6] of HK$23,847 million relate wholly to our businesses outside Hong Kong.

Last Year's Consolidated Statement of Financial Position

	HK$M
Assets	
Fixed assets, leasehold land and land use rights under operating leases	134,329
Goodwill and other intangible assets	28,479
Interests in joint ventures	19,197
Interest in an associate	1,856
Derivative financial instruments	5,044
Trade and other receivables	18,552
Cash and cash equivalents	11,890
Restricted cash	1,136
Bank balances, cash and other liquid funds	13,026
Other assets	8,273
	228,756
Equity and Liabilities	
Share capital, premium and reserves	31,407
Retained profits	59,720
Shareholders' funds	91,127
Non-controlling interests	74
Derivative financial instruments	5,846
Trade and other payables	21,732
Borrowings	66,198
Obligations under finance leases	27,055
SoC reserve accounts	1,245
Other liabilities	15,479
	228,756
Closing exchange rate	
Australian dollar / Hong Kong dollar	8.0469
Indian rupee / Hong Kong dollar	0.1417

Beyond Last Year's Statement of Financial Position

	HK$M
Charges on assets	20,422
Contingent liabilities	1,566
Operating lease commitments	11,308
Capital commitments	21,805

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

		2012 HK$M	2013 HK$M
Revenue	(1)	104,861	104,530
Expenses		(91,760)	(96,375)
Other income		–	751
Operating profit		13,101	8,906
Share of results of joint ventures and associate, net of tax		2,984	3,283
Net finance costs		(6,101)	(6,349)
Income tax (expense) / credit		(1,692)	232
Loss / (earnings) attributable to non-controlling interests		20	(12)
Earnings attributable to shareholders		8,312	6,060
Analysed into:			
Electricity business in Hong Kong		6,654	6,966
Energy business in Australia		1,685	126
Other investments / operations		1,631	2,664
Unallocated net finance costs		(74)	(26)
Unallocated Group expenses		(490)	(423)
Operating earnings	(2)	9,406	9,307
One-off items	(3)	(1,094)	(3,247)
Earnings attributable to shareholders		8,312	6,060
Other comprehensive income	(4)	135	(3,333)
Total comprehensive income		8,447	2,727
Average exchange rate			
Australian dollar / Hong Kong dollar		8.0400	7.4429
Indian rupee / Hong Kong dollar		0.1451	0.1323

Consolidated Profits Retained for This Year

	HK$M
Retained profits at 31.12.2012	59,720
Earnings attributable to shareholders	6,060
Dividends paid for the year	
2012 fourth interim (HK$0.98 per share)	(2,476)
2013 first to third interim (HK$1.59 per share)	(4,017)
Other movements within equity	(62)
Retained profits at 31.12.2013	59,225
Fourth interim dividend declared for 2013, HK$ per share	0.98

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

		HK$M
Operating profit		8,906
Depreciation and amortisation		7,592
Impairment charge		6,289
Bargain purchase gain		(751)
SoC items		737
Changes in working capital		(802)
Income tax paid		(982)
Others		32
Cash inflow from operating activities	(7)	21,021

Consolidated Statement of Cash Flows for This Year

	HK$M
Operating activities	
Cash inflow from operating activities	21,021
Investing activities	
Dividends received	2,738
Capital expenditure	(8,462)
Acquisition of business	(954)
Investments in and advances to joint ventures	(185)
Additions of other intangible assets	(1,144)
Proceed from sale of a subsidiary	1,708
Other net outflow	(296)
Financing activities	
Net decrease in borrowings	(6,789)
Repayment of finance lease obligations	(2,546)
Interest and other finance costs paid	(5,612)
Dividends paid	(6,493)
Others	(4)
Net decrease in cash and cash equivalents	(7,018)
Cash and cash equivalents at 31.12.2012	11,890
Effect of exchange rate changes	(88)
Cash and cash equivalents at 31.12.2013	4,784

Breakdown of Capital Investments

		HK$M
Capital expenditure		8,462
Acquisition of business		954
Investments in and advances to joint ventures		185
Additions of other intangible assets		1,144
Acquisition of leased assets		3,502
Accrual adjustments		88
		14,335
By business activity:		
Coal and gas assets		5,660
Renewables	(14)	1,688
Transmission, distribution and retail		6,823
Others		164
		14,335
By region:		
Hong Kong	(8)	9,445
Australia	(9)	3,092
Chinese mainland		662
India	(10)	1,243
Southeast Asia and Taiwan		(107)
		14,335

This Year's Consolidated Statement of Financial Position

		HK$M
Assets		
Fixed assets, leasehold land and land use rights under operating leases and investment property	(5)	130,903
Goodwill and other intangible assets	(6)	23,847
Interests in joint ventures		19,940
Interest in an associate		1,675
Derivative financial instruments	(12)	4,123
Trade and other receivables		17,953
Cash and cash equivalents		4,784
Restricted cash		449
Bank balances, cash and other liquid funds		5,233
Other assets		8,011
		211,685
Equity and Liabilities		
Share capital, premium and reserves		28,136
Retained profits		59,225
Shareholders' funds		87,361
Non-controlling interests		120
Derivative financial instruments	(13)	4,719
Trade and other payables		19,325
Borrowings	(11)	56,051
Obligations under finance leases		27,976
SoC reserve accounts		28
Other liabilities		16,105
		211,685
Closing exchange rate		
Australian dollar / Hong Kong dollar		6.9154
Indian rupee / Hong Kong dollar		0.1256

Beyond This Year's Statement of Financial Position

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

Strategy to Optimise Financial and Capital Structure

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

Outcome

- Operating activities: Our cash flows from operating activities[7] remained strong and continued to be the main source for dividend payments and future business growth.
- Investing activities: In Hong Kong, we continued the development and enhancement of the power system network and generating plants[8]. In Australia, capital investments of HK$3,092 million[9] mainly related to the Mount Piper and Wallerawang acquisitions, enhancement works at generation plants (Yallourn and Wallerawang) and other capital works. The construction of wind projects in India represented capital investments of HK$1,243 million[10].
- Financing activities: We maintained HK$89,269 million financing facilities. Out of which, HK$56,051 million[11] had been drawn down. Our total debt to total capital ratio decreased from 42.1% to 39.1% at 2013 year end. Standard & Poor's and Moody's put the credit ratings of CLPH (A- / A2) on watch with negative implication following CLP's announcement of the proposed CAPCO and PSDC acquisitions in November 2013.

Strategy to Manage Risks

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

Outcome

The derivative assets[12] and liabilities[13] refer to the fair value gains and losses of the financial instruments respectively at year end. At 31 December 2013, the Group had net derivative liabilities of HK$596 million which represents the net amount we would pay if these contracts were closed out at year end. The decrease in net derivative liabilities was due to the settlement of certain derivatives and depreciation of Australian dollar.

Strategy to Reduce Carbon Intensity

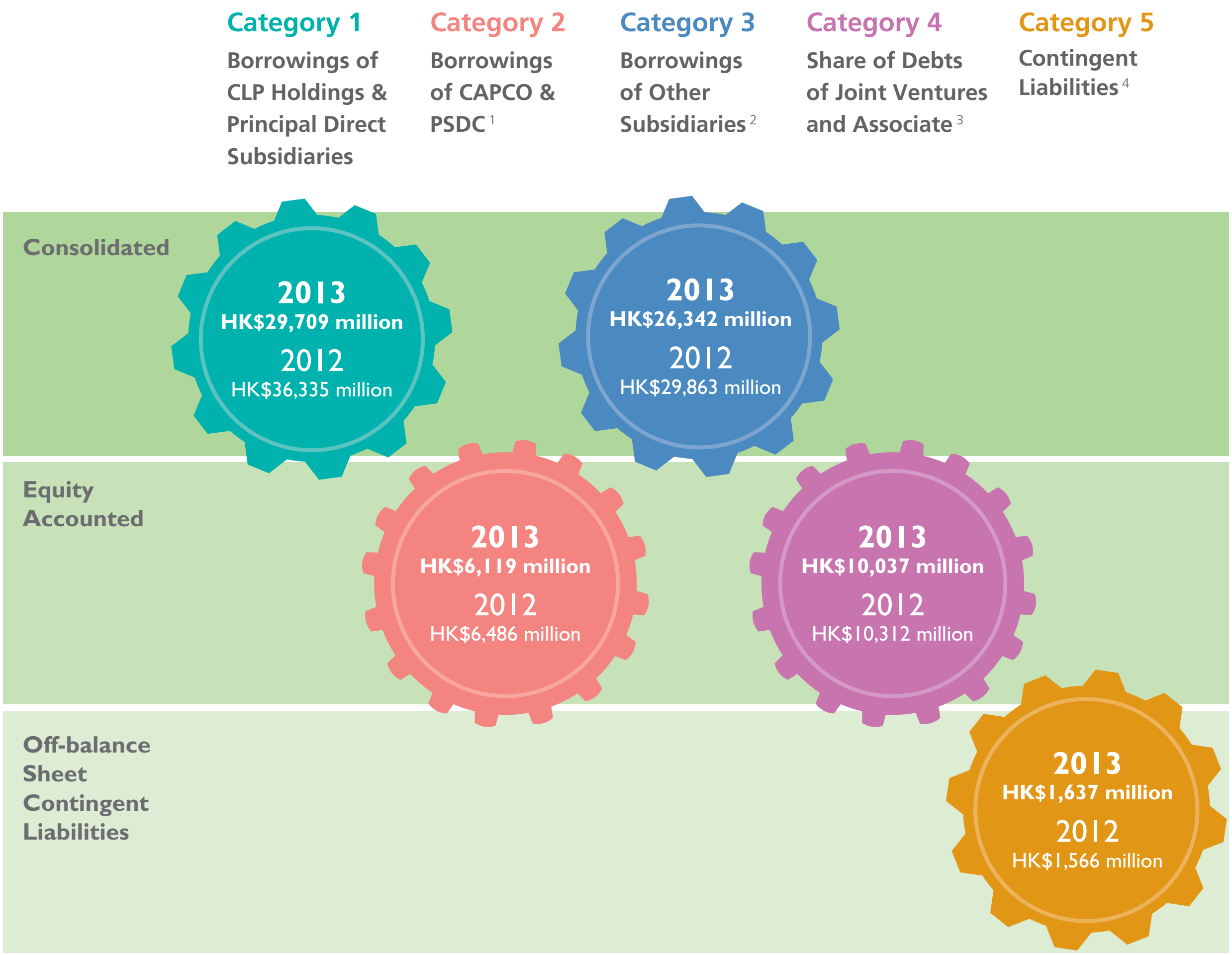
CLP continues to invest in renewable energy to reduce the carbon intensity of its generating portfolio and exploit the opportunities of low carbon emissions generation.

Outcome

- Operating earnings from renewable energy increased from HK$389 million to HK$617 million in 2013.
- Investment of HK$1,688 million[14] during the year mostly in wind farms across India and the Chinese mainland, and a solar project in the Chinese mainland.
- Renewable energy sources represent over 16% of our total generating capacity.

CLP GROUP'S FINANCIAL OBLIGATIONS AT A GLANCE

The financial risks associated with borrowings and unconsolidated financial obligations of an entity remain a market focus. Consistent with our practice of enhanced disclosure, the diagram below illustrates the financial obligations of the CLP Group, as well as those of our joint ventures and associate. These financial obligations are classified into five categories according to their degree of recourse to CLP Holdings. Obligations under finance leases have not been included in the diagram.



Consolidated financial statements are prepared to show the effect as if the parent and all the subsidiaries were one entity by combining their financial statements on a line by line basis. In contrast, under the equity method of accounting, interests in joint ventures and interests in associates are accounted for on the basis of proportionate sharing of net assets (i.e. assets minus liabilities). As a result, the underlying borrowings of equity accounted entities are not included as part of the debts shown in our consolidated financial statements. Total debt to total capital at CLP consolidated level (i.e. Category 1 and Category 3 together) in 2013 was 39.1% (2012: 42.1%). If 100% of debts [5] of Category 2 were included, total debt to total capital would be 38.0% (2012: 40.9%). If the attributable portion of debts of Category 4 were also included, total debt to total capital would rise to 41.6% (2012: 44.1%).

Notes:

1. 100% of the debts of CAPCO and PSDC. Although the Group holds only a 40% interest in CAPCO and a 49% interest in PSDC, CLP Power Hong Kong has commitments to these companies through power purchase and service agreements, as explained in the SoC Statement on pages 253 to 255 and Note 32 to the Financial Statements.
2. These debts are non-recourse to CLP Holdings. These debts mainly comprise debts of EnergyAustralia and CLP India.
3. These debts are non-recourse to CLP Holdings or its subsidiaries. The share of debts is calculated by reference to the Group's shareholdings in the relevant joint ventures and associate.
4. Details of the contingent liabilities of CLP Holdings and its subsidiaries are set out in Note 33 to the Financial Statements.
5. Including an additional 60% and 51% of the equity of CAPCO and PSDC respectively, in the denominator to ensure consistency.

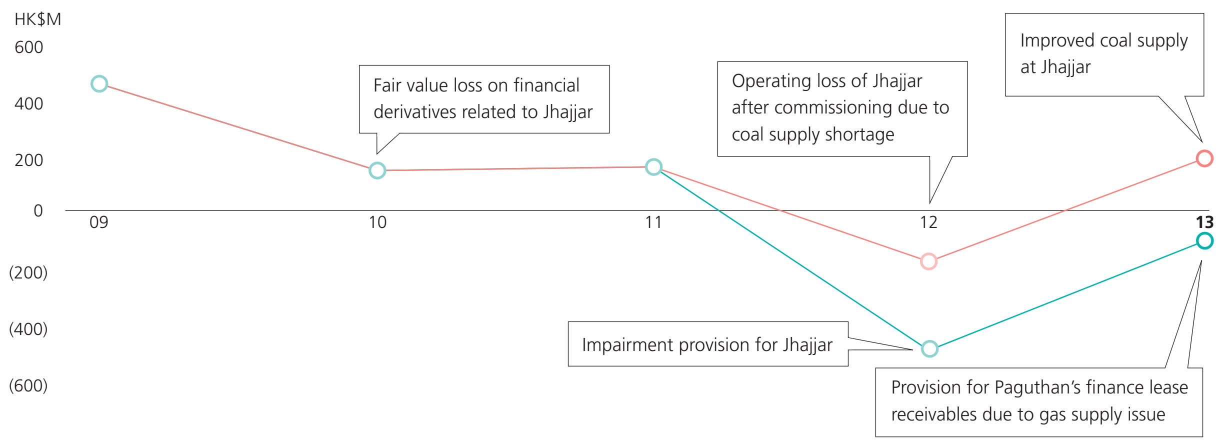
A BROADER PERSPECTIVE

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

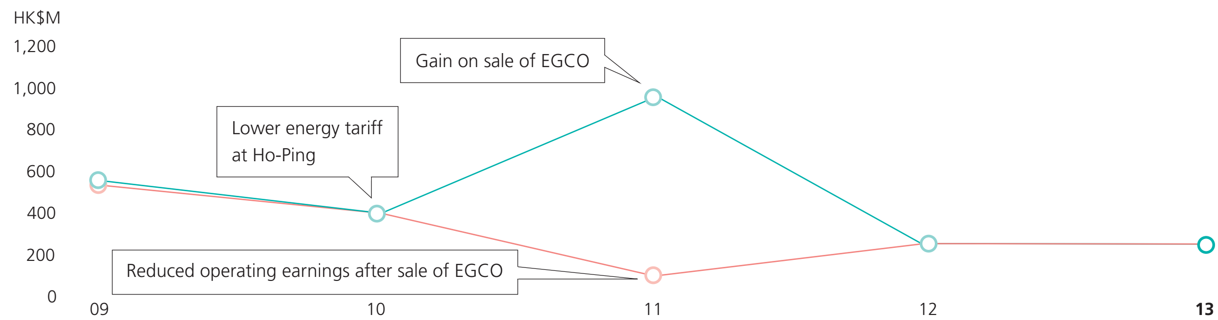
Group	2009	2010	2011	2012	**2013**
Performance Indicators					
Return on equity [1], %	12.3	13.7	11.5	10.1	**6.8**
Fixed assets turnover [2], %	53.9	54.0	73.9	79.2	**78.8**
Financial Health Indicators					
EBITDA interest cover [3], times	13.6	10.8	8.2	7.0	**9.2**
Debt over EBITDA [4], times	2.2	2.2	2.6	2.8	**2.2**
Investor's Return Indicators					
Total returns to shareholders [5], %	8.2	12.4	13.7	12.6	**9.9**
Dividend yield [6], %	4.7	3.9	3.8	4.0	**4.2**

1 Return on equity = Total earnings / Average shareholders' funds. The 2012 figure excluded the effect of the 5% share placement on 20 December 2012 to give a more accurate average shareholders' funds in 2012.
2 Fixed assets turnover = Total revenue / Average fixed assets
3 EBITDA interest cover = Earnings before interest, tax, depreciation and amortisation / (Interest charges + capitalised interest)
4 Debt over EBITDA = Bank loans and other borrowings / EBITDA
5 Total returns to shareholders represents the 10-year annualised rate of return from the combination of share price appreciation and dividend payments.
6 Dividend yield = Dividends per share / Closing share price on the last trading day of the year

India

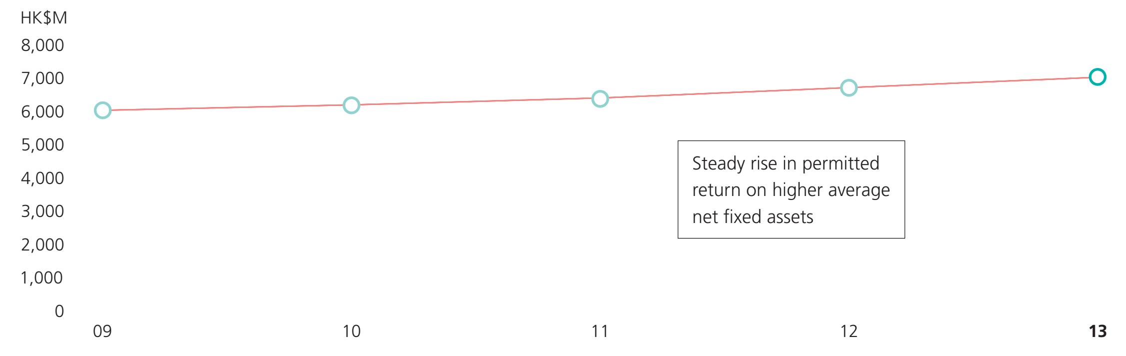


Southeast Asia and Taiwan

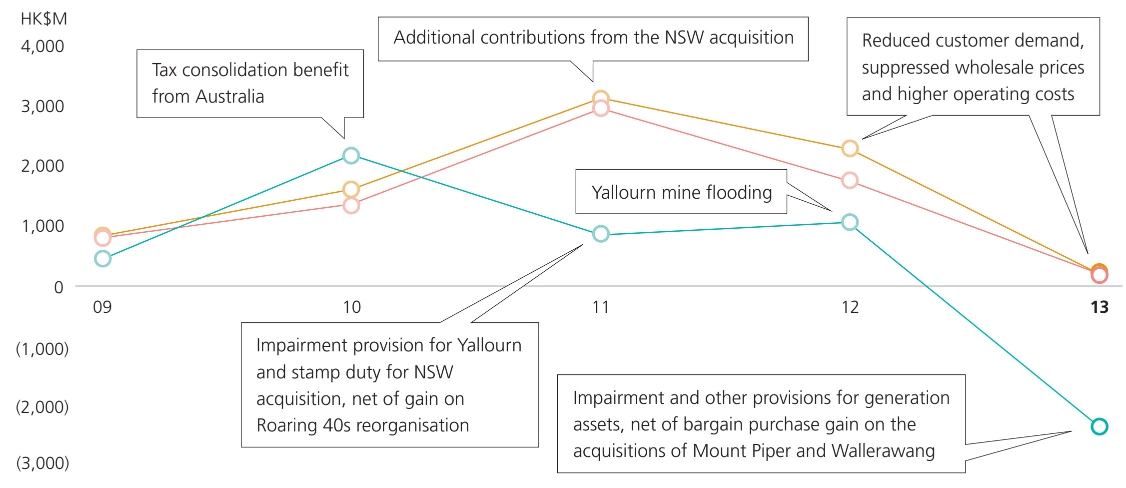


Total earnings — Operating earnings — Operating earnings before fair value movements (Australia only)

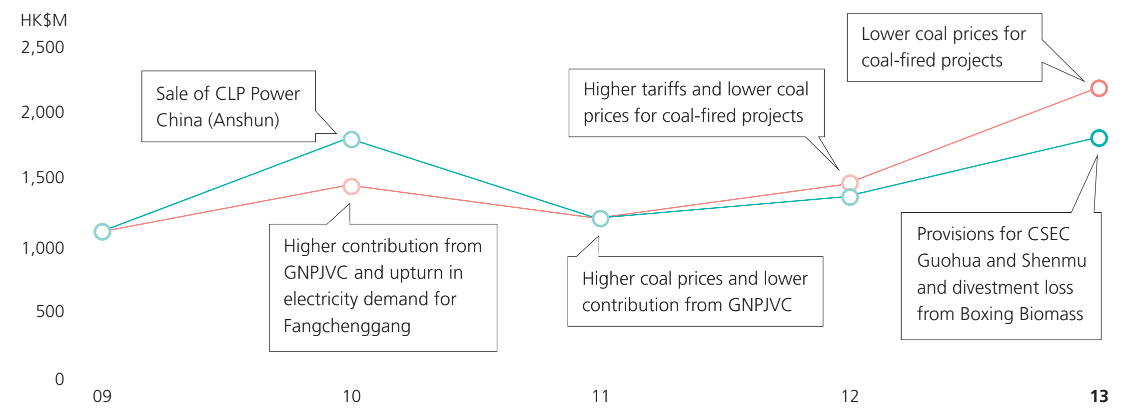
Hong Kong



Australia



Chinese Mainland



FINANCIAL ANALYSIS

Group's Financial Results

Financial results	*Notes to the Financial Statements*	2013 HK$M	2012 HK$M	Increase/(Decrease) HK$M	%
Revenue	*3*	**104,530**	104,861	(331)	(0.3)
Expenses		**(96,375)**	(91,760)	4,615	5.0
Finance costs	*7*	**(6,522)**	(6,423)	99	1.5
Share of results of joint ventures	*15*	**2,671**	2,405	266	11.1
Income tax credit / (expense)	*8*	**232**	(1,692)	N/A	N/A
Earnings attributable to shareholders		**6,060**	8,312	(2,252)	(27.1)

Earnings Attributable to Shareholders

	2013 HK$M	2013 HK$M	2012 HK$M	2012 HK$M	Increase/(Decrease) HK$M	%
Electricity business in Hong Kong (HK)		**6,966**		6,654	312	4.7
Energy business in Australia		**126**		1,685	(1,559)	(92.5)
PSDC and sales to Guangdong from HK	**125**		108			
Power projects in Chinese mainland	**2,131**		1,411			
Electricity business in India	**184**		(182)			
Power projects in Southeast Asia and Taiwan	**241**		243			
Other earnings	**(17)**		51			
Earnings from other investments/operations		**2,664**		1,631	1,033	63.3
Unallocated net finance costs		**(26)**		(74)		
Unallocated Group expenses		**(423)**		(490)		
Operating earnings		**9,307**		9,406	(99)	(1.1)
One-off items from Australia		**(2,582)**		(685)		
Impairment provisions for Paguthan, CSEC Guohua and Shenmu in 2013 / Jhajjar and Boxing Biomass in 2012		**(590)**		(409)		
Divestment from Boxing Biomass		**(75)**		–		
Total earnings		**6,060**		8,312	(2,252)	(27.1)

Earnings from our electricity business in Hong Kong grew steadily on higher average net fixed assets. On the other hand, lower demand coupled with lower pool prices and higher operating costs adversely affected our Australia business. Earnings from the Chinese mainland and India increased as a result of lower coal prices and improved coal supply in Jhajjar respectively. Taking account of the one-off items, mainly the impairment provisions for various generation assets of EnergyAustralia and the bargain purchase gain on the acquisitions of Mount Piper and Wallerawang, total earnings down 27.1% to HK$6,060 million.

The performance of individual businesses is analysed on pages 46 to 81.

Finance Costs

The slight increase in finance costs was attributable to early close-out of certain interest rate swaps in Australia and lower capitalisation of finance costs for Jhajjar and other renewable projects after commissioning since the second half of 2012. This increase was offset by lower interest rates and lower borrowings in 2013.

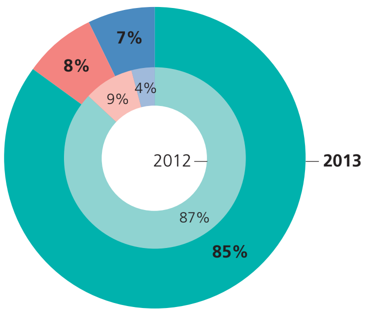
Revenue and Expenses

	Revenue				Expenses			
	2013 HK$M	2012 HK$M	Increase / (Decrease) HK$M	%	2013 HK$M	2012 HK$M	Increase / (Decrease) HK$M	%
Hong Kong	**34,172**	33,873	299	0.9	**23,733**	23,719	14	0.1
Australia	**64,976**	66,843	(1,867)	(2.8)	**67,908**	63,902	4,006	6.3
India	**4,371**	3,178	1,193	37.5	**3,681**	2,878	803	27.9
Others	**1,011**	967	44	4.6	**1,053**	1,261	(208)	(16.5)
	104,530	104,861	(331)	(0.3)	**96,375**	91,760	4,615	5.0

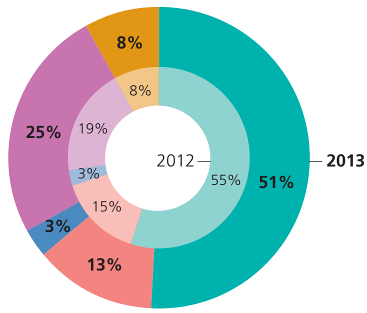
Excluding the translation effect, revenues from Australia and India increased. Higher revenue in Australia was mainly the result of higher pool prices (reflecting the effect of carbon tax effective 1 July 2012), higher carbon compensation income and tariff uplifts. Revenue from India increased by HK$1,193 million mainly due to higher availability at Jhajjar with improved coal supply, partly offset by lower revenue from Paguthan due to shortage in gas supply. Revenues from Hong Kong and the Chinese mainland grew slightly.

Increase in expenses in Australia was the result of: (i) the full year effect of carbon tax obligation under the Clean Energy Legislative Package and (ii) impairment and other provisions for generation assets of EnergyAustralia (Yallourn, Tallawarra, Hallett and Ecogen) totalled HK$4,437 million (A$642 million) (post-tax: HK$3,106 million (A$449 million)). In addition, India also recorded a provision for finance lease receivables of Paguthan of HK$519 million (post-tax: HK$293 million) as a result of the renegotiation of its Power Purchase Agreement (PPA) in view of the long-term gas supply issue and lower estimate of its residual value at the end of the PPA.

Analysis of Revenue
By Nature



Analysis of Expenses
By Nature



Share of Results of Joint Ventures

The increase was mainly attributable to our coal-fired projects in the Chinese mainland, in particular Shandong and Fangchenggang as a result of lower coal prices and more units sold (despite lower tariffs). The increase was partially offset by the provision for CSEC Guohua and Shenmu of HK$297 million.

Income Tax Credit / (Expense)

The income tax credit in 2013 mainly related to the deferred tax credit recognised by EnergyAustralia as a result of the impairment provisions made in current year.

Group's Financial Position

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

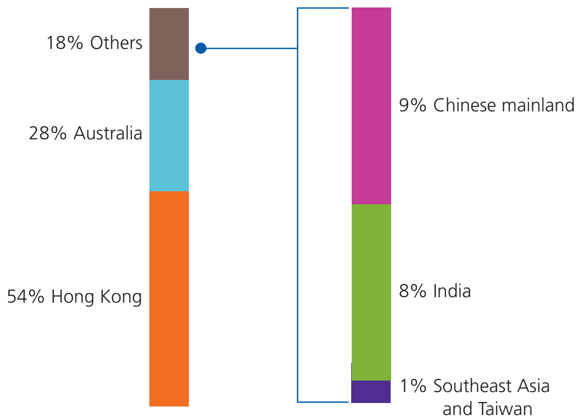
Non-current assets	*Notes to the Financial Statements*	2013 HK$M	2012 HK$M	Increase / (Decrease) HK$M	%
Fixed assets	*12(A)*	**126,876**	132,463	(5,587)	(4.2)
Leasehold land and land use rights under operating leases	*12(B)*	**1,806**	1,866	(60)	(3.2)
Investment property	*12(C)*	**2,221**	–	2,221	N/A
Goodwill and other intangible assets	*13*	**23,847**	28,479	(4,632)	(16.3)
Interests in joint ventures	*15*	**19,940**	19,197	743	3.9
Deferred tax assets	*25*	**3,084**	1,025	2,059	200.9
Total assets		**211,685**	228,756	(17,071)	(7.5)
Net assets (total assets less total liabilities)		**87,481**	91,201	(3,720)	(4.1)

Total Assets and Net Assets

Net assets and total assets are further analysed as follows:

Net Assets	2013 HK$M	2012 HK$M	Increase / (Decrease) %
Hong Kong	**35,103**	31,056	13.0
Australia	**28,571**	35,928	(20.5)
Chinese mainland	**14,661**	14,024	4.5
India	**6,890**	7,303	(5.7)
Southeast Asia and Taiwan	**1,873**	1,828	2.5
Unallocated	**383**	1,062	(63.9)
	87,481	91,201	

Total Assets by Geographical Location in 2013



Despite the lower exchange rates for Australian dollar and Indian rupee at year end, our overseas operations continued to represent a considerable portion of the Group's total assets and net assets mix. About 46% (2012: 49%) and 59% (2012: 65%) of our total assets and net assets respectively are located outside Hong Kong.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets mainly related to our Australia business. The lower closing rate of Australian dollar coupled with impairment provisions for the long-term Master Hedge Agreement with Ecogen and Yallourn mining licences resulted in an overall decrease of the year end balances.

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

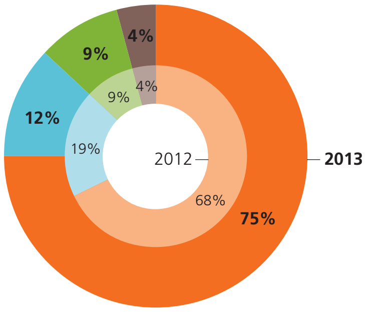
The power business is highly capital-intensive and continuous investment in capital assets is necessary to meet increasing demand and to enhance the reliability of electricity supply across all our operating regions.

In 2013, fixed asset additions amounted to HK$12,049 million. These mainly related to enhancement in our transmission and distribution network, customer services facilities and generating plants in Hong Kong (HK$9,136 million), the construction of wind projects in India (HK$1,243 million), and regular capital works on the power stations in Australia, in particular, Yallourn and Wallerawang (HK$997 million).

During the year, the Group reclassified its old head office site at Argyle Street from "fixed asset" to "investment property" and a fair value gain of HK$2,055 million was recognised through revaluation reserve.

Capital commitments at 31 December 2013 stood at HK$15,646 million, representing mainly capital works in Hong Kong and Australia, and the ongoing construction of wind farms in India.

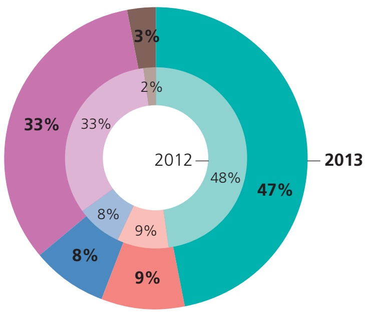
Fixed Assets, Leasehold Land and Land Use Rights under Operating Leases and Investment Property by Geographical Location



Interests in Joint Ventures

The increase in interests in joint ventures was mainly due to our investment in Jinchang Solar and the disposal of Waterloo Wind Farm from a 100% owned subsidiary to a 25% owned joint venture during the year.

The Group's Major Joint Ventures



Deferred Tax Assets

Deferred tax assets mainly related to our Australia business. The increase in balance was mainly attributable to the additional deferred tax assets of HK$916 million (A$132 million) arising from the Mount Piper and Wallerawang acquisitions and deferred tax credit from the impairment provisions made this year.

Group's Financial Position

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

Working capital, Debts and other non-current liabilities and Equity	*Notes to the Financial Statements*	2013 HK$M	2012 HK$M	Decrease HK$M	%
Derivative financial instruments assets*	*18*	4,123	5,044	(921)	(18.3)
Derivative financial instruments liabilities*	*18*	(4,719)	(5,846)	(1,127)	(19.3)
Trade and other receivables	*20*	17,953	18,552	(599)	(3.2)
Bank balances, cash and other liquid funds	*21*	5,233	13,026	(7,793)	(59.8)
Trade and other payables	*22*	(19,325)	(21,732)	(2,407)	(11.1)
Bank loans and other borrowings*	*23*	(56,051)	(66,198)	(10,147)	(15.3)
Shareholders' funds		87,361	91,127	(3,766)	(4.1)

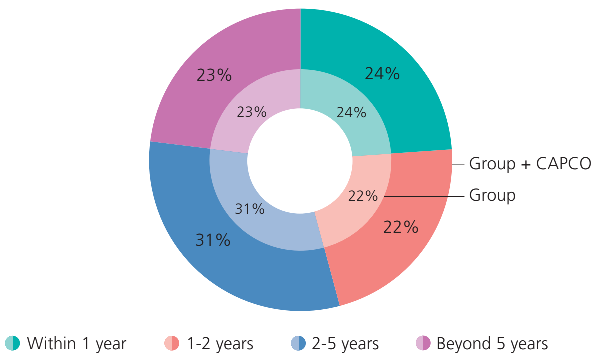
* Including current and non-current portions

Derivative Financial Instruments and Hedging

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

	Notional Amount		Fair Value Gain / (Loss)	
	2013 HK$M	2012 HK$M	2013 HK$M	2012 HK$M
CLP Group				
Forward foreign exchange contracts and foreign exchange options	105,833	106,490	1,482	1,454
Interest rate swaps / cross currency interest rate swaps	49,289	44,790	(555)	(448)
Energy contracts	18,003	23,092	(1,523)	(1,808)
	173,125	174,372	(596)	(802)
CAPCO				
Forward foreign exchange contracts	144	160	3	(3)
Total	173,269	174,532	(593)	(805)

Maturity Profile in 2013



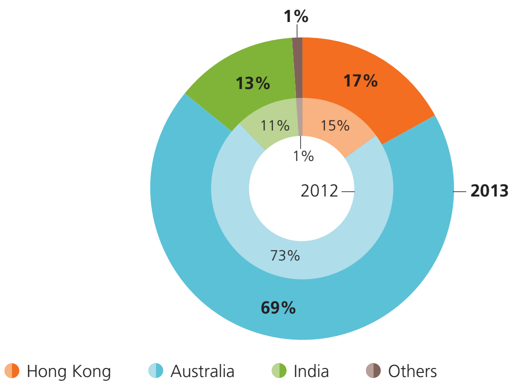
Bank Balances, Cash and Other Liquid Funds

Last year's balance included the cash proceeds of HK$7,556 million from the Company's share placement in December 2012. These proceeds were utilised for investments and repayment of bank borrowings during the year.

Trade and Other Receivables

Excluding the effect of foreign currency translation, trade and other receivables actually increased which was mainly attributable to higher dividend receivables from joint ventures in the Chinese mainland and higher receivables balances with off-takers from India.

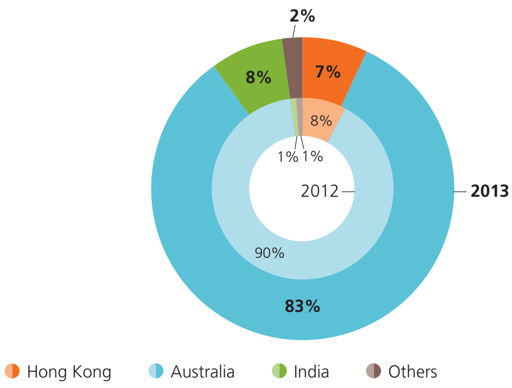
Trade Receivables by Segment



Trade and Other Payables

Most of trade and other payables were attributable to our Australia business. The decrease was mainly due to the effect of depreciation of the Australian dollar at year end.

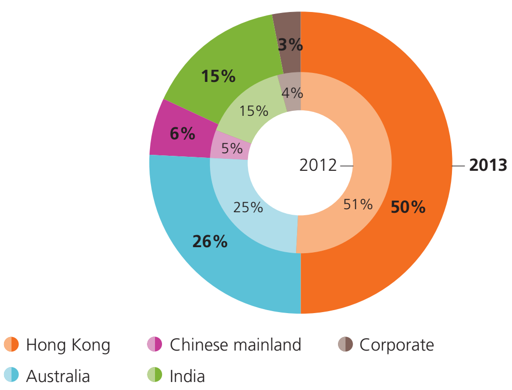
Trade Payables by Segment



Bank Loans and Other Borrowings

The lower closing rates for the Australian dollar and Indian rupee and the repayments made out of the proceeds from the December 2012 share placement accounted for the decrease in bank loans and other borrowings. On the other hand, CLP Power Hong Kong took advantage of the good liquidity in the Japanese bank market and entered into a syndicated loan of HK$934 million (JPY12 billion). Refinancing of borrowings at more attractive rates was also engaged by our overseas subsidiaries during the year.

Bank Loans and Other Borrowings by Segment



Shareholders' Funds

The decrease in shareholders' funds was mainly due to the translation losses (HK$5.9 billion) on our Australia and India businesses. On the other hand, the recognition of fair value gain on the Argyle Street site through revaluation reserve offset part of the decrease.

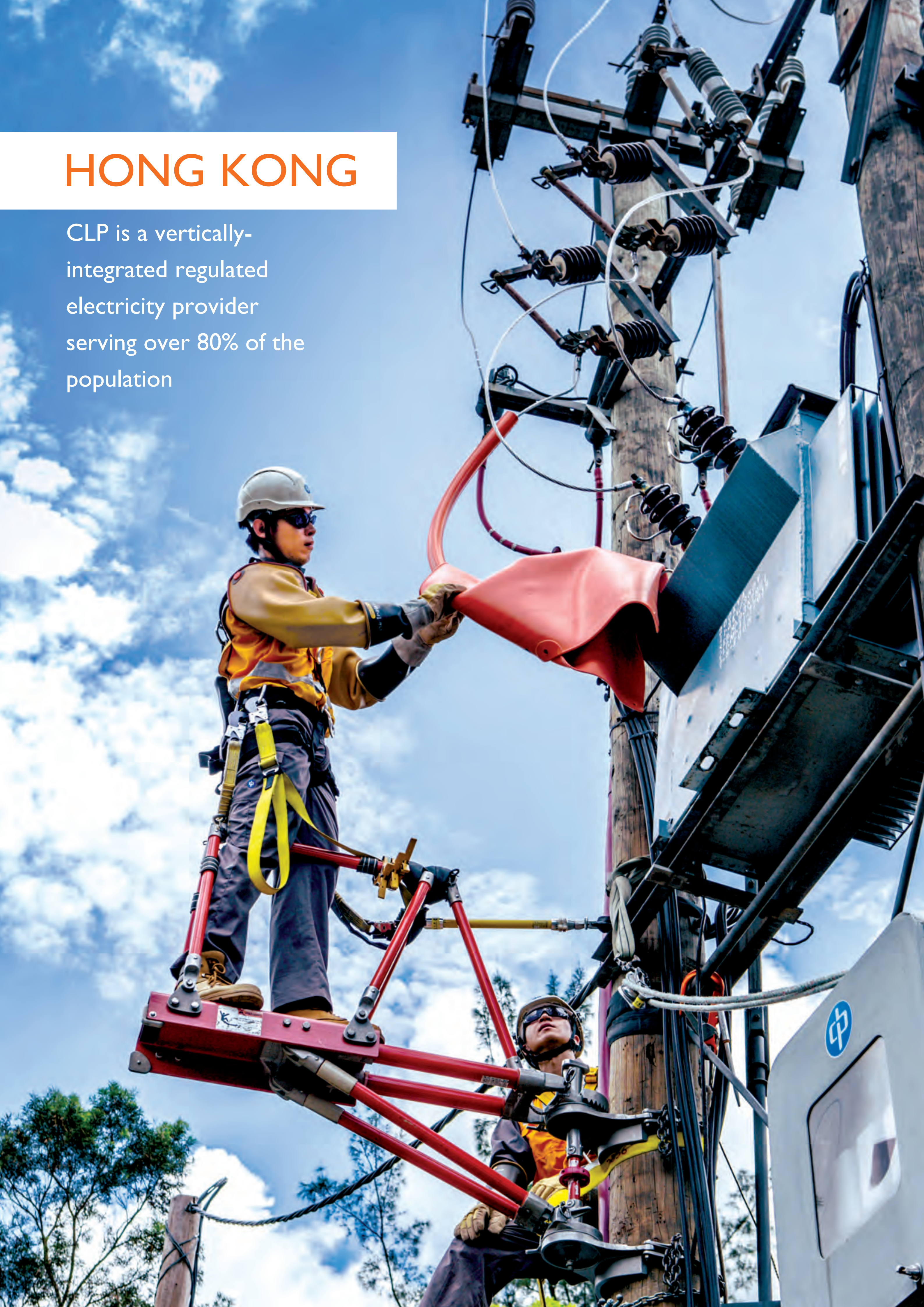
PERFORMANCE AND BUSINESS OUTLOOK

How have we performed against our strategy? What opportunities and challenges will influence our future performance?

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

HONG KONG

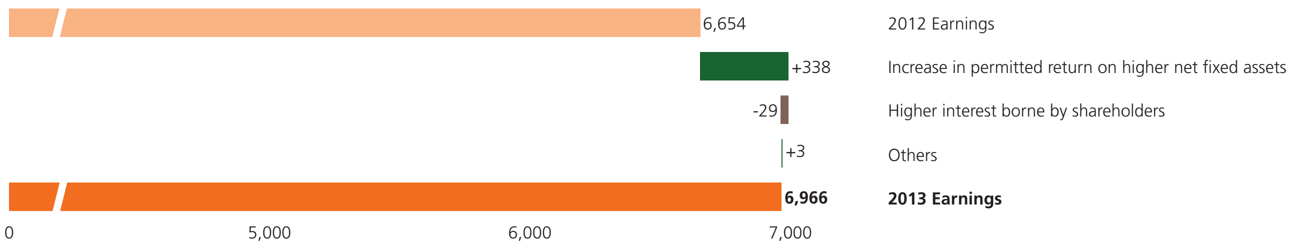
CLP is a vertically-integrated regulated electricity provider serving over 80% of the population



Financial Performance

Earnings from our Hong Kong electricity business were HK$6,966 million, a 4.7% increase from HK$6,654 million in 2012. It was mainly due to the increase in permitted return from a higher level of average net fixed assets.

Hong Kong Earnings (HK$M)



Operational Performance

Business Environment

Under the current regulatory framework of the SoC Agreement, CLP provides a world-class, safe and reliable energy supply at a reasonable cost to our customers in an environmentally responsible manner.

Our business continues to face considerable tariff pressures, through further tightening of emissions caps whereby CLP and our customers are shouldering significant responsibility for the increasing use of cleaner fuels for energy generation as the Government pursues improvement in air quality.

In the first half of 2014, a new round of public consultation on Hong Kong's fuel mix policy is expected to launch. This will shape Hong Kong's energy policy choices, which will have considerable implications on fuel costs. Great care and planning are needed if the current balanced portfolio of energy sources is to be changed significantly to ensure that reliability can be maintained. Hong Kong needs a very reliable supply of electricity. The current diversified fuel mix of gas, coal and nuclear has served Hong Kong well, providing a very reliable electricity supply and giving us the flexibility to change our actual fuel mix year by year to optimise fuel costs and help manage tariffs. It is important to keep options open that allows for the flexibility to use a diversity of fuels and generation technologies, which will help lower generation costs in the long run.

Meeting Demand

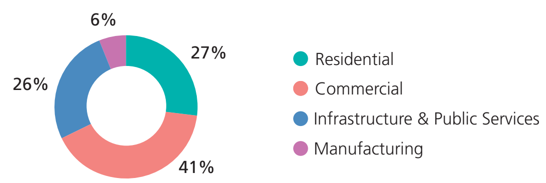
One of the key cornerstones by which we measure our performance is our ability to meet demand for electricity in Hong Kong, every day of every year. This was again achieved in 2013.

Local sales of electricity were 31,783 gigawatt hours (GWh), representing a decrease of 0.7% compared to 2012. This reduction was attributable to lower humidity in the first quarter and cooler weather over the summer.

Local Sales

	Increase / (Decrease)		
Residential	(242GWh)	↓	(2.7%)
Commercial	18GWh	↑	0.1%
Infrastructure & Public Services	70GWh	↑	0.8%
Manufacturing	(58GWh)	↓	(3.1%)

As Percentage of Total Local Sales



Sales to the Chinese mainland amounted to 1,650GWh, a 10.2% decrease from 2012, mainly due to lower committed sales to Guangdong Power Grid Corporation. Total electricity sales, including both local sales and sales to the Mainland, decreased by 1.2% to 33,433GWh.

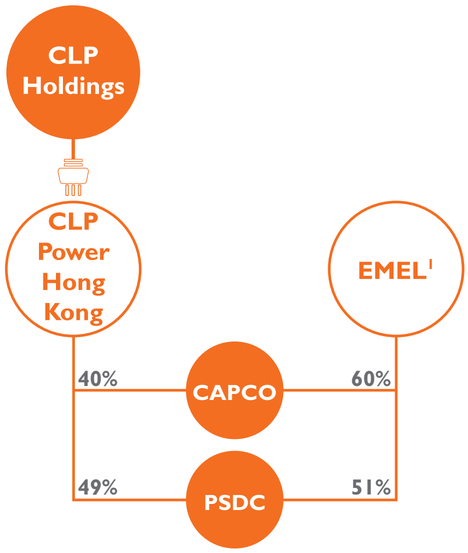
Increasing Our Stake in CAPCO

As noted in both the Chairman's Statement and CEO's Strategic Review, a significant change in the ownership of our generation portfolio is set to take place after we announced plans to acquire ExxonMobil's 60% interest in CAPCO together with CSG. Separately, CLP Power Hong Kong will also purchase ExxonMobil's 51% stake in Hong Kong Pumped Storage Development Company, Limited (PSDC). The acquisitions are expected to be completed in the middle of 2014.

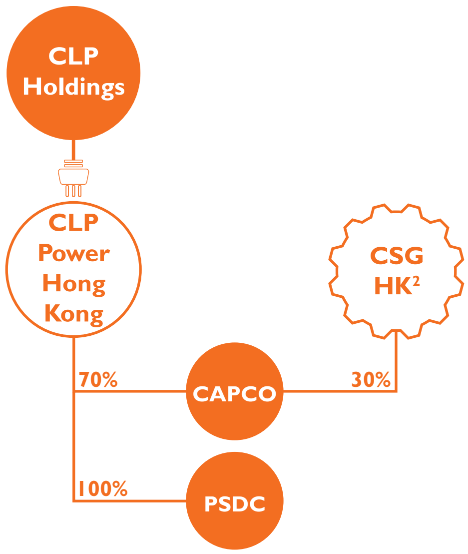
The transaction not only provides us with greater control over our asset portfolio, but further strengthens our strategic relationship with CSG through our joint shareholding in CAPCO. This paves the way for potential new business opportunities for both CLP and CSG in Hong Kong and Southern China.

Shareholding Structure of CAPCO and PSDC

Before Transaction



After Transaction



Notes:

1 ExxonMobil Energy Limited

2 China Southern Power Grid International (HK) Co., Limited

Concluding the Interim Review

In November 2013, CLP completed the SoC Interim Review with the HKSAR Government. We made further commitments to raise awareness of energy efficiency and conservation (EE&C) by establishing an Energy Efficiency Fund to encourage owners of non-commercial buildings to participate in energy efficiency activities. We will also increase information transparency to customers and enhance our already high performance standards.

Delivering Capital Investment

To maintain the safety and supply reliability of Hong Kong's electricity service and to meet demand as well as support local infrastructure development, we have successfully delivered against the 2008-2013 Development Plan, involving a capital expenditure of HK$41.6 billion. This includes the completion of our Emissions Control Project at Castle Peak Power Station (CPPS) to further improve emission performance, and the construction of a new gas receiving station and modifications for equipment at Black Point Power Station (BPPS) to enable it to migrate to the new gas from PetroChina's Second West-East Gas Pipeline (WEPII).

In 2013 we invested HK$7.5 billion in generation, transmission and distribution networks, as well as in customer services and supporting facilities. These investments are aimed at enhancing the reliability, stability and efficiency of our supply network and quality of our customer service. Such investments also safeguard the timely provision of electricity supply for our customers and new infrastructure projects, including the developments in Kai Tak and West Kowloon, new data centres, the rapid expansion of Hong Kong's railway network and the Hong Kong-Zhuhai-Macau Bridge.

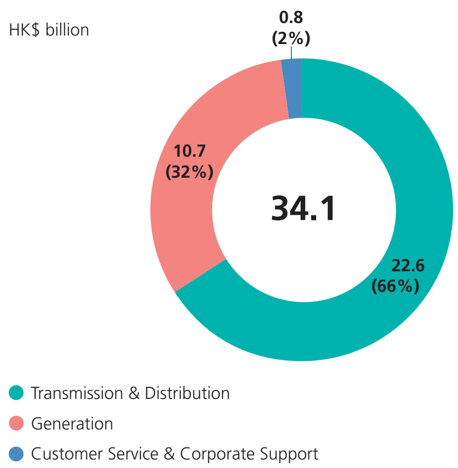
In December 2013, we received approval from the Executive Council for our 2014-2018 Development Plan, which projects a capital expenditure of HK$34.1 billion over the period from January 2014 to September 2018.

Although the HKSAR Government's fuel mix consultation is expected to launch in the first half of 2014, no new generation plant was included in the new Development Plan. The total spending on capital projects focuses on three core and much-needed areas including:

- supporting local infrastructure development and meeting customer load requirements, including new electric traction supply sources for the Shatin to Central Link and the Express Rail Link, and infrastructure supply for new cross border facilities;
- maintaining safety and supply reliability through asset refurbishment and improvement work; and
- improving environmental performance.

As part of the new Development Plan, three of our gas turbines at BPPS will be upgraded to improve operational efficiency and reduce emissions. In addition, conversion of CPPS units will be continued to enable the use of ultra-low sulphur diesel to further improve emissions performance. On the demand side, an Automated Demand Response programme will be implemented to assist industrial and commercial customers in reducing their electricity load during peak demand times.

Capital Expenditure Approved for 2014 – 2018 Development Plan



The approved capital spending, together with operating costs, is expected to increase the Basic Tariff by an average of around 1.8% per annum over the five years covered by the new Development Plan. In spite of rising construction costs in the local market and high commodity prices internationally, the expected modest increase in Basic Tariff will be achieved by:

- optimising our capital and operating expenses;
- increasing automation;
- adopting comprehensive procurement strategies;
- introducing best practice activities and benchmarking against overseas utilities; and
- refurbishing and extending the life of equipment and assets (rather than replacing them).

Increasing Gas Supply

With our current natural gas supply from Yacheng depleting, the arrival of natural gas from WEPII to BPPS marked a major step in the implementation of the Memorandum of Understanding (MOU) on energy cooperation signed between the HKSAR Government and the Central People's Government in 2008. This new gas supply will also supplement our need to meet tightening environmental requirements and upcoming climate change policies.

This new gas resource is delivered through a new 20-km subsea pipeline connecting to WEPII at Dachan Island in Shenzhen and ending at BPPS. These new facilities, referred to as the "Hong Kong Branch Line" (HKBL), are jointly owned by PetroChina (60%) and CLP (40%). We have received approval from the Ministry of Commerce to establish a joint venture company with PetroChina. The business licence was issued in the fourth quarter of 2013.

Construction and commissioning of the HKBL has been completed with all eight gas-fired generation units at BPPS converted since August 2013. Consumption of the new gas has been stable.

We are also continuing discussions with CNOOC on alternative offshore gas supplies. For the Shenzhen LNG Terminal Project, we continue to collaborate with PetroChina and Shenzhen Gas, our joint venture partners, to finish all necessary work in order to submit the project approval application to China's National Development and Reform Commission (NDRC) in 2014.

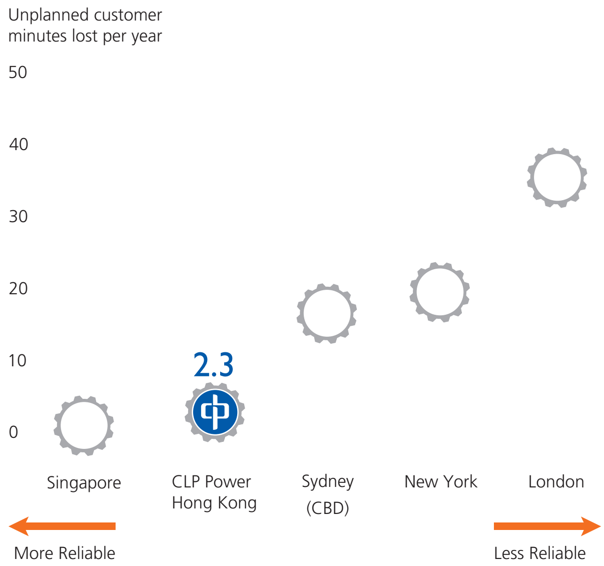
Importing More Nuclear Energy

Guangdong Daya Bay Nuclear Power Station (Daya Bay) continues to play an important part in providing clean energy to meet Hong Kong's electricity demand. To ensure that more clean and cost-competitive energy is provided to Hong Kong, an agreement has been reached, whereby Daya Bay will increase its electricity supply to Hong Kong from 70% of its output to approximately 80% for late 2014 to 2018. Having access to additional supply from an existing facility with an excellent safety record will provide an alternative economical source of clean energy for Hong Kong.

Ensuring Reliability and Improving Power Quality

CLP continues to deliver one of the most reliable electricity services in the world. Between 2011 and 2013, a typical CLP customer experienced an average of only 2.3 minutes of unplanned power interruptions per year, as compared to 16-35 minutes in New York, Sydney and London (between 2010 and 2012 – the latest available data). As noted by our Chairman on page 9, CLP achieved its best record on supply reliability of less than 2 minutes of unplanned power interruptions in 2013. This demonstrates CLP's continued effort in improving the resilience of its power system by adopting advanced technologies, emergency preparedness, a dedicated workforce and leading operating and maintenance practices.

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



Notes:
1 2011 – 2013 average for CLP Power Hong Kong
2 2010 – 2012 average for all other cities (the latest available data)
3 Singapore's power supply network is mostly underground, and is less exposed to the influence of weather and other external interferences than overhead lines.

To protect our system against the increasing likelihood of super-typhoons, in 2013 CLP continued to strengthen our transmission overhead lines, tower structures and foundations. In addition, we conducted an emergency drill to practise the rapid assembly of pylons should a 400kV tower require emergency replacement. In September 2013 as Super Typhoon Usagi approached, CLP activated its emergency management team and engaged customers proactively in mitigating risks of operational disruption.

Lightning strikes on our overhead lines are inevitable and occasionally cause voltage dips that affect sensitive equipment. To minimise the occurrence of voltage dips and mitigate impacts on customers, CLP continued to install lightning protection on our transmission and distribution facilities and customise our power quality solutions for customers' sensitive equipment.

Enhancing Customer Service

In 2013, we once again met all 12 performance pledges that set out our targeted performance in areas of particular importance to our customers, such as reliable electricity

Timeline for CLP importing Natural Gas

YEAR

1992
CLP/CAPCO and CNOOC signed a 20-year contract to bring in natural gas from Yacheng gas field near Hainan Island.

1996
Black Point Power Station (BPPS) officially fuelled by the natural gas from Yacheng via a subsea pipeline. The gas contract is due in 2016.

2001
CLP made diligent efforts to identify new gas sources after a less than expected reserve from Yacheng gas field was forecast. These included:

- studying the feasibility of building new infrastructure to import natural gas from Chinese mainland;
- studying the feasibility of constructing a Liquefied Natural Gas (LNG) Terminal in Hong Kong.

2007
The Environmental Impact Assessment of the LNG Terminal submitted by CLP to the Hong Kong Government was approved by the Environment Protection Department.

supply and prompt response to emergency service hotlines. These pledges, and our performance, are described on our website.

2013 also saw the introduction of a series of new customer service initiatives and a Customer Services Improvement Plan with 38 initiatives. These included progress tracking services for customer applications and consumption alert for targeted residential customers and small-to-medium enterprises. We also successfully rolled out a new web-based platform to enhance our capabilities and productivity in customer interaction.

Promoting Energy Efficiency and Conservation

As underpinned by our Energy Vision, CLP is firmly committed to EE&C. Some figures illustrate the scale of our efforts in promoting energy saving:

- Over 50,000 people/organisations took part in the "Let's Save Now for a Better Future Energy Saving Competition";
- CLP held the second GREEN^{PLUS} Recognition Award in 2013 to recognise the best energy-saving performers among 2,400 participants;
- Over 20 schools joined our GREEN^{PLUS} School programme in 2013;
- CLP invited more than 150 commercial and industrial customers to join a Green Building Symposium in support of the HKSAR Government's green buildings initiatives;
- CLP launched the first Energy Benchmarking service dedicated to data centres;
- The first CLP Data Centre Symposium attracted over 150 customers, business partners and stakeholders;
- Over 4,000 customers benefited from our 62 Eco Ambassador outreach programmes;
- Since March 2013, over 5,000 people visited CLP's Eco Home and EE&C Education Centre; and
- CLP's Smart Grid Experience Centre has received over 8,300 visitors since its opening in 2011.

Managing Our Tariff

We continue to exercise very prudent cost management to ensure that the level of any tariff adjustment is reasonable. For 2014, our Fuel Clause Charge remains unchanged, and we have taken a range of measures to mitigate the impact of increasing fuel costs, including deferring the use of more costly natural gas, using more low emission coals, enhancing the operational performance of generation facilities and importing small quantity of additional power from Daya Bay from late 2014.

However, due to an overall increase in non-fuel operating costs, and the depletion of the Tariff Stabilisation Fund, which is used to smooth out tariff fluctuations, the Average Basic Tariff for 2014 increased by 4.2 cents per unit of electricity. CLP's Average Total Tariff increased by 3.9% effective 1 January 2014.

To encourage energy conservation and assist low consumption customers, we will continue our Energy Saving Rebate Scheme. The Scheme is expected to result in 33% (or around 700,000) of domestic customers and 43% (or around 133,000) of small business customers having no tariff increase in 2014. Moreover, we have adjusted the tariff structure for residential users to encourage energy saving.

2008

A Memorandum of Understanding (MOU) on energy cooperation was signed between the Hong Kong Government and the Central People's Government. Three new gas sources from the Mainland to Hong Kong were stipulated:

- the Second West-East Gas Pipeline (WEPII),
- a new LNG Terminal to be built in Shenzhen, and
- new gas supplies from the South China Sea.

2012

Good progress was made on alternative gas sources:

- The arrival of WEPII gas at end of 2012 marked a major step in the MOU implementation,
- CLP/CAPCO and CNOOC signed a 5-year short term contract and started importing gas supply from a small gas field (Y13-4) adjacent to the existing and depleting Yacheng gas field.

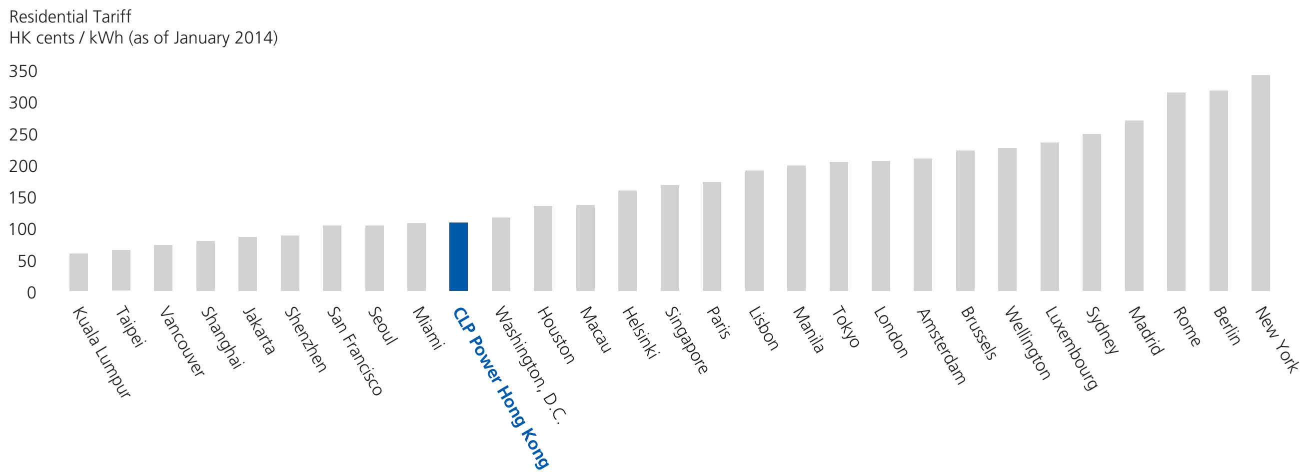
2013

While BPPS has been using natural gas from the WEPII, discussions on other new gas sources remain in progress.

Rent and Rates

On 3 January 2014, the Lands Tribunal gave its decision in the valuation review of its original April 2013 decision, in CLP's favour on each of the key points raised in the review. While we were pleased with this outcome, we decided to file an appeal against the 2014 Lands Tribunal decision as we believe that there are still points of the original decision which lead to CLP being overcharged rent and rates. All interim refunds received from the Government to date for overcharged rent and rates, totalling HK$1.6 billion, have been fully rebated to customers, so we ceased the special rebate from 16 October 2013. However, as we have done in the past, we will stand by our commitment to return to customers any refunds of overcharged rent and rates we may receive from the Government in the future.

Residential Tariff Comparison with Other Cities



Notes:

1 Comparison based on average monthly domestic consumption of 275 kWh.

2 Tariff and exchange rate at January 2014.

Source: Web Search

Mr Chung Ka Kui, Ken
Engineer Trainee,
CLP Power Hong Kong

As CLP implements its own smart grid pilot project, what kind of benefits does CLP expect to provide to customers through Advanced Metering Infrastructure (AMI)?

AMI is an integrated system of smart meters, communication networks, and data management systems that enable two-way communication between utilities and customers. On top of further improving the safety and reliability of energy supply, AMI helps customers lower their bills by providing targeted advice about their electricity consumption and email/text to alert them when certain thresholds have been met.

CLP launched an 18-month AMI pilot programme in May 2013 and invited about 3,000 residential customers and 1,400 small-to-medium business customers to join. So far around 75% of pilot customers have visited their online accounts, and around 15% have downloaded the Mobile App, with 5% setting consumption alerts. Last summer, ahead of one of the hottest days, we sent alerts to our pilot customers and asked them to reduce energy consumption during the peak hours in the evening. As a result, we saw demand reduced by approximately 20% that day, which translated into about 0.2-0.3kW per customer.

Chow Tang Fai
Chief Operating Officer
CLP Power Hong Kong

Environmental Performance

Air Emissions

CLP has been contributing significantly to improve Hong Kong's air quality by reducing emissions from our power plants. Over the last two decades, in spite of an approximate 80% increase in electricity demand, we have reduced our Sulphur Dioxide (SO_2), Nitrogen Oxide (NO_x) and Respirable Suspended Particulates (RSP) levels – also by about 80%.

Emissions from each of the individual power stations are influenced mainly by the fuel used, changes in emissions controls and/or how much electricity is generated. In 2013, despite less natural gas being available from Yacheng, and the need to minimise gas usage for fuel cost management, we continued to meet the stringent emissions caps set out by the Government. We continuously optimised our diversified fuel mix strategy, using more low emissions coal, enhancing the effectiveness of the emissions control facilities and making the best use of natural gas. These initiatives contributed to the achievement of the 2013 emissions performance, which, though slightly higher than 2012, still falls within the range of typical operational fluctuations and meets regulatory requirements.

We are committed to continuing to work diligently towards the emissions caps set for 2015, which require CLP to reduce its SO_2 emissions by more than 60%, and NO_x and RSP emissions by more than 30% respectively from 2010's levels, while maintaining a reliable electricity supply and a reasonable tariff level. We shall continue working closely with the Government and all parties concerned to facilitate informed and balanced discussions on the future energy mix for Hong Kong.

Renewable Energy Development

We continue to carefully study the technical and financial feasibility of the proposed offshore wind farm in the south eastern waters of Hong Kong near the Ninepin Islands. Due to its offshore location, there are many technical challenges that must be more thoroughly assessed to confirm the project's economic feasibility.

Environmental Regulatory Compliance

In 2013, there were no fines or prosecutions arising from environmental-related regulatory non-compliances for any of our Hong Kong assets in which we had operational control.

CLP Volunteers provide rewiring service for the elderly living alone

Social Performance

Stakeholder Engagement

In 2013, CLP mapped out and implemented a multi-pronged stakeholder engagement plan. We also continued our regular briefings, seminars, workshops and shareholder visits. The invaluable comments collected from these engagements activities have enabled us to understand better and respond promptly to our customers' needs.

Through our stakeholder engagements we understand that nuclear safety remains a concern for the community. We continue to organise activities to enhance public knowledge and understanding of nuclear-related matters. The CLP Nuclear Resources Centre, which provides comprehensive information on nuclear energy, received over 6,200 visitors.

Community Initiatives

Our success as a business is closely aligned with the well-being of the community we serve. In Hong Kong, our community initiatives focus on three areas: the environment, youth and education, and community well-being. We work closely with local NGOs and community groups to identify evolving societal needs and to devise programmes that will have the best and longest-lasting impact.

In 2013 CLP launched the "CLP Green Volunteers for Seniors Programme" whereby CLP Volunteer Teams will join hands with 13 community partners to give out 6,000 LED light bulbs to the elderly in our supply areas. During the year, we initiated and supported over 250 community initiatives in Hong Kong. Some highlights are listed below.

Identifying Evolving Societal Needs and Devising Programmes with Long-lasting Impact

ONE-OFF COMMUNITY CARE SUBSIDY

Close to 10,000 grassroots families benefited from a subsidy of HK$300 to alleviate tariff pressures

HOTMEAL CANTEEN

Served over 31,000 hot meals in 2013 and launched a pilot Hotmeal Delivery Service

CLP VOLUNTEERS

Contributed over 10,000 hours

LIBERAL STUDIES

Promoted energy education through www.LS-energy.hk, Hong Kong's first comprehensive and free learning kit. About 130 schools, 1,500 students and 180 teachers registered

HERE WEEE* GO

12,500 used electrical appliances collected

CLP volunteers helped deliver over 430 refurbished appliances to 200 needy families from 2010 to 2013

* Waste Electrical and Electronic Equipment
Note: Here WEEE Go is a pilot programme

Outlook

We believe that our Energy Vision is an important roadmap to achieving a more sustainable energy future. CLP has started and will continue to bring this vision into reality through stronger infrastructure links with the Mainland, adopting a higher proportion of clean energy and promoting a wider and deeper awareness of EE&C.

Subsequent to the approval of the Development Plan and completion of the Interim Review in 2013, the Government is expected to commence its study on the post-2018 regulatory regime. We will continue to actively engage our key stakeholders and the public to communicate the importance of having a regime that strikes a balance between the reliable and safe supply of energy, care for the environment, and a reasonable tariff. Our current world-class performance and excellent supply reliability should not be taken for granted, and should serve as a benchmark against which new options should be judged.

These factors, together with the continuing pressures of fuel costs, will mean that our focus for 2014 will include:

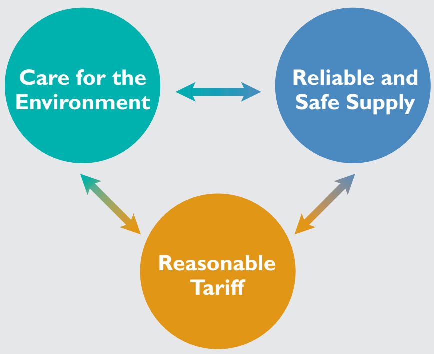
- continuing to monitor the gas supply from Yacheng, manage the new gas supply from PetroChina's WEPII and explore other long-term gas supply options;
- mitigating the potential significant fuel cost increase anticipated from 2015;
- managing our operating costs to minimise the impact of tariff increases on customers;
- managing and delivering the 2014-2018 Development Plan;
- actively engaging the Government, key stakeholders and the community on the public fuel mix consultation;
- contributing to the Government's and public's understanding on the future regulatory regime;
- completing the CAPCO transaction and ensuring a smooth transition to the new ownership structure;
- strengthening assistance to the needy, the underprivileged and the elderly; and
- establishing a new Energy Efficiency Fund to subsidise non-commercial building owners to enhance building energy efficiency.

Over the longer term, our priorities include:

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

More Q&As about our Hong Kong Business

Energy Trilemma



CLP is part of Hong Kong and we understand well that electricity tariffs have to be reasonable and competitive. At the same time, there have been unprecedented challenges in fulfilling the society's expectations for a reliable and safe electricity supply, produced in an environmentally responsible way and at a reasonable cost. These three core policy ingredients comprise what is known as the "Energy Trilemma".

AUSTRALIA

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

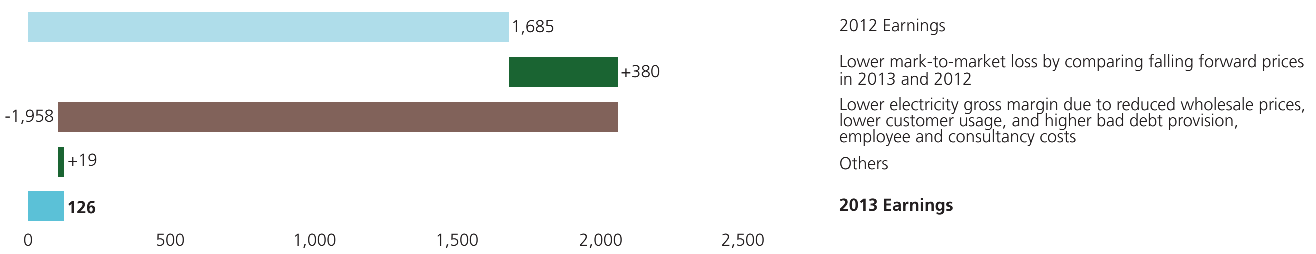
Financial Performance

EnergyAustralia's operating earnings were HK$126 million, compared to HK$1,685 million in the previous year. The lower earnings were caused by reduced wholesale prices, decreased contribution from our retail operation due to lower electricity usage and customer accounts, as well as higher operating costs as a result of increased bad debt provision and employee and consultancy costs. The drop in earnings was partly offset by lower mark-to-market loss on energy derivatives.

Following a review of wholesale markets and projected lower wholesale electricity prices, EnergyAustralia has recorded non-cash impairment and other charges of HK$3,106 million after tax – approximately two-thirds of the impairment relates to Yallourn Power Station (Yallourn) in Victoria while the balance relates to our gas-fired generation assets.

Together with the bargain purchase gain on the acquisitions of Mount Piper and Wallerawang of HK$600 million and the costs related to Yallourn's mine flooding of HK$76 million, non-recurring items from Australia totalled HK$2,582 million.

Australia Earnings before One-off Item (HK$M)

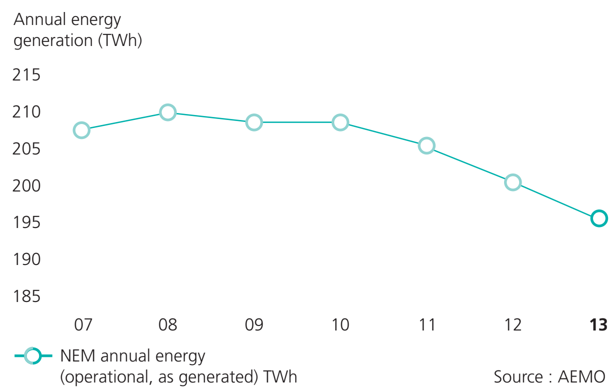


Operational Performance

Business Environment

The Australian energy sector is facing a period of significant change. Declining electricity demand, a growing renewables market, exploitation of new unconventional gas sources and the linkage of domestic gas prices to international prices are initiating a generational change in energy market fundamentals.

National Annual Energy*



* All generation figures include scheduled, semi-scheduled and non-scheduled (mostly from renewable sources) as generated.

Since 2008, we have witnessed an unprecedented decline in electricity demand. Such a sustained decline in electricity use has largely been driven by:

- changing consumer behaviour and expectations. Sharp increases in retail prices and the uptake of rooftop photovoltaic and energy efficiency products and services, supported by government-based subsidies have changed energy consumption patterns; and
- adjustments to the composition of Australia's industry sectors. The last 25 years have witnessed a change in composition of Australia's economy from manufacturing industries to service sectors, resulting in lower energy intensity.

Together with falling demand, wholesale electricity prices have softened, resulting in lower revenue for generators. Some generators, including EnergyAustralia, have sought to either reduce output or adjust their planned maintenance programmes. Despite such measures, there has been little impact on the growing gap between available supply of generation and demand.

Regulatory uncertainty over the last five years surrounding the introduction and potential removal of the carbon regime has also impacted wholesale contract market liquidity as market participants are reluctant to enter into hedging arrangements for three years or longer. This preference for shorter contract periods has decreased the effectiveness of contracting as a long-term risk mitigation strategy in the generation sector.

In addition, significant impacts have been experienced as a result of the Renewable Energy Target (RET), which looks for renewable energy generation to have a 20% market share by 2020. Unanticipated reductions in electricity demand and forecast demand in the National Electricity Market (NEM) has meant the current overall policy objective of the RET represents a higher market share than originally targeted. One unintended consequence is that the RET is forcing subsidised renewable capacity into an oversupplied wholesale market, further dampening wholesale prices.

At the same time, transformational change is being experienced in the market for gas and coal in eastern Australia. Domestic gas prices are increasing significantly as the domestic market becomes linked to world gas prices via LNG export projects. The exploitation of unconventional gas to meet export demand is also resulting in an increase in input costs above historic domestic levels adding further pressure to gas prices. In addition, coal supply has become more challenging as costs increase and legacy contracts roll-off, particularly in NSW.

Corporate

Over the last three years EnergyAustralia has become one of the largest vertically-integrated energy companies in Australia, through both major acquisitions and organic growth.

Last year was marked by a number of changes to EnergyAustralia's asset portfolio. The most significant was the acquisition of Mount Piper and Wallerawang from the NSW Government for a net cash consideration of A$157 million in September 2013. Previously, EnergyAustralia held the rights for the majority of off-take from these two power stations. The acquisition provides greater flexibility to EnergyAustralia's energy generation portfolio and reduces costs associated with the fixed contractual commitments under the previous Delta Western GenTrader Agreements. A review of capital and operating strategies has already resulted in one unit at Wallerawang being taken out of service in early 2014. The second unit will be available until March 2014, then removed from service and will be available to return to service at a three-month notice.

On 31 May last year, EnergyAustralia sold a 75% interest in Waterloo Wind Farm, while retaining the right to operate and manage it. EnergyAustralia will also continue to receive the energy off-take and the large-scale generation certificates that the site creates in the immediate period, to help meet its RET obligations. Separately, the Waterloo Wind Farm has received Development Plan Consent to install six additional turbines, bringing the site's generation capacity to approximately 129MW.

Amidst a difficult retail market environment, EnergyAustralia is overhauling its customer service IT system so it can respond to changes in market and consumer behaviour more effectively and efficiently.

Through 2013 and as described in our Interim Report, EnergyAustralia implemented a number of programmes focused on achieving cost reductions and improving earnings over time. Although the positive actions are helping us, difficult economic conditions, soft markets and internal business challenges led Standard & Poor's to downgrade EnergyAustralia's credit rating from BBB (negative outlook) to BBB- (negative outlook) in October 2013.

In view of the changing energy market fundamentals, EnergyAustralia has undertaken a review of the electricity wholesale market. After rising steadily for many years, demand in the NEM started to flatten in 2007 and has fallen since 2008. This declining trend is now well established and is expected to continue in the near future. At the same time, around 8,000MW of new generation capacity has been introduced into the NEM, reflecting overly optimistic forecasts of a return to growth in demand, the long lead times associated with the planning and construction of thermal plants and the impact of renewables and carbon policy. After allowing for the withdrawal of some old plants the net capacity addition is over 5,500MW. This means that while demand has fallen by around 6% since 2007, an additional 13% of generation capacity has been added to the NEM.

Furthermore, generation output from Australia's hydroelectric schemes was severely constrained late last decade by an extended drought. With the easing of the drought and the introduction of carbon pricing, these generators have increased their contribution to generation output from 5% in 2008 to 9% in 2013.

The effect of these changing dynamics has been to progressively reduce wholesale electricity prices over the last several years and suppress wholesale price expectations well into the future. The extreme heatwaves in Victoria and South Australia in January 2014 further highlighted the current oversupply situation, as wholesale prices remained relatively low despite very high electricity demand levels. This has put particular pressure on the profitability of gas-fired generation assets which are also facing a major increase in domestic gas prices as the linkage to international export markets is established.

Based on these market conditions, EnergyAustralia has reviewed the value of its asset base in accordance with the accounting standard requirements and concluded that a number of generation assets are impaired.

Generation

Our largest generation asset, Yallourn, continued to experience a number of challenges through 2013. Following protracted negotiations with the Construction, Forestry, Mining and Energy Union and restricted operations for over three months, a new Enterprise Bargaining Agreement for operations and maintenance employees at the power station was signed in September 2013.

Work also continued on the repair and reinstatement of the Morwell River Diversion, which is now complete. Staged recommissioning commenced in September 2013. The diversion began carrying the full river flow in late October 2013. The repairs involved more than 195,000 hours of work since January 2013 and over 1.7 million cubic metres of material was used as backfill.

Given these challenges, Yallourn's generation output in 2013 was lower than 2012. Overall, it produced 4.9% less electricity output in 2013, while its availability and operating hours were respectively 15.3% and 4.6% lower than the previous year.

EnergyAustralia's owned and operated gas-fired power stations at Tallawarra and Hallett continued to perform safely and reliably during the year. The Iona gas plant also performed well, with high commercial availability. A planned inspection of the Tallawarra gas turbine occurred in May 2013.

Mr Tony Wood
Energy Program Director
Grattan Institute, Australia

Electricity demand has been consistently falling across Australia over the last 4-5 years. This is putting pressure on both the generation and retail sectors, and EnergyAustralia is exposed to both. How does the company see the outlook, the likely impact on earnings and how are you planning to respond to this unprecedented change?

Our key priority is to reduce costs and improve earnings. This will include integrating our legacy customer base, currently serviced by Ausgrid, onto the new C1 platform. The integration is scheduled for late 2014, after which the business will realise operational cost savings from servicing all 2.7 million customers on one system. The new system will not only reduce our costs but will also improve our responses to customers. We have already started this process with the introduction of eWise and time of use products in Victoria.

On the generation side, we continue to take steps to optimise and re-align our generation cost base in line with changes in electricity consumption patterns. Our recent decision to reduce operations at Wallerawang is one example of this. Through these and other cost reduction projects, we are tackling the market challenges head-on and developing the level of capability we need to meet the new market realities.

We will continue to assess market conditions and will actively review the optimum size, operating strategies and holding structure of our generation portfolio in light of these conditions.

Richard McIndoe
Managing Director – EnergyAustralia

Wholly or Partly-Owned by EnergyAustralia

Asset / Station	Installed Capacity (MW)		Generation (GWh)		Utilisation[1] (%)		Availability[1] (%)		Operating Hours[2]	
Power Stations	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Hallett	203	203	73	6	4	0.3	86	94	7,885	830
Tallawarra	420	420	3,115	2,758	85	75	94	96	8,507	8,352
Yallourn	1,480	1,480	8,525	8,965	74	78	75	88	26,030	27,285
Mount Piper	1,400	1,400	8,914[3]	7,942[3]	92	92	91	88	16,101	16,123
Wallerawang	1,000	1,000	4,073[3]	4,692[3]	75	88	78	85	13,094	15,461
Wilga Park	16	16	–	–	–	–	–	–	–	–

	Installed Capacity (Terajoule / Day)		Throughput (Petajoule)		Utilisation (%)		Availability (%)		Compressor Hours	
Gas Storage Facility	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Iona	500	500	51	50	36	36[4]	99	98	30,820	29,431

Notes:

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

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

3 Net Generation at node

4 Iona changed the methodology in calculating utilisation in 2013 to account for double compression. The 2012 figure has been recalculated under the new methodology and is therefore different from the one stated in our 2012 Annual Report.

	Installed Capacity (MW)	Number x Wind Turbine Size	Generation at Farm Gate (GWh)		Availability (%)		Wind Speed (m/s)	
Wind Farms			2013	2012	2013	2012	2013	2012
Cathedral Rocks	66	33 x 2MW	194.7	179.7	90.3	91.4	8.4	8.1
Waterloo	111	37 x 3MW	296.6	330.4	95.2	97.3	8.4	8.5

Generating Capability under Contract to EnergyAustalia

	Installed Capacity (MW)		Net Generation (at node) (GWh)	
Ecogen	2013	2012	2013	2012
Newport and Jeeralang	966	966	171	241

Retail

During 2013, EnergyAustralia's retail business faced increased competitive pressure as well as significant internal challenges. Our primary focus was on stabilising C1, our customer care and billing platform. This system will now provide a stable base on which to integrate the 1.4 million customers accounts acquired in 2011 who are currently being serviced by Ausgrid.

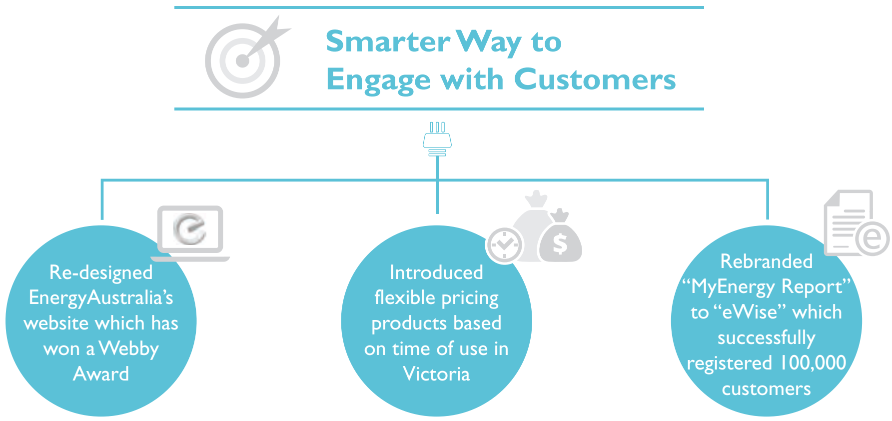
C1 became operational in September 2012 to streamline a number of legacy customer service systems previously employed in the business and to improve the overall customer service experience. Unfortunately the system incurred implementation problems whereby some customers experienced delayed billing, registration and credit management issues, which significantly impacted cash flow. EnergyAustralia established a dedicated team to address these issues, which have largely been resolved following a series of successful improvements in the second half of 2013. Registration backlogs of greater than 90 days have been reduced from 160,000 in February 2013 to 16,500 in December 2013 and the number of active unbilled accounts over 30 days has improved from around 100,000 at the beginning of the year to 18,000 at year-end.

The EnergyAustralia Integration Programme (EAIP), designed to smooth the integration of the EnergyAustralia customer base serviced by Ausgrid, is heavily dependent on the successful functioning of C1. With progress on stabilising C1, EAIP is planned for completion towards the end of 2014.

Churn rates within EnergyAustralia's two main retail markets remained high. In Victoria, EnergyAustralia's churn rate was 27.6% whereas the industry rate was 28.6%, while in NSW, EnergyAustralia's churn rate was 17.9% compared with the industry's 17.8%. Nonetheless aggressive competition and price discounting occurred throughout 2013, resulting in a decline of 4% in EnergyAustralia's customer accounts compared to 2012.

In response to customer feedback, EnergyAustralia ceased door knocking as a sales channel from 31 March 2013. EnergyAustralia's two main competitors followed suit and industry churn levels have slowed following these changes, most notably in NSW.

Key Achievements in Customer Engagement



Environmental Performance

Yallourn Flood

As mentioned previously, the Morwell River Diversion work at Yallourn coal mine was completed in late 2013. However, the reconstruction phase did encounter some environmental challenges in 2013. A flood on 14 June 2013 resulted in floodwaters exceeding the capacity of the diversion repair bypass pipeline system, diverting into the Yallourn mine. The incident incurred no damage to the diversion repair works and the Environment Protection Agency subsequently issued an emergency discharge approval to allow dewatering of the mine by direct discharge to the Latrobe River.

Biodiversity

Australia has the most advanced conservation policies among the countries CLP operates in. While EnergyAustralia's existing operational sites are not located on or near high value biodiversity areas, given the nature of power generation and associated resource extraction operations, land disturbance is an unavoidable consequence of many of our activities. In order to manage this situation, EnergyAustralia has developed a roadmap to outline how to assess, identify gaps, incorporate stakeholder priorities and develop a biodiversity management plan. The Biodiversity Register is the first step in assessing the impact of our sites on species and habitats and we have completed the register for all our operational facilities in EnergyAustralia.

Environmental Regulatory Compliance

In 2013, there were no fines or prosecutions arising from environmental-related regulatory non-compliances for our Australian assets in which we had operational control.

Social Performance

Stakeholder Engagement

Last year was characterised by substantial political and economic uncertainty in Australia. Businesses faced three different prime ministers in a 12 month period along with a number of changes in leadership at State Government level. Notwithstanding this, EnergyAustralia recognises the importance of maintaining positive relationships across all levels of government to actively participate in policies that have the potential to impact our operating environment and business. In 2013, significant effort was made by EnergyAustralia in positioning itself as a "thought leader" on key policy issues in the energy sector, including gas market reform and electricity market sustainability.

In spite of this challenging political environment, encouraging progress was made in the regulation of retail prices. The South Australian Government deregulated retail prices in February 2013 and the Queensland Government committed to removing price regulation from July 2015 subject to the retail market being competitive. The Australian Energy Market Commission also conducted a review of retail competition in NSW and recommended the removal of price regulation. EnergyAustralia remains optimistic that the NSW Government will adopt this recommendation in time.

We also continued discussions with the NSW Government on coal seam gas regulation. In Victoria, we continued to work with the Government to deliver the benefits of smart meters.

Community Initiatives

EnergyAustralia continues to work to create shared value for the communities in which it operates. This approach helps build its reputation as a trusted local operator and as a force for positive change. In 2013 EnergyAustralia's community initiatives focused on those affected by bushfires in Tasmania and NSW, the homeless and swimming safety for children. Some of our highlights are listed below.

Creating Shared Value for the Communities in which EnergyAustralia Operates

SUPPORT TO THE HOMELESS

Supported St Vincent de Paul's Homelessness Programme:

- Donated **A$150,000** for the purchase of 3 new soup vans
- Raised **A$36,775** at "CEO Sleep Out"

LEARN TO SWIM

Continual partnership with Swim Australia on Learn to Swim and SwimSAFER to promote swimming safety

BUSHFIRE RELIEF

With staff donation and matching from EnergyAustralia, **A$10,000** was donated to Red Cross NSW Bushfire Appeal and NSW Rural Fire Services for NSW bushfire relief

Another **A$50,000** was donated to support the Red Cross Tasmania Bushfire Appeal

COMMUNITY ENGAGEMENT IN WATERLOO

Regular meeting with the Waterloo Community Liaison Group

An annual support of **A$20,000** to the Community Benefit Fund

Outlook

The current market conditions in Australia mean the next two years are likely to remain challenging for all energy sector participants, including EnergyAustralia. The decline in electricity demand is expected to continue and we foresee on-going depressed wholesale electricity prices. Increased fuel costs for coal and gas, combined with long-term legacy contracts reaching maturity, will present challenges and opportunities over the medium term.

Rising gas prices will, however, have a positive impact on our existing portfolio of gas contracts and gas storage facility over the next two to three years. The Narrabri coal seam gas development remains a key growth project over the medium term subject to regulatory processes permitting commercialisation of the project.

EnergyAustralia's legacy black coal supply contracts will come to an end over the next few years. In ensuring on-going coal supply post these contract arrangements, EnergyAustralia has a portfolio of contracts and mining options near Mount Piper. The NSW Government's decision in 2013 to decline an extension to the Coalpac mining licence may affect future planning decisions and increase the cost of securing coal supplies in NSW.

With the election of the new Coalition Australian Government in September 2013, carbon and renewable policy settings will be subject to further changes in 2014 and beyond. The new Government has committed to repeal the Clean Energy Act and associated regulations by 1 July 2014. The expected removal of the carbon compensation will have a financial impact on EnergyAustralia in 2014 and 2015. The Government has also committed to conducting a review of the RET in 2014, in which EnergyAustralia will actively participate.

We believe our portfolio of generation assets, fuel supply arrangements and gas storage offers flexibility and optionality for the business to manoeuvre through the challenging market and political circumstances.

A number of gas market reviews are currently underway to explore the future reform pathway for Australia's eastern gas market. EnergyAustralia will play an active role in these reviews by advocating for a policy framework that supports increased transparency and liquidity in gas markets.

In 2014 we will continue to improve C1 and migrate our customers from the Ausgrid system onto the new platform. As a result of this activity our retail costs will remain high for much of 2014, with the efficiency benefits of one system for mass market customers flowing to the business from 2015 onwards.

Key projects for 2014 will be:

- continuing to extract efficiencies from C1 including reduction in bad debts;
- optimising the generation portfolio in line with prevailing market dynamics;
- pursuing low-cost direct sales including growth in our digital channel; and
- transforming the IT as well as human resources functions to support improved business performance.

In summary, most of the external issues affecting EnergyAustralia are expected to remain uncertain. But EnergyAustralia will continue to focus on a vertically-integrated business as the best model to effectively balance the market risk associated with the supply of energy and meeting consumer demand for energy.

In the medium-term, the strategy will centre on positioning the business for success. Our primary focus is to drive earnings improvement through a substantial and sustained reduction of costs by:

- leveraging our strong retail presence and providing an innovative and differentiated experience based on the understanding we built in 2013 of customer segments and their needs;
- improving core efficiency and being at the forefront of digital and technological capability;
- providing flexible fuel and lower cost generation balanced to the needs of mass market customers; and
- supporting efficient markets that reward investment and providing the simplest solutions for customers.

More Q&As about EnergyAustralia

CHINESE MAINLAND

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

Financial Performance

Operating earnings from the Chinese mainland totalled HK$2,131 million in 2013, an increase from HK$1,411 million in 2012.

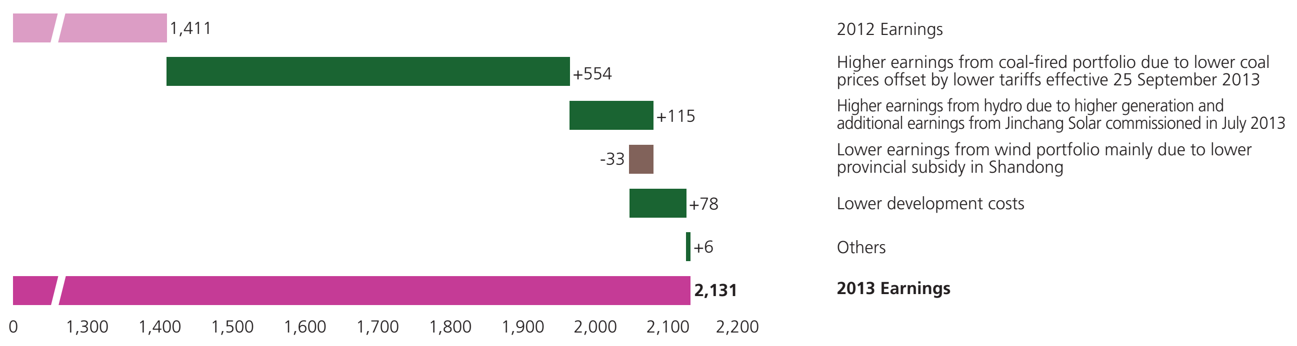
Earnings from our 25% stake in Daya Bay, 70% of the output from which serves our Hong Kong electricity business, remained steady in 2013.

Earnings from coal-fired projects increased by 89% as a result of lower coal prices, partially offset by a tariff reduction effective 25 September 2013. Fangchenggang Power Station continues to be a significant earnings contributor. The performance of both CSEC Guohua and Shandong joint ventures also improved.

Earnings from renewable projects also rose due to higher generation, in particular Jiangbian Hydro, but partly offset by lower earnings from wind projects mainly due to lower subsidy in Shandong Province. Our first solar project in the Mainland, Jinchang Solar Power Station (Jinchang Solar), contributed earnings of HK$20 million since commissioning in July 2013.

We have also made an impairment provision of HK$297 million to the carrying values of CSEC Guohua and Shenmu, reflecting our estimates of their recoverable amounts. The divestment of Boxing Biomass Power Station (Boxing Biomass) resulted in a loss of HK$75 million.

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



Operational Performance

Business Environment

The Chinese economy witnessed a period of general slowdown in 2013. Reduced economic growth throughout the Mainland translated into weaker demand for the electricity market over the first half of the year. Additional demand from secondary and tertiary industries over the latter part of 2013 contributed to enhanced earnings for the Group. Overall, electricity demand grew 7.5% in 2013, a much lower growth rate, when compared to the double-digit increases of previous years.

Coal-fired power stations in the Mainland benefited from falling international and domestic coal prices. This was largely attributable to the slow recovery of the global economy and sluggish growth in the Mainland's domestic energy demand. Coal prices are expected to remain stable in 2014. In September 2013, the NDRC reduced the on-grid tariffs for coal-fired power stations, while increasing renewable energy subsidies available for clean energy power plants.

National tariff levels for wind remained stable throughout 2013. However, provincial subsidies in Shandong Province, where 14 of our wind farms are located, will be reduced by RMB0.03 / kWh over 2013-2015 to RMB0.06 / kWh.

In the solar sector, 2013 saw a national tariff policy being promulgated and implemented by the NDRC, dividing China into three tariff zones based on availability of solar resources. On-grid tariffs range from RMB0.90 / kWh to RMB1.00 / kWh. CLP is encouraged by the new policy and continues to actively seek investment opportunities in this sector.

Review and approval of nuclear projects at coastal sites resumed in 2013, following the State Council's approval of the National Plan for Nuclear Power Safety (2011-2020), the Nuclear Power Development (2011-2020) and the National Energy Development for the 12th Five-year Plan in October 2012.

Coal-Fired Power Stations

CLP's coal-fired investments in the Mainland continued to perform reliably in 2013, buoyed by lower coal prices, high availability and stable utilisation.

Fangchenggang performed consistently well. Following the endorsement of the Environmental Impact Assessment Report for the construction of two additional 660MW ultra-supercritical units at Fangchenggang by the State Ministry of Environmental Protection, we submitted the final project verification to the NDRC in August 2013. We hope to receive the relevant approval in the first half of 2014, with full construction to commence as soon as the final consent is granted.

Coal-Fired Power Stations – Performance

Station	Installed Capacity (MW)	Generation (GWh)		Utilisation (%)		Availability (%)		Operating Hours (Hours)	
		2013	2012	2013	2012	2013	2012	2013	2012
Fangchenggang	1,260	**6,142**	6,085	**56**	55	**87**	90	**4,875**	4,830
Shiheng I & II	1,260	**6,629**	6,319	**60**	57	**90**	89	**5,261**	5,015
Heze II	600	**3,376**	3,310	**64**	63	**92**	93	**5,626**	5,516
Liaocheng I	1,200	**6,656**	6,909	**63**	66	**88**	88	**5,547**	5,757
Panshan	1,030	**6,024**	6,092	**67**	67	**91**	93	**5,849**	5,914
Sanhe I and II	1,300	**7,693**	7,410	**68**	65	**93**	97	**5,918**	5,700
Suizhong I and II	3,600	**15,421**	16,506	**49**	52	**98**	92	**4,283**	4,585
Yire	400	**2,238**	2,344	**64**	67	**93**	95	**5,596**	5,860
Zhungeer II and III	1,320	**6,978**	6,605	**60**	57	**94**	97	**5,287**	5,004
Shenmu	220	**1,311**	1,367	**68**	71	**97**	97	**5,961**	6,215

Mr Cha Zhengfa
Chairman,
Zhenfa New Energy

What is CLP's strategy and plan in clean energy investment in the coming three years, particularly in China's solar energy market?

Supported through the policy development of the National Energy Administration, the Chinese mainland continues to be a world leader in installed renewable energy capacity as it moves towards a more sustainable energy path. CLP's own climate strategy to reduce the carbon intensity of our generation portfolio is consistent with this. As part of this, we will continue to consolidate and rationalise ownership of our minority-owned coal-fired assets and to invest in renewable energy projects.

We are already one of the largest external investors in wind energy in the Mainland. With the growing maturity of solar photovoltaic technology, a significant reduction in solar panel prices and China's feed-in tariffs for solar power stabilising at a relatively attractive level, we will continue to explore solar investment opportunities in regions with good solar energy resources and strong local power demand.

Chan Siu Hung
Managing Director – China

Wind

2013 saw an improved generation performance in our wind portfolio due to better wind resources in northeast China, with wind speed moving towards long-term averages. Despatch also increased as the connection of the new inter-provinces transmission network eased overall grid restrictions in the region. The wind resources at our portfolio in Shandong Province remained slightly below average.

Construction of our third wholly-owned wind farm, Laiwu Phase I (49.5MW) in Shandong commenced in early 2013 and achieved commercial operation in January 2014. We also registered three wholly-owned wind projects for development with the National Energy Administration, namely Xundian Phase I in Yunnan, Laizhou Phase I in Shandong and Jiangshan Phase I in Zhejiang. While the first two projects are pending approval from the relevant provincial governments, we are still conducting wind measurement for Jiangshan Phase I. Each project will add 49.5MW to our existing portfolio.

Wind Energy Portfolio – Performance

	Installed Capacity (MW)	Generation (GWh)		Utilisation (%)	
		2013	2012	2013	2012
Minority-owned					
Changdao	27.2	51.0	50.4	21.4	21.1
Changling II	49.5	94.3	51.7	21.3	11.9
Datong	49.5	68.0	60.8	15.7	14.0
Hekou	49.5	98.2	101.2	22.6	23.3
Laizhou	40.5	72.9	72.5	20.6	20.4
Lijin I	49.5	83.4	88.4	19.2	20.3
Lijin II	49.5	93.5	99.7	21.6	22.9
Mazongshan	49.5	98.3	89.7	22.7	20.6
Nanao II	45.1	102.0	117.4	25.9	29.4
Nanao III	15.0	30.5	37.9	23.2	28.6
Qujiagou	49.5	87.5	77.1	20.2	17.7
Rongcheng I	48.8	89.3	97.1	20.9	22.7
Rongcheng II	49.5	94.2	112.0	21.7	25.8
Rongcheng III	49.5	96.3	107.3	22.2	24.7
Shuangliao I	49.3	72.8	46.0	16.9	10.6
Shuangliao II	49.5	85.0	79.0	19.6	18.2
Weihai I & II	69.0	140.8	137.0	23.3	22.6
Zhanhua I	49.5	97.8	98.6	22.5	22.7
Zhanhua II	49.5	105.0	105.3	24.2	24.2
Chongming I	48.0	129.8	n/a[1]	30.9	n/a[1]
CGN Wind JV(15.75%)					
CGN Wind Portfolio[2,3]	1,794	3,419	3,043	21.8	20.5
Wholly-owned					
Qian'an I	49.5	87.0	85.8	20.1	19.7
Qian'an II	49.5	100.3	88.2	23.1	20.3
Penglai I	48.0	100.8	97.7	24.4	24.1

Notes:

1 n/a (not applicable) is for projects which had not yet commissioned for a full year's operation.

2 CGN Wind JV completed a restructuring in January 2013. Its gross capacity under operation and construction has been reduced from 1,878MW to 1,794MW. The total capacity of CGN Wind JV under operation stated here is that following this restructuring.

3 The utilisation applies to projects with full-year operation in the JV.

Solar

In pursuing our business strategy of investing in solar projects with good energy resources and strong local power demand, we celebrated, in October 2013, the inauguration of CLP's first majority-owned solar project (85MW) in Jinchang in Gansu Province. Since commissioning in July 2013, Jinchang has achieved an output consistent with design specifications and has been performing satisfactorily.

We also received approval for a second solar project from the Yunnan Provincial Development and Reform Commission in November 2013 for Xicun Phase I (42MW). This project will be wholly-owned by CLP with construction to be commenced in the first quarter of 2014.

Solar Energy Project – Performance

	Installed Capacity (MW)	Generation (GWh)		Utilisation (%)		Availability (%)		Operating Hours (Hours)	
		2013	2012	2013	2012	2013	2012	2013	2012
Jinchang Solar	85	100[1]	n/a[2]	23[1]	n/a[2]	100[1]	n/a[2]	1,000[1]	n/a[2]

Notes:

1 Reflects data since commissioning in July 2013

2 n/a (not applicable) is for projects which had not yet commissioned for a full year's operation.

Hydro and Biomass

Generation in Dali Yang_er Hydro Power Station continued to suffer from lower-than-average rainfall. However, above-average rainfall at Huaiji in Guangdong and Jiangbian in Sichuan resulted in an increase in our hydro generation of around 7% and 26% respectively, compared to 2012.

In spite of our continuing efforts to improve the performance of our Boxing Biomass plant in Shandong, we continued to incur operating losses. On 26 September 2013, Shandong Boxing County Huanyu Paper Company Limited, our partner, exercised its pre-emptive right to acquire CLP's 79% interest in the project, with the transfer completed in November 2013. Given the difficulty in maintaining the long-term sustainability of this type of generation, we do not envisage or intend to pursue future investments in biomass energy projects in the Mainland.

Hydro and Biomass Portfolio – Performance

	Installed Capacity (MW)	Generation (GWh)		Utilisation (%)		Availability (%)		Operating Hours (Hours)	
		2013	2012	2013	2012	2013	2012	2013	2012
Boxing Biomass[1]	15	35	83	28	53	41	76	2,005	4,715
Dali Yang_er Hydro	50	141	126	32	29	87	76	2,826	2,522
Huaiji Hydro	125	485	452	44	41	92	94	3,874	3,613
Jiangbian Hydro	330	1,539	1,225	53	42	89	89	4,663	3,713

Note:

1 Performance up to and including 31 October 2013.

Nuclear

Daya Bay achieved a utilisation rate of 86% in 2013, compared to 92% in 2012. This lower rate was due to the planned refuelling outages for both units in 2013. Daya Bay continues to maintain its longstanding safety record and its radiological releases into the environment are well within regulatory limits, without any adverse effect to nearby residents or the environment. Further safety measures, as required by the Mainland Government's comprehensive safety review of nuclear installations, were also implemented during the year. These included measures against natural hazards and additional emergency procedures against severe accidents.

As detailed in our announcement to shareholders dated 3 September 2013, discussions with China General Nuclear Power Corporation (CGNPC) on the acquisition of a 17% equity shareholding in the Yangjiang Nuclear Power Station project have discontinued. While these discussions have ceased, our long-term strategic partnership with CGNPC remains solid and enables us to explore future investment opportunities in the Mainland.

Environmental Performance

Air Emissions

The Central People's Government issued a new air pollutant emissions standard for existing thermal power plants which will come into effect on 1 July 2014. To meet this standard, a Selective Catalytic Reduction (SCR) system is being retrofitted to Fangchenggang to reduce its NO_x emissions. Unit 1 of the SCR was commissioned in November 2013 and has successfully passed the local Environmental Protection Bureau's inspection. Unit 2 is currently planned for commissioning in the first quarter of 2014.

Climate Adaptation

As part of a Group-wide initiative to assess how climate change will affect our operations, we extended the climate adaptation study in the Chinese mainland from Fangchenggang to Jiangbian in 2013. Please refer to the "Natural Capital" section and our 2013 Sustainability Report for additional details. SR

Environmental Regulatory Compliance

In 2013, there were no fines or prosecutions arising from environmental-related regulatory non-compliances for our Mainland assets in which we had operational control.

In order to keep abreast of environmental regulatory developments and to maintain an up-to-date database of relevant regulations, CLP embarked on two separate projects in 2013. First, we collaborated with a Mainland law firm to assess the potential impact from environmental regulations on our business in the Chinese mainland. Second, we established a comprehensive online environmental, health and safety database, which is regularly updated and accessible to our power generation facilities. The list includes national and provincial environmental regulations, as well as city-level environmental regulations relevant to each generation facility in our portfolio.

The Hon CY Leung, Chief Executive of the Hong Kong SAR, visits Fangchenggang Power Station with a trade delegation, complimenting the successful development of Hong Kong businesses in the Mainland

Social Performance

Stakeholder Engagement

As one of the largest external energy investors in the Mainland, and following the change in leadership of the Central People's Government in 2013, our Chairman and senior executives met Vice President Li Yuanchao and the Director of National Energy Administration in Beijing in September. In November, Chief Executive of the HKSAR Government, the Honourable CY Leung led a Hong Kong trade delegation to visit our power plant in Fangchenggang.

Community Initiatives

Our community initiatives in the Mainland focus on youth education and the environment, both of which are priorities of the Government. In 2013, we also made donations to support relief of natural disasters in Sichuan, Jilin and Guangdong. Employee volunteering remains one of the key platforms for CLP to engage with local communities, which are becoming varied as the geographical reach of our assets spread. Some of our 2013 highlights are described below.

Engaging Communities through Employee Volunteerism

YOUTH EDUCATION AND DEVELOPMENT

Provided financial assistance to 460 students at 11 schools in 4 Provinces through Support-a-student Programme

Our Hope Kitchen in Ganxi Central School, Guizhou became fully operational, serving over 700 students and faculty members on a daily basis

CLIMATE CHANGE AND THE ENVIRONMENT

Planted over 38,000 black pines and orientalis near our wind farm in Penglai, Shangdong

Supported Shandong Government's initiative to provide more than 200 village residents with daily access to fresh water

Supported the Guangxi Government's campaign to improve Fengshan County's countryside ecology and water quality through a sponsorship of RMB500,000

DISASTER RELIEF

Staff and company donated HK$380,000 in response to the earthquakes in Yan'an (Sichuan Province) and Songyuan (Jilin Province) respectively

CLP Huaiji donated HK$75,000 to restore the irrigation systems and pathways destroyed by the flooding in Zhongzhou and Xiazhu Township in Guangdong

CLP VOLUNTEERS

Delivered donated clothes to poverty-stricken areas in Fangchenggang as well as food supplies to a community food bank for the underprivileged in Nanning, Guangxi

Outlook

In 2013, the sluggish global economy affected Chinese exports, resulting in a consolidation in the overall Chinese economy. The Government has also turned its attention to preserving the environment and the wider issue of global climate change by stepping up the evaluation of energy conservation, strengthening its environmental impact assessment and tightening land use scrutiny for new construction projects.

With the drawing up of the Development Plan for Renewable Energy during the "12th Five-year Plan" period, the Government has made it clear that it will continue to support the development of clean electricity generation in the form of renewable energy, nuclear power or more efficient coal-fired power plants, towards a more sustainable energy path. Given CLP's own climate strategy to reduce the carbon intensity of our generation portfolio, we will continue to consolidate and rationalise the ownership of minority-owned coal-fired assets and to invest in renewable energy projects.

At The Third Plenary Session of the 18th Communist Party of China Central Committee held in Beijing last November, the Government announced the opening up of sectors that are currently dominated by state-owned enterprises to private companies. CLP will explore if there are any opportunities for us to expand in the market under this new policy.

In 2014, our major plans and activities include:

- improving the environmental performance at Fangchenggang I;
- obtaining final approval to proceed with the construction of Fangchenggang II;
- reducing our positions in minority-owned coal-fired joint ventures if the opportunity to do so on commercially acceptable terms arises;
- continuing final-stage development work for Xundian Phase I and Laizhou Phase I wind projects, as well as obtaining approval and commencing construction for Huadian Laizhou Phase II wind project;
- maintaining high operational standards at Jinchang and exploring new investment opportunities for other solar power investments;
- completing the construction of the Xicun Phase I solar project; and
- continuing to capitalise on synergies with strategic partner to explore opportunities for further participation in the ongoing development of the Mainland's nuclear energy generating capacity.

Beyond 2014 we intend to:

- complete the construction of Fangchenggang II;
- pursue divestment of CLP's interest in minority-owned coal-fired joint ventures;
- explore further participation in the ongoing growth of the Mainland's nuclear energy generating capacity;
- maintain a development pipeline of viable wholly-owned wind and solar projects; and
- explore investment opportunities in other renewable energy projects, especially small-to-medium size hydro projects.

INDIA

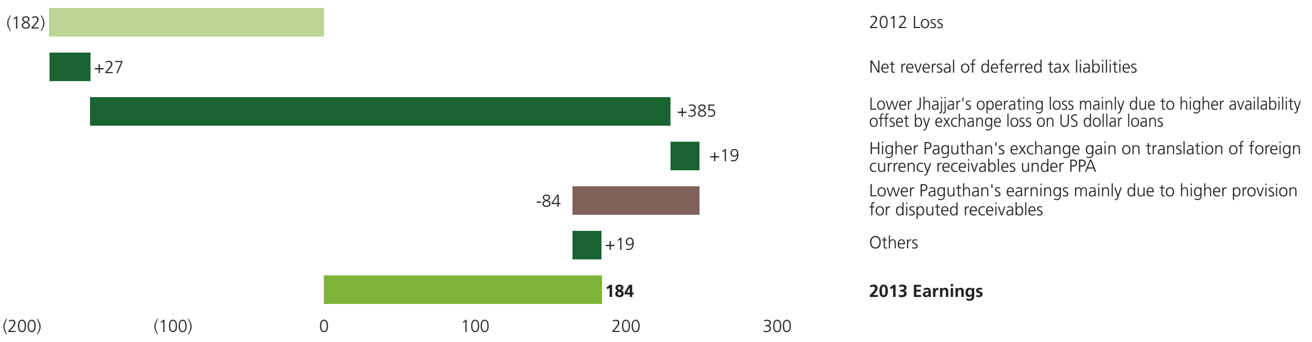
CLP India is the leading foreign independent power producer and the largest wind project developer

Financial Performance

The financial performance of CLP India improved in 2013 with operating earnings of HK$184 million, compared to a loss of HK$182 million in 2012. On the back of improved coal supply in the second half of the year, operating loss from Jhajjar was reduced. This was, however, offset by exchange loss on US dollar loans of Jhajjar and lower earnings from Paguthan, the despatch of which was constrained by gas shortages.

In addition, an impairment provision for Paguthan's finance lease receivables of HK$293 million was made. This was due to the renegotiation of the Power Purchase Agreement (PPA) as a result of long-term gas supply issues (HK$101 million) and a lower estimate of the plant's residual value at the end of the PPA (HK$192 million).

India Earnings before One-off Item (HK$M)



Operational Performance

Business Environment

It has been a challenging year for the Indian economy. Inflation and interest rates remained high, and GDP growth for India's fiscal year from April 2013 to March 2014 is forecast to be a relatively modest 4.8%. High fiscal and current account deficits, combined with concerns about the Federal Reserve's potential tapering, resulted in a significant depreciation of the Rupee during the year. Some stability was restored following the appointment of a highly respected economist as the new Governor of the Reserve Bank of India in September. There remains some hope that the upcoming national elections in May 2014 will provide some political clarity as well as momentum for various needed economic reforms.

In the power sector, fuel supply has been an industry-wide problem. The Indian Government has taken action to address a number of unresolved matters, including issuing guidelines that will ultimately allow coal-fired power plants to import coal to meet fuel demand, and introducing measures to improve domestic coal production. For future projects, new bidding guidelines have been implemented, providing developers with greater flexibility in sourcing alternate imported fuels, and clarifying the cost pass-through of fuel to consumers. From a risk perspective, however, these guidelines appear to favour off-takers over generators, who will be required to assume all liabilities of a project but not ownership.

Notwithstanding the measures taken by the Government, affordable domestic gas supply and allocation in India remains problematic. While the Government has recently accepted a new domestic gas pricing formula to encourage investments in the upstream sector, supplies are unlikely to improve sharply in the foreseeable future due to limited gas resources. At the same time, discussions have been initiated by the Government on the development of a regulatory regime to enhance utilisation of peaking power stations. While CLP India is monitoring these developments, we believe these will take some time to be finalised.

Private developers are also facing greater barriers to entry following the introduction of the new Land Acquisition Act which sharply increases the lead time and costs of land acquisition. Notably, both our assets at Paguthan and Jhajjar already own the requisite land, which can be utilised for future expansions.

There has been a significant improvement in the generation performance of Jhajjar, with both units of our coal-fired power station being able to operate on a near base-load basis from June 2013 – the first time since commissioning in July 2012.

Challenges faced by Jhajjar arising from shortages of domestic coal were mitigated with approval from its off-takers to burn imported coal, initially at 15%, and subsequently at 35%. The plant's operations have also been stabilised and we have overcome initial technical challenges of burning a higher proportion of imported coal in the boilers, which were initially designed to burn domestic coal. Domestic coal supply has also improved in terms of both quantity and quality. As a consequence of this, plant commercial availability has improved markedly to 86.7% in the second half of 2013, up from 38.7% in the first half, taking annual availability to 62.8%.

Performance of Jhajjar in 2013 first half and second half

Particulars	2013 H1	2013 H2
Availability	38.7%	86.7%
Utilisation	30.6%	68.4%
Domestic Coal	302 rakes[1]	387 rakes
Imported Coal	60 rakes	215 rakes

Note:

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

Performance of Jhajjar

Month	Utilisation (%)	Availability (%)
Jan-13	30.5	30.3
Feb-13	38.6	38.8
Mar-13	36.5	36.6
Apr-13	32.1	32.0
May-13	30.9	46.4
Jun-13	15.9	48.5
Jul-13	65.3	85.8
Aug-13	59.5	79.2
Sep-13	77.6	92.5
Oct-13	55.5	70.0
Nov-13	75.2	94.6
Dec-13	77.6	98.3
Average	49.6	62.8

Generation at our gas-fired plant in Paguthan in Gujarat has fallen to 5% due to domestic natural gas shortages. Production from our principal domestic source (KGD-6 basin) has fallen drastically since March 2013. Paguthan continues to make the units available to secure its capacity payments under the PPA mainly on alternative but more expensive fuel sources through the truncated domestic gas supplies from Cairn Energy and spot re-gasified LNG. Paguthan's availability has been high at 96%, while despatches continue to remain very low. Given domestic gas allocations are predicated on the Indian Government's "Gas Utilisation Policy", wherein the fertiliser sector is accorded precedence over the electricity industry, securing adequate, reliable and reasonably-priced domestic gas supplies in the near term remains a challenge.

As indicated in our Interim Report, the current PPA protects Paguthan's revenue as long as the power plant is available for despatch. The plant's off-taker Gujarat Urja Vikas Nigam Limited (GUVNL) had requested a reduction in fixed charges under the PPA as it could only purchase negligible amounts of power from Paguthan. We recently reached agreement with GUVNL to revise the terms of the PPA.

Separately, in November 2013, Gujarat Electricity Regulatory Commission ruled in favour of our claims against the off-taker, on certain disputed items relating to availability and interest on working capital. We are continuing to pursue discussions with GUVNL over this.

Wind

In 2013, our operating wind farm projects grew to 628.2MW, up from 521MW a year ago. Sipla, Bhakrani Phase I and Mahidad Phase I achieved full commissioning on schedule while Bhakrani Phase II and Mahidad Phase II remain partially commissioned. Despite grid constraints and lower machine availability at some of the wind farms, performance of our fully operational projects has been within our expectations. Construction for our two new projects, Yermala (148.8MW) and Jath (130MW) has also commenced. Upon completion of our committed projects, we will further strengthen our current position as India's largest private sector investor in the electricity industry and wind energy producer with an operating portfolio of over 1,000MW.

Wind Energy Portfolio – Status and Performance

Project	Installed Capacity (MW)	Commissioned / To be Commissioned (MW)	Forecast Full Commissioning Date	Utilisation (%) 2013	Utilisation (%) 2012
Samana I	50.4	50.4	–	21.0	23.5
Samana II	50.4	50.4	–	23.8	26.2
Saundatti	72.0	72.0	–	24.1	23.1
Khandke	50.4	50.4	–	26.6	24.1
Theni I	49.5	49.5	–	25.3	32.2
Theni II	49.5	49.5	–	23.0	30.6
Andhra Lake	106.4	106.4	–	24.8	21.4
Harapanahalli	39.6	39.6	–	28.7	29.7
Sipla	50.4	50.4	March 2013	n/a [1]	n/a [1]
Bhakrani	102.4	76.0 / 26.4	March 2014	n/a [1]	n/a [1]
Tejuva	100.8	0 / 100.8	NTP not yet issued [2]	n/a [1]	n/a [1]
Mahidad	50.4	33.6 / 16.8	September 2014	n/a [1]	n/a [1]
Yermala	148.8	0 / 148.8	July 2015	n/a [1]	n/a [1]
Jath	130.0	0 / 130.0	July 2015	n/a [1]	n/a [1]
Total	1,051.0	628.2 / 422.8			

Notes:
1 n/a (not applicable): projects that had not been commissioned for a full year's operation.
2 NTP: Notice to proceed for construction

On the financial side, the Generation Based Incentive (GBI) for wind energy, which expired in March 2012, has now been reinstated with an enhanced cap. Wind projects commissioned during the 12th Five-Year Plan from 2012 to 2017 will now receive a GBI of Rs.0.5 per unit of electricity fed into the grid, with a cap of Rs.10 million per MW, up from Rs.6.2 million per MW previously. This will benefit almost all of our wind investments. Separately, the receivable position of the Theni I & Theni II projects have shown significant improvement with all overdue payments received during the course of 2013.

To boost the growth of our wind portfolio, we signed a "pooled financing" agreement with three financial institutions for our wind assets in September 2013. By combining revenue from those assets to create a common pool to service debt, this innovative financial structure helps mitigate risks arising out of the unpredictable nature of wind assets' output and has the added advantage of enhancing CLP India's ability to attract new lenders to fund future growth.

Environmental Performance

Emissions

Air emissions levels from our two fossil fuel-based power plants at Jhajjar and Paguthan were relatively low in 2013 as they grappled with fuel supply issues. However, Jhajjar has since made progress on its coal supply matter. As such, electricity generation and hence emissions levels were higher in the later part of 2013, and overall higher compared to 2012. The emissions levels are expected to be even higher in 2014 when operating conditions further stabilise. The emissions levels at Paguthan are also expected to increase back to normal levels once the gas supply issue is resolved, although that is not expected to be any time soon.

Climate Change

Our wind portfolio capacity in India has now surpassed the 1,000MW milestone – significantly strengthening our lead in the wind energy sector, and helping CLP move closer to our next renewable energy target in 2020. While we continue to build our renewable energy portfolio in India and expect sustained growth of this business over the next few years, we believed it was important to exercise some effort in assessing how climate change may affect these operations. In 2013, we commissioned a climate adaptation assessment for two of our wind farms, namely Harapanahalli and Saundatti, to glean any insights into what CLP should or could do in order to protect these assets where needed and perhaps how to site, design and build future wind farms to be more resilient to such impacts. Please refer to our Sustainability Report for more details.

Biodiversity

Paguthan has been conserving and encouraging a rich and vibrant range of biodiversity in its plant and township estate. These include a wide range of flora and fauna, almost 70 varieties of migratory birds and insects. We documented these in a coffee table book titled "Living with the Green" published locally in India.

Environmental Regulatory Compliance

In 2013, there were no fines or prosecutions arising from environmental-related regulatory non-compliances for any of our Indian assets in which we had operational control.

Social Performance

Stakeholder Engagement

CLP India continues to engage State and Federal Government agencies responsible for policy decisions on areas affecting our business, including long-term availability and supply of adequate domestic coal to Jhajjar, importation of coal to bridge the domestic supply deficit, regularisation of payments for our wind projects and improvements in the domestic gas supplies and allocation for Paguthan.

While we make representations on behalf of CLP India, the same are being supplemented through joint representations with leading industry associations, including the Association of Power Producers, Confederation of Indian Industry and Federation of Indian Commerce and Industry, of which we are members.

Increased coal supply has given Jhajjar a significant boost

Community Initiatives

In consultation with members of the local community, government, financial institutions and NGO partners, CLP India continues to implement community initiatives that improve the quality of life for communities where our assets are located. Key programmes are focused on addressing health and education challenges and improving the livelihoods for residents of the ten villages near our Paguthan plant in Gujarat and the four villages near our power station at Jhajjar in Haryana. Some of the programmes are highlighted below.

Improving the Quality of Life for Communities where CLP India's Assets are Located

EDUCATION PROGRAMMES

At Paguthan:

Through the Guest Faculty Programme, CLP India employees volunteered as tutors and delivered lectures to over 100 students from a vocational training institute to enhance their employability

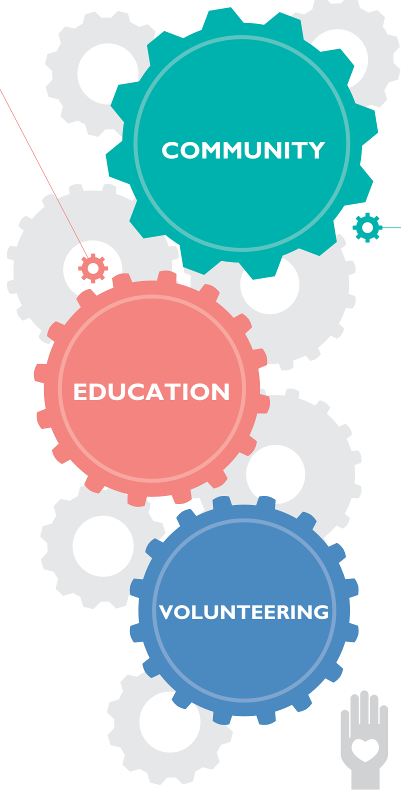
Encouraged 50 children to return to school through the Informal Education Programme

Provided direct financial assistance to 131 underprivileged students and donated school bags and stationery to 227 school children to lower their hurdle to return to school

Provided Computer Literacy Class to 95 students in partnership with Pratham

At Jhajjar:

Sponsored multi-media teaching systems in 4 primary schools to improve the learning efficiency for over 350 students



HEALTH PROGRAMMES

At Paguthan:

CLP India Extension Volunteers participated in a Maternal and Child Health Programme and assisted to encourage mothers to deliver their babies at medical facilities to reduce the risk of infection and mortality

At Jhajjar:

Partnered with Wockhardt Foundation to provide over 37,913 medical consultations through the mobile clinic programme since July 2011

Initiated healthcare training programmes including sponsoring 10 youths to enrol in a three-year paramedical course in professional medical training school

Outlook

The large gap between demand and supply spells strong long-term opportunities for investors and developers. We continue to see attractive investment opportunities in renewables, particularly wind and solar. In saying this, there remain a number of important matters – which will need continued focus from the Government of India. These include the lack of fuel supplies (including coal and gas), the financial health of distribution companies and the time-consuming processes for obtaining environmental clearances for new projects. As the Rupee faces continuous challenges along with Quantitative Easing (QE) tapering and concern about emerging markets performance, the Reserve Bank of India will need to implement sound financial policies in order for the economy to deliver meaningful growth.

We anticipate the slowdown in new capacity addition will continue for some time. While policy makers have introduced a range of vital measures to address some of these challenges, sustained intervention will be needed to assist in reviving investors' confidence. The outlook for the renewables sector, on the other hand, continues to look promising.

For 2014, CLP India will focus on:

- moving Jhajjar towards a long-term and sustainable financial viability by establishing a framework for the procurement of the requisite coal quantities through engagement with the Indian Government and other stakeholders while improving efficiency and reducing costs;
- continuing longstanding efforts to secure adequate, reliable and reasonably-priced gas supplies for Paguthan;
- maintaining steady growth of our wind energy business, including the construction and commissioning of our new projects so as to retain and strengthen our leadership position in the sector; and
- monitoring conventional power opportunities, including exploring and evaluating potential new investment opportunities.

Beyond 2014, we will:

- consider diversification of our portfolio by continuing to grow in renewables, conventional and small-to-medium-scale "run of river" hydro and solar projects. These projects will be judged on a selective basis and expansion will depend on addressing critical issues, including land acquisition, technology reliability and a supportive tariff structure; and
- pursue the strategy of moving CLP India to a "self financing" status through alternative fundraising options.

Mr Stephen Oldfield
Managing Director,
Global Infrastructure and Utilities Strategist and Head of the Asia Utilities Research team, UBS

How are you dealing with the fuel shortages that have been negatively affecting your Indian operations?

As highlighted by Jhajjar's much improved availability from 38.7% in the first half of 2013 to 86.7% in the second half, the domestic coal shortages faced by the power station have been addressed to a large extent by the permission to procure and blend imported coal as well as improvement in domestic coal receipts. We will continue to engage with various Government agencies and other stakeholders to improve domestic coal supplies and support a higher level of imported coal blending.

At Paguthan, while our gas-fired power station continues to face domestic natural gas shortages primarily due to a drastic drop in production at our principal domestic source, commercially it has been securing its capacity payments under the PPA by maintaining a high availability on alternative fuel sources. We will continue to work with the Government authorities concerned on securing adequate, reliable and reasonably-priced domestic gas supplies.

Rajiv Mishra
Managing Director – India

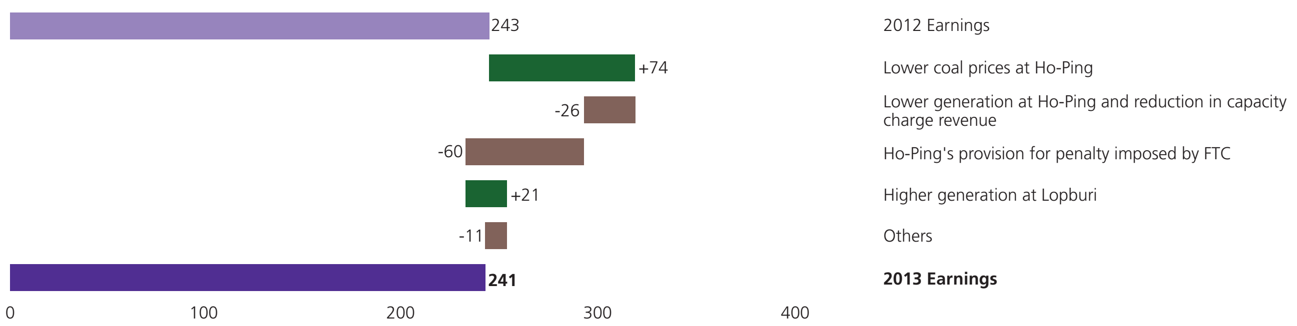
SOUTHEAST ASIA AND TAIWAN

We invest, develop and operate solar and coal-fired power projects

Financial Performance

The operating earnings from our investments in Southeast Asia and Taiwan in 2013 remained stable at HK$241 million. Lower earnings from Ho-Ping Power Station (Ho-Ping) were mainly due to a HK$60 million provision for a penalty imposed by the Taiwan Fair Trade Commission (FTC), lower generation because of a planned overhaul and reduction in capacity charge revenue, which were partially offset by lower coal prices. The decrease in earnings was compensated by higher contribution from the Lopburi solar project (Lopburi), of which an 8MW expansion was completed in May 2013.

Southeast Asia and Taiwan Earnings (HK$M)



Operational Performance

Since 2011, CLP has made the strategic decision to focus on our existing investments and development projects in Southeast Asia and Taiwan, including the operating Ho-Ping project in Taiwan, Lopburi in Thailand, and the Vung Ang II and Vinh Tan III projects under development in Vietnam.

Ho-Ping, in which CLP has a 20% shareholding, achieved another year of solid operational performance in 2013 with high despatch. Following years of increased pressure by the off-taker Taiwan Power Company (Taipower), Ho-Ping agreed to reduce tariffs under its long-term PPA. This tariff reduction was agreed following Ho-Ping's appeal against a penalty levied by the FTC of NT$1.35 billion (HK$351 million, CLP's share was about HK$62 million, net of tax) for alleged concerted action with other independent power producers (IPP), in violation of the Fair Trade Act. While the Executive Yuan, the executive branch of the Taiwan Government, upheld the penalty decision, it did ask the FTC to reconsider the amount and a marginal reduction to NT$1.32 billion (HK$343 million) was levied. To protect its legal rights, Ho-Ping subsequently filed an administrative litigation to the Taipei High Administrative Court against the FTC's decision and has issued a further administrative appeal to the Executive Yuan regarding the revised FTC penalty. The appeal processes and court proceedings are expected to take some time to settle.

In Thailand, an 8MW expansion of Lopburi was completed, increasing its total capacity to 63MW. Developed by Natural Energy Development Co., Ltd. (NED), of which CLP holds a 33% share, Lopburi is the first utility-scale solar project in our portfolio. CLP provided management leadership and technical support for the development, construction and operation of the project, which achieved good operational and safety performance during 2013.

In Vietnam, the Vung Ang II coal-fired project awaits the Government's final decision on the acceptance of the key project documents, including the PPA, build-operate-transfer contract and government guarantees, which have been extensively negotiated. Contracts for equipment supply, construction, and coal supply and transportation have now largely been settled. Discussions with potential lenders have commenced.

Development work on our second Vietnam project, Vinh Tan III, has also been progressing. Contractors for equipment supply and construction have been selected and negotiations with the Vietnamese Government on the PPA and build-operate-transfer contract are continuing.

Environmental Performance

Ho-Ping's Coal Consumption Limit Litigation

As explained in our 2012 Annual Report, Ho-Ping was fined NT$442 million (HK$116 million) for exceeding the coal consumption limit stipulated in its environmental impact assessment report for 2009 and 2010. Ho-Ping's subsequent legal appeals on the fines have been successful, with the Taipei High Administrative Court ruling that the Hualien County Government should not replace a smaller fine (NT$100,000) related to the 2009 exceedance with a higher penalty. The court also requested that the Government reconsider an appropriate fine for the 2010 exceedance. The Government had filed further appeals to the Supreme Administrative Court and Ho-Ping will continue to pursue and defend its position.

Environmental Regulatory Compliance

In 2013, we had no facilities in Southeast Asia and Taiwan in which we have operational control.

Social Performance

Stakeholder Engagement and Community Initiatives

In Thailand, NED continued its monthly meetings with community representatives to better understand local concerns and explain its operations. Further, NED's "Youth and Education" focus saw it initiate events including seminars, exhibitions and training to enhance students' knowledge of renewable energy, strengthen ties with the local community and support NED's green image. Building upon the GreeNEDucation Museum in raising renewable energy awareness, NED also assisted in incorporating renewable energy lessons into local school programmes, installing solar panels on the library rooftops of two local schools and sponsoring scholarships to 100 children at five local schools.

In Taiwan, Ho-Ping continues to focus on health, environmental and cultural development. In 2013, it supported school sports events, scholarships as well as a broad range of community activities including beach cleaning and cultural dancing lessons. Through these efforts, Ho-Ping successfully engaged with key stakeholders including primary schools, indigenous residents and government representatives from Hualien and Yilan counties.

Outlook

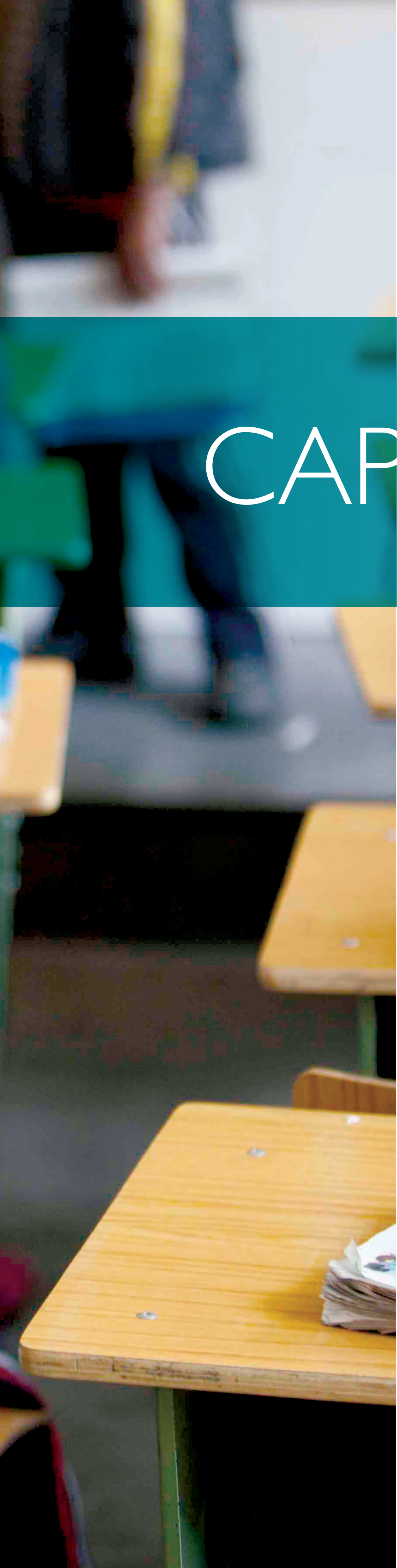
Taiwan is currently at a crossroads in revising its energy policy, and debates on the abandonment of nuclear power, fossil fuel versus renewable energy, new mechanisms to cap greenhouse gas emissions and whether the true costs of energy should be passed through to end-users are all continuing. While there are positive signs from Government ministries about opening up the electricity market, it is doubtful that there will be substantial progress on these issues in the near term.

In Thailand, a further round of bidding for the independent power producer scheme was completed at the end of 2013 and further bidding is not expected for some years. Growth opportunities in the renewable sector remain, however, we do not currently contemplate expanding beyond our existing investment in NED.

By the end of 2013, Vietnam appeared to have restored its macroeconomic stability, which was underpinned by modest GDP growth, moderate inflation and strengthening external accounts. Nonetheless, critical risks remain, including low foreign currency reserves, fragile private sector demand and a weak banking sector. Against this backdrop, we believe the IPP market in Vietnam will develop at a measured pace, with the Government providing support and guarantees to a limited number of projects with competitive tariffs. In these circumstances, we will continue to develop the two projects in Vietnam with the clear objectives of maintaining competitive tariffs, robust project structures, as well as selecting strong and competitive suppliers of equipment, fuel and finance. However, we do not contemplate further expansion of our business in this market.

In retaining our focus on our existing business and opportunities in Southeast Asia and Taiwan, our key tasks include:

- maintaining safe and reliable operation at Ho-Ping and Lopburi;
- seeking to resolve Ho-Ping's appeals and administrative litigation on the FTC penalty satisfactorily; and
- finalising negotiations with the Vietnamese Government on the key project agreements for Vung Ang II and Vinh Tan III.



CAPITALS

What are the "capitals" that sustain our business?

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

FINANCIAL CAPITAL

Our funding resources and capability

After several years of extraordinarily low interest rates, from the second half of 2013, economic data from most countries finally pointed to an improving global (notably the United States) recovery picture.

Earlier in the year, investors were briskly searching for yields at a time of unprecedentedly low interest rates. Such "risk-on" behaviours were seriously challenged when, in May 2013, the Federal Open Market Committee minutes divulged that a number of the Federal Reserve Governors had expressed a willingness to begin scaling back monthly asset purchases as early as June 2013 to forestall inflationary pressure. The market implications of this paradigm shift were massive – market participants scuttled to adjust their portfolios, causing 10-year US treasury yields to surge from 1.7% in April to over 3% in September and emerging market currencies (such as the Indian rupee and the Indonesian rupiah) to plummet up to 25% against the US dollar at one point.

Such fear of "Fed Tapering" as well as credit tightening in the Chinese mainland resulted in a spike in interbank rates and continued to send global financial markets tumbling. Equity, commodity and foreign currency markets faced tremendous selling pressures (with the exception of the US dollar). Activities in primary bond markets came to a halt again, the second time after an effective shutdown in the second half of 2011. Financial markets only settled down after the Federal Reserve clarified it would "maintain a highly accommodative monetary policy as long as needed" and that "any decision on tapering would depend upon improvement in the jobs data."

The earlier-than-expected start to quantitative easing tapering prior to Christmas in 2013 and the Federal Reserve's forward guidance to keep "the level of accommodation more or less the same level" still awaits a full response from markets. That said, the precautionary measures that CLP has taken in 2013 (as detailed below) should have further safeguarded the Group's financial and business position.

Applying Discipline and Dynamism in Meeting Business Needs

Over the past couple of years, the "Financial Capital" sections of our Annual Report portrayed CLP's funding model and how it could enhance our financing strength and flexibility. Our ability to procure diversified, cost-effective, multiple-tenured external financing on a timely basis without undue market risks (liquidity, (re)financing, interest rate) is critical if we want to perform well in the capital intensive power industry. This year we intend to use a few illustrations to demonstrate how we apply discipline and dynamism in our financing risk management activities, with the objective of achieving longer-term shareholder value.

Irrespective of market conditions, we never depart from our prudent financing management philosophy. Also, we avoid any temptation to apply personal views on market movements as we believe quality financial policies and a high level of self-discipline are most important. That said, we closely monitor the markets, cultivate business relationships with new lenders while maintaining rapport with existing ones, review our business requirements and move swiftly to execution so that we may deliver greater value to shareholders.

CLP faced a number of challenges in 2013. Our financing and treasury activities were implemented by way of considered strategy to manage liquidity and financial risks, enabling our group companies to sustain and grow our business. Activities included:

- completing a HK$10 billion bridge financing by CLP Holdings at competitive terms and finalising the associated loan documents for acquiring an additional 30% interest in CAPCO and remaining 51% interest in PSDC when the respective parties accelerated the final round of discussions in October 2013. While CLP Holdings and

CLP Power Hong Kong had approximately HK$24 billion in undrawn credit facilities and internal resources which were more than enough to pay for the acquisitions, we decided to include a fully committed bridge loan upfront to allow CLP ample time to secure an optimal permanent financing structure and maintain good liquidity. In view of the tremendous interests indicated by other banks to join the bridge financing, we completed syndication of HK$5 billion with 12 multinational and regional banks in January 2014.

- tapping into the onshore Japanese yen bank market to secure a more cost-effective funding of CLP Power Hong Kong's SoC business through completion of a JPY12 billion (HK$934 million) loan syndication, simultaneously broadening its lenders' base. Though the highly successful placement of US$600 million dual tranche Regulation S public bonds in October 2012 had left CLP Power Hong Kong with only modest funding requirements in 2013, it remained self-vigilant and continued to search for the most cost-effective funding to support the SoC business. This transaction took advantage of the good liquidity in the Japanese banking market, particularly after the rollout of "Abenomics" in December 2012 where Japanese-based financial institutions were more eager to lend offshore. With assistance of two arranging banks, this JPY12 billion, 3-year cross-border loan was successfully syndicated to 13 regional and city banks in Japan with a 1.5 times oversubscription. CLP Power Hong Kong swapped the full amount of the Japanese yen proceeds into Hong Kong dollars at a cost lower than conventional Hong Kong dollar bank loans for the same tenor. According to the lead arranging banks, this is the first Japanese yen cross-border bank loan ever arranged in Japan for a Hong Kong borrower on a syndication basis.
- converting HK$4.1 billion floating rate debts for CLP Power Hong Kong into fixed rates mostly in early 2013 to further enhance the certainty of earnings and cashflow as part of our risk management strategy when the market was still debating the future course of interest rates. CLP never pretends it can predict financial market or rates movement (nor will we). Instead of trying to speculate when Fed Tapering will come and by how much, we prefer to exercise great discipline in identifying the respective risks, evaluating options and implementing risk

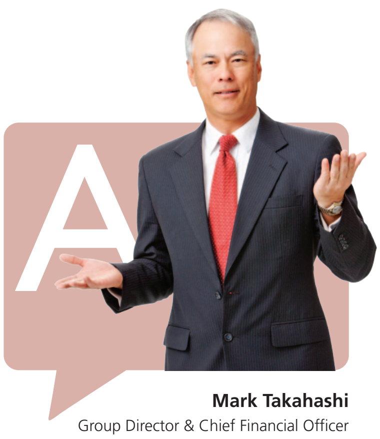
CLP's strategy is to diversify its business beyond reliance on a single sector in Hong Kong and to capitalise on the growing opportunities in overseas markets. However, the upshot of this approach may result in pressure on CLP's credit rating. How does CLP strive to maintain a balance between its credit rating and optimising the overall cost of finance?

Ms Susan Yuen
CEO, Hong Kong
Australia and New Zealand Banking Group Limited

As the Hong Kong market is mature, overseas expansion provides an opportunity for us to grow, diversify risk and create shareholder value. The expansion of our business should not be detrimental to our financial well-being. In reviewing investment proposals, we carefully consider the impact on our financial ratios. We also maintain a strong dialogue with credit rating agencies to explain the rationale and implications of major acquisitions, as strong investment grade credit ratings are important to CLP. This is particularly so with respect to CLP Power Hong Kong as a relatively frequent issuer in the debt capital markets. It is also important for EnergyAustralia given the high level of hedging activities associated with an electricity business in a competitive market.

That said, we also recognise that equity is a more expensive source of capital than debt. We have therefore been careful and deliberate when considering new equity fund raising at the CLP Holdings level. The HK$7.56 billion share placement in December 2012 was the first time we raised equity capital in more than a decade, and provided some additional buffer for growth investments. It should also be noted that our financial strategy includes raising equity capital at the business unit or project level, either through listings or targeted sell-downs. This provides an opportunity to realise value as well as recycle capital for future growth.

In summary, while we are careful in using incremental debt, we recognise that we must balance this with our desire to minimise the cost of capital. Importantly, independent of our specific ratings in our various entities, we believe that we will continue to have strong access to external debt funding through prudent investment / financial management, good relationship with lenders / investors plus sound planning and execution.



Mark Takahashi
Group Director & Chief Financial Officer

management measures in accordance with our prudent but well-proven financial policies so that we can fence off unwarranted financial risks and maintain good financial health to operate and grow. As of the end 2013, CLP Group's fixed rate debt to total debt was approximately 67% (2012: 57%), a level which would provide us with better protection in view of rising interest rates and event risks.

- completing an early-refinance of EnergyAustralia's aggregate A$2.1 billion bank facilities maturing in stages commencing from 2014 to ensure ample liquidity and lock in lower levels of interest margins. Notwithstanding that EnergyAustralia's credit rating was revised downward to BBB- from BBB with negative outlook, it was able to leverage on its good relationship with Australian and regional banks, a very liquid Australian dollar bank loan market, further tightening of interest margins and the "CLP halo" to launch an expeditious refinancing programme which was finalised in January 2014. The refinancing has enabled EnergyAustralia to extend the maturities of the entire A$2.1 billion facilities by an average of 1.8 years at all-in interest margins lower than that of the expiring bank facilities.

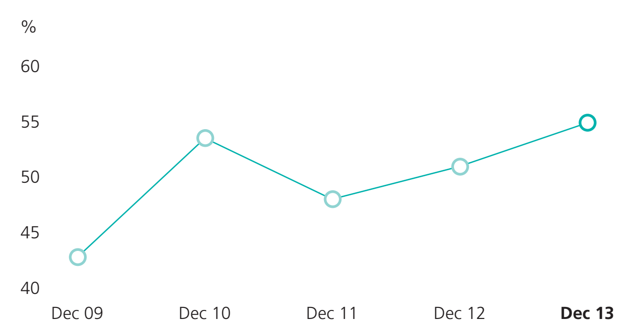
A Diversified, Sustainable, Cost-effective Funding Approach

We endeavour to build and maintain long-term relationships with financial market participants, including bond investors, bank lenders, and risk management counterparties as opposed to "cherry picking" the lowest price bidder to reduce costs. As at 31 December 2013, the Group had maintained business relationships with 67 financial institutions (2012: 56). This number has almost doubled over the last decade from about 36 financial institutions in 2003, demonstrating our continuous efforts in developing and broadening our business relationship base. The majority of the banks we had relationships with a decade ago are still working in partnership with us, demonstrating the sustainability of our relationship. The increase in number of financial market partners in 2013 signals the new relationships we set up with Japanese-based financial institutions through the Japanese yen cross-border syndication loan arranged by CLP Power Hong Kong.

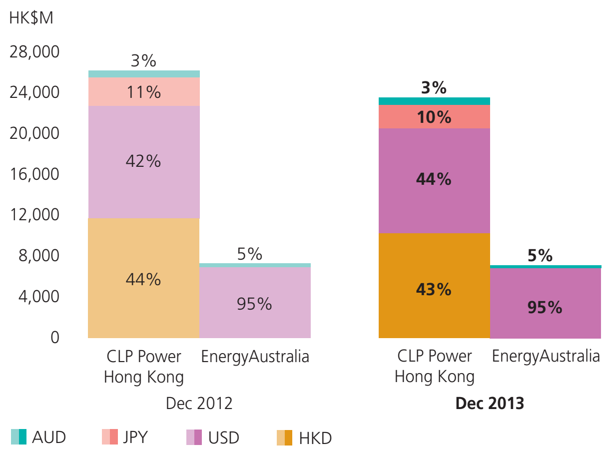
Apart from bank loans with multinational, regional and local banks, the Medium Term Note (MTN) Programmes adopted by CLP Power Hong Kong and EnergyAustralia provide flexibility in allowing these entities to reach out to investors in other parts of the world with a short lead time for aggregated amounts of up to US$4.5 billion (increased from US$3.5 billion) and A$2 billion respectively. These programmes also help diversify funding sources from the banking sector, deliver cost-effective fixed rate of borrowings and lengthen debt maturity to match with the long payback period of the electricity business. As at 31 December 2013, CLP Power Hong Kong has an outstanding 39 tranches of bonds (denominated in US dollar, HK dollar, Japanese yen and Australian dollar) with a nominal value of about HK$25 billion issued under its MTN Programme while EnergyAustralia has one outstanding tranche of Australian dollar bond (A$50 million) issued under its MTN Programme and 10 tranches of US dollar bonds (US$895 million) issued through the US private placement market. We have further extended our debt funding from bank lending to bonds (public and private) since the global financial crisis to capture the merits of low interest rates and lock in attractive, long-tenured, fixed-rate funding; and reduce the impact of the higher costs of bank lending attributable to the implementation of Basel III. As at 31 December 2013, about 47% and 48% of debt funding at CLP Power Hong Kong and EnergyAustralia came from bond investors based outside Hong Kong and Australia respectively.

The financial market upheavals which commenced in the United States in 2008 and subsequently proliferated to Europe reminds us of the importance of maintaining good but diversified relationships with financial market participants in different regions. This will not only protect CLP from being adversely affected by event risks in different parts of the world but also allows us to better manage geo-political exposures which may arise from distinctive fiscal and monetary policies implemented by various governments and central banks.

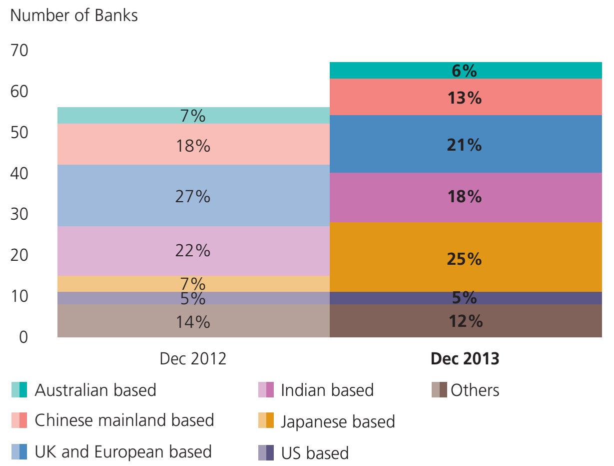
Ratio of Bond Funding to Total Debt



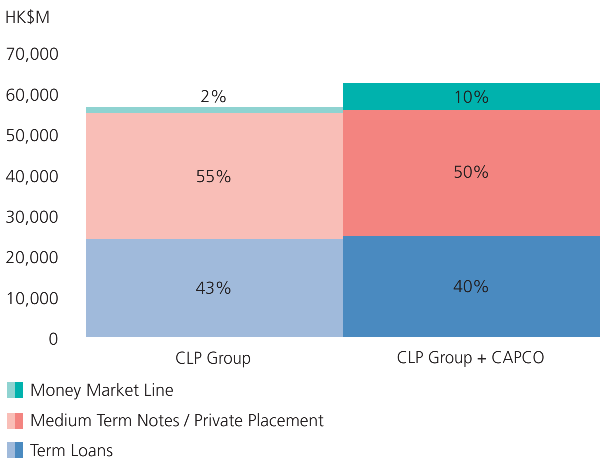
Currency of Bond Funding



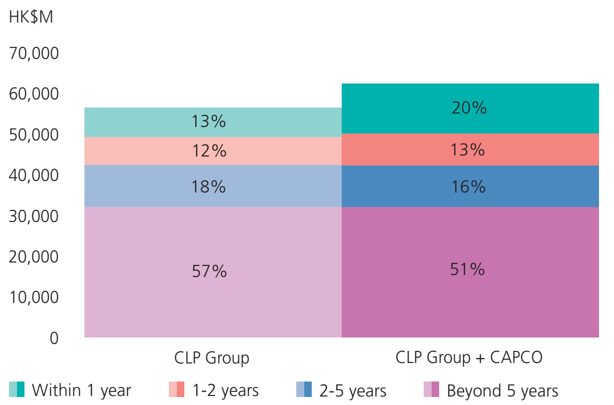
CLP Banking Relationship – Balanced Mix of Lending Financial Institutions



Loan Balance – Type



Loan Balance – Maturity



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

Debt Profile as at 31 December 2013

	CLP Holdings HK$M	CLP Power Hong Kong HK$M	Other Subsidiaries[1] HK$M	CLP Group HK$M	CLP Group + CAPCO HK$M
Available Facility [2]	16,600	33,672	38,997	89,269	95,534
Loan Balance	1,416	28,283	26,352	56,051	61,928
Undrawn Facility	15,184	5,389	12,645	33,218	33,606

Notes:

1 Mainly relates to EnergyAustralia and subsidiaries in India.

2 For the MTN Programmes, only the amounts of the bonds issued as at 31 December 2013 were included in the total amount of Available Facility. The Available Facility in EnergyAustralia excludes a facility set aside for guarantees.

In 2013, interest cover (which equals profit before income tax and interest divided by the sum of interest charges and capitalised interest) was 3 times (2012: 4 times). The financial obligations of the Group, CAPCO and PSDC, and the Group's share of the financial obligations of joint ventures and associates as at 31 December 2013 are shown on page 35.

In 2013, guided by the effective funding model as described above, we implemented our strategy as demonstrated by the following major financing events:

Major Achievements in Financing Activities

CLP Holdings	**HK$10 billion bank facilities** • Irrevocable commitment with HK$5 billion 1-year and HK$5 billion 2-year facilities at competitive terms to fund the acquisition of a further 30% interest in CAPCO and remaining 51% interest in PSDC • Can be drawn in name of CLP Power Hong Kong at the same terms • Syndication of HK$5 billion in January 2014 with 12 multinational and regional banks in name of CLP Power Hong Kong **HK$500 million 3-year bank facility** • Arranged at favourable terms
CLP Power Hong Kong	**JPY12 billion (HK$934 million) 3-year syndicated bank loans** • Japanese yen proceeds were swapped back to Hong Kong dollars to mitigate foreign currency risk. Borrowing cost was lower than that of loans offered by Hong Kong based banks in the same tenor • Successfully syndicated to 13 regional and city banks in Japan with 1.5 times oversubscription • The first Japanese yen cross-border syndicated bank loan ever arranged in Japan for a Hong Kong borrower on a syndication basis **A$20 million (HK$161 million) 10-year bond** • Australian dollar proceeds were swapped back to Hong Kong dollars to mitigate foreign currency risk **HK$750 million 3-year bank loan facilities** • Arranged at favourable rates
EnergyAustralia	**Revised the terms of an existing A$700 million (HK$4.8 billion) working capital facility** • Extended maturity by one year to June 2016 with existing lenders at lower interest margin **Refinanced A$2.1 billion (HK$14.5 billion) syndicated debt facilities** • Refinanced the full amount and extended the maturities by an average of 1.8 years at lower interest margins • Finalised in Janurary 2014
CLP India	**Rs.6.5 billion (HK$816 million) short-term bank loan facilities** • Bridge finance the construction of various wind projects which will be replaced by long-term financing after construction completion
Chinese Mainland	**RMB750 million (HK$961 million) 13-year project loan** • Long-term project level loan to fund construction of the Jinchang Solar (51% CLP owned) at competitive rate **RMB215 million (HK$275 million) 10-year project loan** • Long-term project level loan to fund construction of Laiwu Phase I Wind Power project (CLP wholly owned) at competitive rate

Holistic View of CLP's Financing Model

Spreading out of maturities, no concentration of geographical and (re)financing risks

Diversified funding sources, multiple debt instruments and investors base

Long-term, diversified, quality partners in financial markets; business counterparties that have good local market knowledge; a well-balanced business portfolio to grow

Diversified Debt Profile

The benefits of a well-diversified debt profile may not be obvious in a normal market. Well-managed liquidity and (re)financing risks along with cost effective third party funding; spreading out of debt maturities; and diversified debt instruments, lenders and markets can enhance shareholder value.

Intangible Asset

Long-lasting, strong and mutually-beneficial relationships with lenders / investors and good credit ratings enable CLP to have continuous access to capital at competitive rates, particularly at times of high volatility, tightened liquidity and upsurge in borrowing costs.

Strong Financial Matrix

Our healthy business profile with diversified investments, strong balance sheet, relatively low debt gearing level, prudent financial and treasury management policies help deliver stable earnings and protect us from financial market turmoil.

Good investment grade credit ratings, respectful business practices, open and transparent dialogues with stakeholders, good credentials

Disciplined investment, financing and risk management strategies

Low debt gearing, non-recourse project level loans

Financial Risk Management

To deliver on our business objectives, safeguard our financial health and preserve our ability to grow into the future, we adopt a long-term, prudent approach to financial risk management. This involves balancing the needs of our various stakeholders to deliver shareholder value. Our initiative to hedge a high level of foreign exchange and interest rate exposure in our business portfolio is but one example of this, allowing us to avoid undue tariff volatility, even though a significant portion of this risk could be passed-through to customers.

Our financial derivative positions are established only to hedge genuine economic exposures. We also perform periodic reviews of derivative positions to meet business requirements. We adopt cost-efficient, plain vanilla and Hong Kong Financial Reporting Standards hedge effective derivative instruments in protecting earnings, without undue profit or loss impact. We also review our risk management policies and guidelines to ensure they meet our business requirements. We believe such an effective, highly-disciplined, and uncomplicated approach offer a high level of comfort to our stakeholders.

Liquidity

Though CLP Group is highly liquid (about HK$38 billion undrawn bank facilities and internal resources at end 2013), we are equally risk averse. We recognise that fluctuations in the markets may occur at any time, and to this end, we carefully plan for and assess liquidity requirements well in advance of our requirements from diversified sources. Our objective is to maintain a high level of liquidity at the most cost-efficient terms. The HK$10 billion bridging loan for the CAPCO / PSDC acquisitions is but one example of how we will arrange committed, specific debt funding for a major transaction notwithstanding our good liquidity position.

More Q&A on Financial Capital

Foreign Exchange and Interest Rate

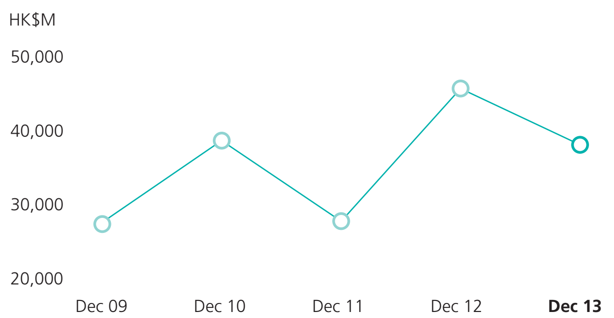
CLP continues to maintain a clear and coherent approach to hedging which is carried out with pre-approved financial institutions. Our Group companies enter into such arrangements only with financial institutions that we believe are able to perform their obligations over the entire tenor of our economic exposure.

Each of the financial risks and the associated mitigation measures are discussed in detail under "Financial Risk Management" in the Financial Statements on pages 241 to 252.

Refinancing Risks

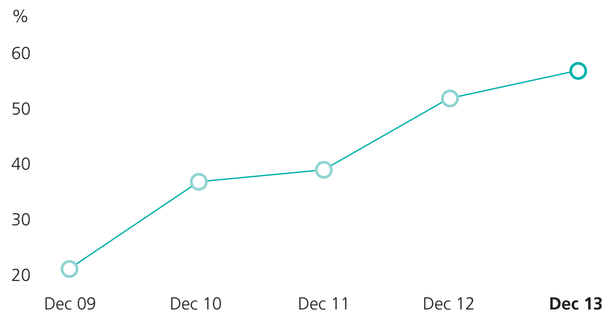
We maintain long-lasting relationships with our investors / lenders, cultivate relationships with potential lenders and consistently look for new opportunities to further diversify our debt portfolio to reduce refinancing risks. Our highly-disciplined investment and borrowing strategy, carefully monitored debt gearing ratio and prudent strategies to spread out debt maturities (ratio of debt with maturities beyond 5 years has increased from about 21% to 57% from 2009 to 2013) to the extent possible to match the long payback periods of our assets help us deliver attractive returns.

Firepower



Note: Firepower is the undrawn facilities plus bank balances, cash and other liquid funds.

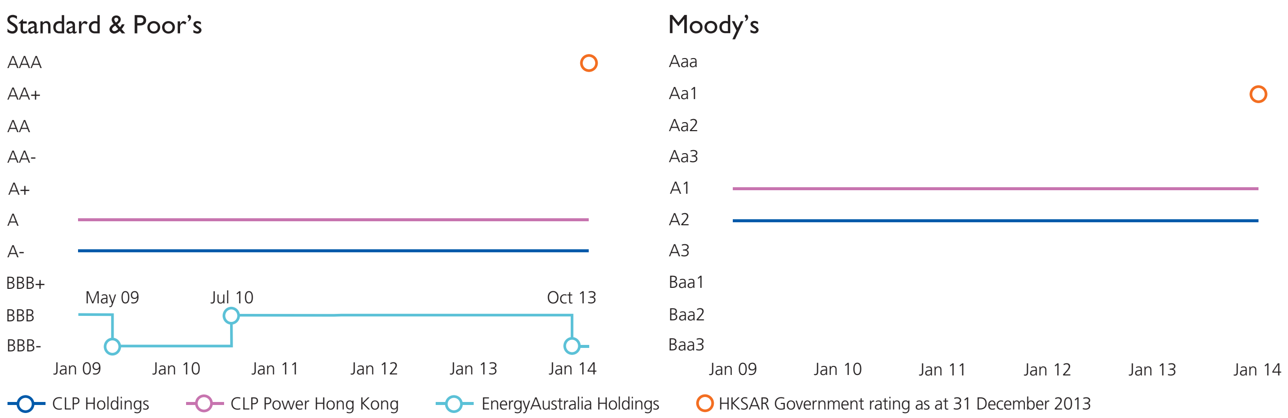
Ratio of Debt with Maturity Beyond Five Years to Total Debt



Credit Ratings

CLP always strives to maintain good investment grade credit ratings. 2013 is unique because of two credit rating developments in our Group companies. Firstly, the credit ratings of CLP Holdings and CLP Power Hong Kong were put on watch by Standard & Poor's (S&P) and Moody's in November with negative implication following CLP's announcement of the proposed acquisition of a further 30% interest in CAPCO and the remaining 51% interest in PSDC. This is not unexpected as rating agencies usually issue a ratings watch after the announcement of major transactions by a rated entity. We are closely working with S&P and Moody's to explain the rationale of the transaction, along with business and financial implications of the acquisition. Secondly, EnergyAustrlia's credit rating by S&P was revised to BBB- with negative outlook from BBB with negative outlook in October 2013. EnergyAustralia is maintaining an active dialogue with the rating agency on the subject.

Long-term Credit Ratings – Foreign Currency and Local Currency



CLP Holdings

Moody's: Re-affirmed the A2 credit rating with stable outlook in March 2013. On 19 November 2013, Moody's revised the outlook of the A2 rating to negative from stable after the announcement of the planned CAPCO and PSDC acquisitions.

Positives	Negatives
• Sound liquidity profile and good operating track record • Strong and predictable cash flows from CLP Power Hong Kong • Ability to assess domestic and international bank and capital markets • Well-managed debt maturity profile • Availability of sizeable committed bank facilities	• The proposed CAPCO and PSDC acquisitions add pressure to CLP Holdings' financial profile and reduce headroom for their financial metrics • Weak operating performance in Australia and India • Projected credit metrics will be marginal for the current rating if the acquisitions are largely debt-funded • Growing overseas and non-regulatory business investments increase risk profile and weaken CLP Holdings' financial profile • Expansion into riskier, non-regulated electricity and retail businesses in the region raises overall risk

S&P: Re-affirmed the A- credit rating with stable outlook in February 2013. On 19 November 2013, S&P placed the A- rating on credit watch with negative implication after the announcement of the planned CAPCO and PSDC acquisitions.

Positives	Negatives
• Strong business risk profile and modest financial risk profile • Expect financial strength to improve meaningfully from 2014 due to: (1) higher returns from Hong Kong operations; and (2) higher earnings from its Australian operations due to integration of New South Wales assets by the end of 2013 • Strong financial flexibility because of good access to bank facilities and capital markets • Adequate liquidity supported by strong operating cash flow from Hong Kong operations • Commitment to deleveraging and disposing assets to optimise the portfolio	• Proposed debt-funded acquisition by CLP Power Hong Kong could further weaken financial strength of CLP Holdings • Weakened business and financial risk profiles of EnergyAustralia • Entrenched fuel shortage in CLP's Indian power generation business • Expanding Asia Pacific power investments tempers the strengths that CLP Power Hong Kong brings and increases CLP Holdings' business and operating risks • New generation facilities under construction in Asia Pacific carry higher operating risks and introduce execution and integration risks to the Group's operations

EnergyAustralia

S&P: Lowered the credit rating to BBB- with negative outlook from BBB with negative outlook in October 2013.

Positives	Negatives
• Track record of support from its higher rated owner, CLP Holdings • Strong liquidity profile	• Weakened business and financial risk profiles resulting from relatively higher operating costs, continued delays in stabilising its retail billing platform, declining demand trends, and soft electricity price trends that will likely constrain near to medium term profitability • Challenging electricity trading conditions due to adverse trends in market demand and supply • Underperformance of its assets and its inability to reduce costs to offset expected continued weakness in the market • Transition of New South Wales customers to its retail platform will be critical to cost reduction

CLP Power Hong Kong

Moody's: Re-affirmed the A1 credit rating with stable outlook in March 2013. On 19 November 2013, Moody's revised the outlook of the A1 rating to negative from stable.

Positives	Negatives
• Planned CAPCO acquisition will improve CLP Power Hong Kong's credit profile as it will better integrate its power operations • CAPCO is a high quality generation asset through its long operating track record and favorable regulatory environment • Cash flow predictability supported by a well-established regulatory regime • Sound liquidity profile and a good operating track record • Good track record in accessing domestic and international bank and capital markets • Well-managed debt maturity profile • Projected financial profile remains strong	• Planned CAPCO acquisition creates uncertainty to the strong financial profile • Rating constrained by the weaker credit profile of CLP Holdings, owing to its increased exposure to risky non-regulated electricity and retail business in the region • Ratings of CLP Power Hong Kong and CLP Holdings are closely linked. A material deterioration in one of the companies could lead to rating pressure on the other • Liquidity profile may be pressured to a certain extent by its dividend payments to CLP Holdings as well as its long-term capital expenditure plan

S&P: Re-affirmed the A credit rating with stable outlook in February 2013. On 19 November 2013, S&P placed the A rating on credit watch with negative implication.

Positives	Negatives
• Proposed CAPCO and PSDC acquisitions by CLP Power Hong Kong would improve the operational and management efficiency, facilitate stronger control over generation assets and allow better coordination of generation, transmission, and distribution businesses • Excellent business risk profile and adequate liquidity • Satisfactory operating record and modest financial risk profile • Sound bank relationship and good reputation in capital markets • Good liability management with diversified debt sources • Long-term gas supply agreement with PetroChina ensures the stability of gas supply	• Uncertainty surrounding the expansion of CLP Holdings in unregulated businesses outside Hong Kong partly offset the strengths of CLP Power Hong Kong • The Government's environment regulations could result in some uncertainty in mid to long-term operations and financing needs • New gas supply agreement results in more capital expenditure on the construction of infrastructure and associated facilities, and thus raises funding needs

NATURAL CAPITAL

Our respect for the environment

In powering our communities, we rely on nature's precious resources for our daily operations. Maintaining a high level of operational efficiency and conducting our business in an environmentally responsible way is not just our responsibility, but also creates value for CLP. We are mindful of the potential environmental impacts we can have upon nature, and maintaining a balanced portfolio of energy sources in line with environmental regulations and policies is a key part of this.

Environmental Policy, Standards, Systems & Processes

The CLP Group Environmental Policy Statement forms an integral part of our Value Framework.

To deliver on our policy and commitments, we adopt appropriate standards, systems and processes to monitor and manage evolving risks. Given the challenges in managing multi-jurisdictional regulatory regimes, we have adopted a two-pronged approach in developing Group-wide standards, including mandatory standards that must be applied across the Group, and voluntary guidelines to be applied where relevant regulations are not yet in place.

In 2013, we focused on preparing new environmental-related standards, ranging from environmental impact assessment requirements to data management. These are currently being reviewed internally, with formal implementation anticipated in 2014.

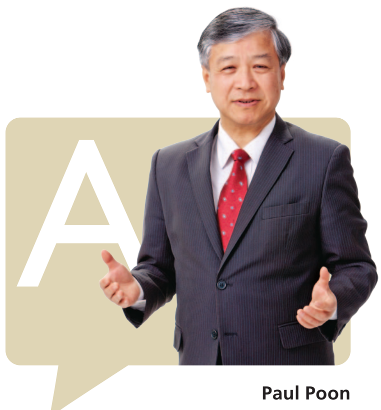
As part of our operational environmental risk management, all power generation facilities in which we have operational control (as defined by our CLP Group's Environmental Management System Certification Policy) must establish effective environmental management systems that conform to the globally recognised ISO14001 Standard and achieve third-party certification within 2 years from commencement of operation or acquisition.

Mr Or Wing Keung
Shareholder

The public is becoming increasingly aware of the health impact of hazy weather and air pollution. Restrictions on emissions by power plants and vehicles will inevitably be tightened. Longer term, will CLP only use natural gas or other clean energy to generate electricity?

We have been working hard to bring additional gas supplies to Hong Kong to increase its use for power generation and reduce pollutant emissions wherever we can. There is also the potential for nuclear energy to play a greater role. For the longer term, it is important to keep options open that allow for the flexibility to use a diverse range of fuels and generation technologies which will help to keep our generation costs lower in the longer run.

The Government is expected to relaunch a consultation on long-term fuel mix in the first half of 2014. Whilst we will do our best to minimise the cost impact of moving to a greater proportion of cleaner fuels, ultimately it will be the community that decides on where this balance should lie. With supportive and realistic policies and a stable regulatory framework, we can continue to help Hong Kong improve air quality.



Paul Poon
Managing Director
CLP Power Hong Kong

In regards to the above requirement, all assets under CLP's operational control reaching their two-year term in 2013 achieved ISO14001 certification on time. A detailed summary of the status of our environmental management systems, as well as environmental measures in place at facilities in which we have operational control as at 31 December 2013, is available in our 2013 Sustainability Report. SR

Performance on Group Environmental Goals

Within the CLP Group Sustainability Framework, under our key objective to "minimise environmental impacts", we have three aspirational Group environmental goals to move towards: (1) zero emissions; (2) a more sustainable rate of resource use; and (3) no net loss of biodiversity.

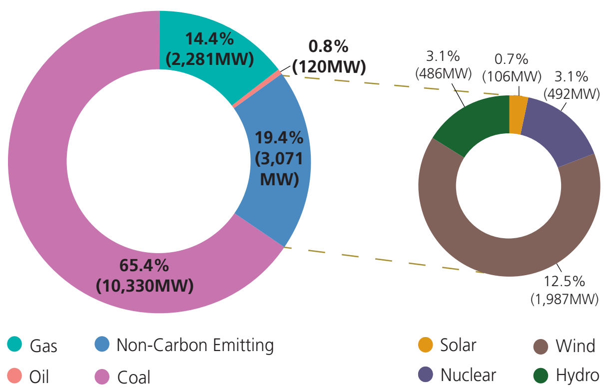
Our performance in these areas is summarised below.

Group Goal	Aspect	Group Highlights	2013	2012
Move towards zero emissions	**Greenhouse gases**	• Total CO_2 emissions (from power generation) • Carbon intensity (on equity basis)	44,076kT 0.82kg CO_2/kWh	38,319kT 0.77kg CO_2/kWh
	Air pollutants	• Total SO_2 emissions • Total NO_x emissions • Total particulate matter emissions	50.5kT 50.2kT 5.5kT	35.1kT 42.9kT 4.7kT
	Water discharged	• Total water discharged	5,000.8 Mm^3	4,665.7 Mm^3
	Waste	• Total solid waste produced • Total liquid waste produced	8,037T 1,228kl	11,092T 1,521kl
Move towards a more sustainable rate of resource use	**Fuel**	• Total coal consumed • Total gas consumed • Total oil consumed • Non-carbon % (on equity basis) • Renewable energy % (on equity basis)	433,763TJ 73,510TJ 1,973TJ 19.4% 16.3%	361,819TJ 86,200TJ 8,200TJ 23.8% 20.2%
	Water	• Total water withdrawal	5,031.0 Mm^3	4,689.6 Mm^3
Move towards no net loss of biodiversity	**Air/Terrestrial/Marine**	**Group standard under development**		

Climate Vision 2050

In 2013, our Group carbon intensity increased for the first time since the publication of our *Climate Vision 2050* in 2007, rising from 0.77 kg CO_2/ kWh in 2012 to 0.82 kg CO_2/ kWh in 2013 (although we are lower than our starting point of 0.84 kg CO_2/ kWh back in 2007). This was due to a combination of factors. Firstly, the all-time low carbon intensity achieved in 2012 was a result of lower output from Yallourn Power Plant in Australia due to the disruption caused by the flooding of its mine, as well as the lack of coal for generation at Jhajjar in India. In 2013, the acquisition of the Mount Piper and Wallerawang coal-fired power stations in Australia, the increased output from the Jhajjar coal-fired plant in India relative to 2012, and our endeavours to align our carbon accounting method with our financial accounting definitions, which resulted in the removal of the CGN wind portfolio from our 2013 calculations, further exacerbated the increase in carbon intensity. Our renewable energy capacity in 2013 has also fallen to approximately 16% from over 20% in 2012. This was also due mainly to the acquisition of Mount Piper and Wallerawang. As a result, our non-carbon emitting generation capacity also fell to 19.4% from 23.8% in 2012.

CLP's Generation Portfolio – Energy Sources (Equity Basis)



When we first set our targets in 2007, we did anticipate that our carbon intensity would increase and peak at some point on the basis that power projects would mostly be fossil-fuelled driven in Asia Pacific over the next decade. However, we did hope that the momentum on managing climate change would build up fast enough so that this peak would happen earlier, thus enabling the development of more non-carbon emitting power projects, and allowing us more opportunities to continue along our decarbonising pathway. The Group's carbon intensity may still experience some fluctuations between now and our next milestone in 2020, but the general trend is expected to be downwards overall. We remain optimistic that our 2020 target of 0.6 kg CO_2 / kWh can be met.

Environmental Regulatory Compliance

In 2013, we had no environmental regulatory non-compliances that resulted in fines or prosecutions for any of our assets in which we had operational control.

It should be noted that operational exceedance may occur from time to time due to normal fluctuations of operational conditions, but may be more likely for new or ageing assets. As a good practice, these incidents are reported to the local environmental authorities for information only.

Beyond Compliance

Climate Vision 2050 Review

A review of our Climate Vision 2050 strategy and milestones was completed in 2013. Given the current uncertainties of the international climate change agreement under the United Nations Framework Convention on Climate Change, combined with ongoing global financial constraints, it was difficult to justify any further tightening of our targets. Although there is some optimism of more bottom-up momentum, whereby national governments may take action on their own like China, other countries such as Australia have seen a slowdown in such sentiments and political will. As a result, our targets will remain the same and we will strive to meet them even though at this point in time, we believe they are more ambitious than before.

Climate Change Adaptation

In 2013, we completed climate change adaptation assessments of three fossil-fuelled plants (Fangchenggang in China, Jhajjar in India, and Tallawarra in Australia) to explore potential adaptation measures that are needed. This was a continuation of the pilot study completed in 2010 for Paguthan and Ho-Ping, which tried to capture the lessons learned from operational disruptions that occurred due to extreme climatic events.

We commenced a third assessment in 2013 to begin exploring what adaptation measures may be needed, and are possible for our renewable energy assets. The assets covered in this phase of study included Jiangbian Hydro Power Station in China and Saundatti and Harapanahalli wind farms in India. Given the expansion of our renewable energy portfolio, the perception of such assets being more vulnerable to climate change and their relatively young history of operation, we believed it would be prudent to begin understanding these assets at an earlier stage and to commence implementing adaptation measures where appropriate and possible.

Tracking Emerging Regulations in the Chinese Mainland

To keep abreast of the fast evolving environmental regulatory developments, we established a comprehensive online Environmental, Health and Safety database, which is regularly updated and accessible to our power generation facilities. The list includes national and provincial environmental regulations, as well as city-level environmental regulations relevant to each power plant. We also commissioned a study to further understand the potential impact of China's changing environmental regulations on our business.

PM2.5

The PM2.5 issue has in recent years received considerable attention worldwide. In anticipation of potential regulatory control and reporting on PM2.5 emissions from power plants, we conducted a review on a range of related subjects including currently accepted and other proposed measurement methods, as well as the status of implementing PM2.5 policies and regulations in other countries.

HUMAN CAPITAL

Our people and safety performance

Throughout Hong Kong and across the Asia-Pacific region, the CLP Group employs over 6,900 people. In this section we describe how we leverage our human capital to deliver value to our shareholders by creating a sustainable organisation, aligning staff resources with our established strategic direction and focusing time and effort to manage material risks and to improve profitability of the Group.

Our business demands the highest attention to safety – year in, year out; day in, day out. Safety is, and remains, our absolute and number one priority. We have said this in previous reports, and we will say it again – electricity takes no prisoners. Nothing we can do for our colleagues compares with the importance of our duty to do our utmost to ensure that they go home safely from work every day.

This responsibility extends not only to our employees, but also to the staff of our contractors and to everyone who legitimately comes into our facilities. Our business would not survive if we overlook the safety of those who work within it. The CLP Group is committed to delivering world class safety performance and seeking continuous improvement in its safety systems with a long-term goal of zero injuries.

The Group's overall safety performance in 2013 for both employees and contractors is summarised in the table below. It explains the number of incidents involving lost time injury (LTI) and the rate of incidence for those assets under construction or in operation, where we have operational control or majority ownership. Lost Time Injury Rate (LTIR) and Total Recordable Injury Rate (TRIR) are industry standards for measuring safety performance. They refer to the number of lost time injuries or recordable injuries measured over 200,000 working hours of exposure, which generally equates to around 100 people working for one year.

Safety Performance

	Employees						Combined Employees and Contractors					
	2013			2012			2013			2012		
Location	No. of LTI	LTIR	TRIR	No. of LTI	LTIR	TRIR	No. of LTI	LTIR	TRIR	No. of LTI	LTIR	TRIR
CLP Holdings	0	0.00	0.48	1	0.48	0.48	1	0.29	0.88	1	0.45	0.45
Hong Kong	1	0.02	0.11	4	0.09	0.16	5	0.05	0.17	17	0.16	0.34
Australia	2	0.13	0.39	2	0.16	0.47	7	0.33	0.95	2	0.11	0.96
Chinese Mainland	1	0.11	0.45	0	0.00	0.00	2	0.07	0.21	0	0.00	0.17
India	1	0.17	0.34	0	0.00	0.23	17	0.39	0.77	9	0.18	0.48
Southeast Asia and Taiwan	0	0.00	0.00	0	0.00	0.39	1	0.21	0.21	0	0.00	0.11
Total:	5	0.06	0.23	7	0.09	0.21	33	0.16	0.39	29	0.14	0.40

The overall LTIR in 2013 was higher than 2012, partly due to three incidents at Jhajjar in India – two multiple LTIs and a fatality that involved a contractor working overnight. To determine the cause of the fatal accident and prevent reoccurrence, an investigation was completed by an independent panel, which subsequently proposed a range of improvement measures. CLP has adopted all the recommendations. In addition, we also engaged NOSA, the internationally recognised health and safety consultant, to conduct a NOSA 5-star safety training at Jhajjar and to assist Jhajjar in improving its safety performance.

Partly as a result of the two multiple LTIs mentioned above, 33 LTIs were recorded across the Group in 2013, up from 29 in 2012. LTIR increased 14% from 0.14 in 2012 to 0.16 in 2013, indicating a higher number of serious injuries reported across the Group. This rising trend is of concern and we are addressing it through the introduction of a NOSA auditing process at Jhajjar in the fourth quarter of 2013 and planned implementation in 2014 of a set of 10 Critical Risk Standards, which has been developed to specify the minimum level of safety across all CLP power stations in different countries.

The TRIR of 0.39 achieved in 2013 was slightly lower than 0.4 in 2012, meaning the total number of injuries reported was similar to a year ago. However, both the LTIR and TRIR for Hong Kong showed a marked improvement following implementation of life saving rules and continuous engagement with contractors on safety issues.

A Skilled and Experienced Team

	No. of Employees	Average Age
Hong Kong	4,394	44.8
Australia	1,745	38.1[1]
Chinese Mainland	360	39.5
India	469	34.8

Note:

1 Exclude Mount Piper and Wallerawang which were acquired in Q4 2013

Key to our businesses' sustainability is our ability to attract, retain and develop our people to support our business strategy. This requires a combination of competitive remuneration and benefits, and a culture that emphasises care for employees as a key priority. As a Group, we provide stable and secure employment for our staff with excellent opportunities for long-term career development. Our low voluntary turnover rates (compared to local market norms), together with high average length of service, are direct evidence of our success in retaining staff.

	Voluntary Turnover Rate (%)	Average Length of Service (years)
Hong Kong	1.9	18.5
Australia[1]	9.4	6.1
Chinese Mainland	2.6	14.9
India	10.1	5.2

Note:

1 Exclude Mount Piper and Wallerawang which were acquired in Q4 2013

Our Technician Trainee Programme offers a great start to a career in engineering

In addition, to enforce our business strategy, we need to position the right people in the right place. As we shift to a low carbon portfolio, this is reflected in increasing numbers of our generation asset staff being allocated to renewable rather than conventional fuel assets. For example, in 2013, 15 headcounts were added for new wind and solar projects in China. In India, we made material progress in reviewing employee and contractor staffing levels and aligning them with operational needs at Jhajjar.

People Development

We are committed to investing in the training and development of our people. The success of our people development is directly reflected in our high rates of internal promotion and the fact that the majority of senior vacancies are filled internally rather than through external recruitment. An excellent example of this is Paul Poon, Managing Director of CLP Power Hong Kong, who has risen through the ranks having first joined us as graduate trainee in 1974.

Apart from training and development initiatives organised at a local business unit level, considerable importance is placed on our Group level programmes, particularly as this enables us to:

- target key talent, helping to ensure we have strong succession plans in place for Senior Management across the Group;
- provide networking opportunities for individuals who may not otherwise have the opportunity to work together, assisting to foster relationships and build a shared culture across the Group; and
- expose individuals to different market dynamics, for example how competitive energy markets differ from regulated markets.

Examples of Group-level and local programmes organised in 2013 are:

- A group executive development programme run in conjunction with the Institute for Management Development (IMD), whereby 22 selected colleagues from across the Group with high leadership potential undertook a course focused on developing personal leadership capabilities.
- In EnergyAustralia, visiting professors from the US and Europe provided strategic insights into the most recent global leadership thinking on innovation and customer service leadership. In addition, a Melbourne professor presented a master class on strategic change based on his past 20 years of global study tours of world-class organisations.
- In India, the individual development planning process has been streamlined and a learning effectiveness process was introduced.

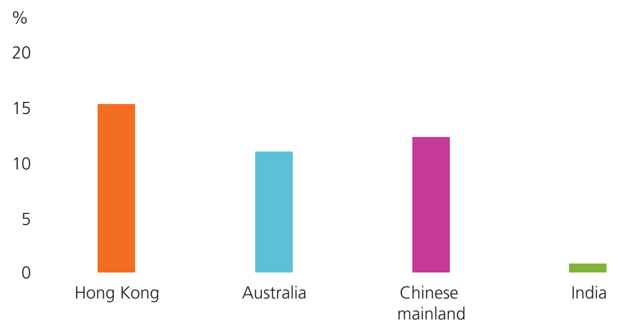
At the same time, we recognise that the greater part of individual development comes from stretching on-the-job experiences. This includes international movement in some cases, which also helps us leverage our skills across the Group. For example, to prepare for receiving new gas from WEPII, a gas expert was seconded from EnergyAustralia to help train our engineers in Hong Kong and develop procedures to ensure safe and efficient operations.

In the Chinese mainland, some of our assets share management and functional resources regionally, which is both cost effective and provides staff development opportunities. For example, the Jiangbian hydro project provides management and functional support to our new solar plant in Jinchang.

Preparing for the Future

Like many large organisations, we face the challenge of an ageing workforce, which reflects a broader trend of demographic changes and ageing populations in developed economies. This is also a common feature of utilities, reflecting low turnover and high average length of service. To plan ahead for this, we carefully monitor our retirement projections and ensure that we have mitigation plans in place. These include succession planning and the annual recruitment of graduates and apprentices. To support our succession planning process, in 2013 we continued to make a significant investment in developing identified successors and other high potential staff. In Hong Kong, 82% of the staff movements we had planned as part of our Management Development and Succession Planning cycle were achieved. At the same time, to enhance the performance of our employees in their current roles and to prepare them for the future, our average training days per head were 5.5 in 2013 (5.6 days in 2012).

5-year Retirement Projection



Notes:
1 Employee numbers (full time staff only)
2 All Australia figures exclude Mount Piper and Wallerawang which were acquired in Q4 2013

Our retirement projection varies from region to region and is currently highest in Hong Kong. Whilst our competitive remuneration and benefit policies allow us to replace retiring staff through recruitment, this is more difficult for engineers in Hong Kong, given competition from large numbers of capital projects in the region and the reducing numbers of school leavers enrolling in engineering courses. Consequently, we need to plan ahead systematically to focus on engineering recruitment.

Examples of initiatives implemented in Hong Kong in 2013 to ensure the adequate future supply of engineering talent are listed below:

- More than 60 graduate trainees, technician trainees and craft apprentices were recruited.
- The CLP Executive Engineering Programme was launched to identify and develop high potential engineers for our leadership team succession.
- We continue to build partnerships and collaboration with academic institutions including the University of Hong Kong and the Vocational Training Council to nurture future engineers.

Compared to Hong Kong, Australia has a higher staff turnover rate particularly in call centres. Consequently, EnergyAustralia has implemented a recruitment process outsourcing model that significantly reduces cost and time associated with these activities. This also facilitates a better understanding of the talent available in the market.

Our workforce in India is relatively young. In addition, our business context in India means that there is no requirement for extensive recruitment currently.

CLP's Junior Green Engineer Programme brings together engineering, scientific and environmental education themes to nurture a new generation of green pioneers

SOCIAL AND RELATIONSHIP CAPITAL

Our values, reputation and community initiatives

CLP's Value Framework

Even though societies, governments, politics and technologies change, our core values, which have been integral to our success over the past century, remain unchanged and will continue to guide us into the future. As an organisation, we sometimes need to make tough decisions which impact our colleagues and the community at large. Our core values ensure that such decisions are made fairly and ethically, balancing the economic, social, and environmental dimensions of our business and the interests of our shareholders and other stakeholders.

Expressed formally in our *Value Framework* and first published in 2003, our core values have been integral to building and protecting CLP's reputation. Our *Value Framework* states our vision, mission, core values, commitments, policies and our Code of Conduct. It is the bedrock of our corporate culture and the foundation of our reputation.

Our Value Framework is not a manifestation of the work we do to fulfill our mission – it defines the values that underpin our strategy and operations, the standards by which we expect everyone in the CLP Group to conduct themselves, and how we interact with our stakeholders to achieve our vision. In other words, it is an articulation of our beliefs, and how these beliefs drive our behaviour as we strive to earn and sustain trust and support from our stakeholders.

VISION	CLP's vision is to be the leading responsible energy provider in the Asia-Pacific region, from one generation to the next.
MISSION	In a changing world, our mission is to produce and supply energy with minimal environmental impact to create value for shareholders, employees and the wider community.
VALUES	Our values guide us in fulfilling our mission and turning CLP's vision into reality.
COMMITMENTS	Our commitments are the promises that we make to our stakeholders about the way in which we will uphold our values.
POLICIES & CODES	CLP's policy statements aid in the articulation and incorporation of our values and commitments into our everyday operations and practices.

CLP's Value Framework

In this section of the Annual Report, we will briefly explain the ways in which we bring these values to the markets in which we operate, and how our interactions with the community are designed to strengthen our reputation and community acceptance of our activities.

Community Initiatives

Our community initiatives aim to contribute to society through improving the quality of life for the communities in which we operate. Given the diversity and location of our assets, we take a country and site-specific approach to our community activities. Examples of our tailored programmes for each region can be found in the Performance and Business Outlook section and our Community Investment Report, which provides extensive information of these activities.

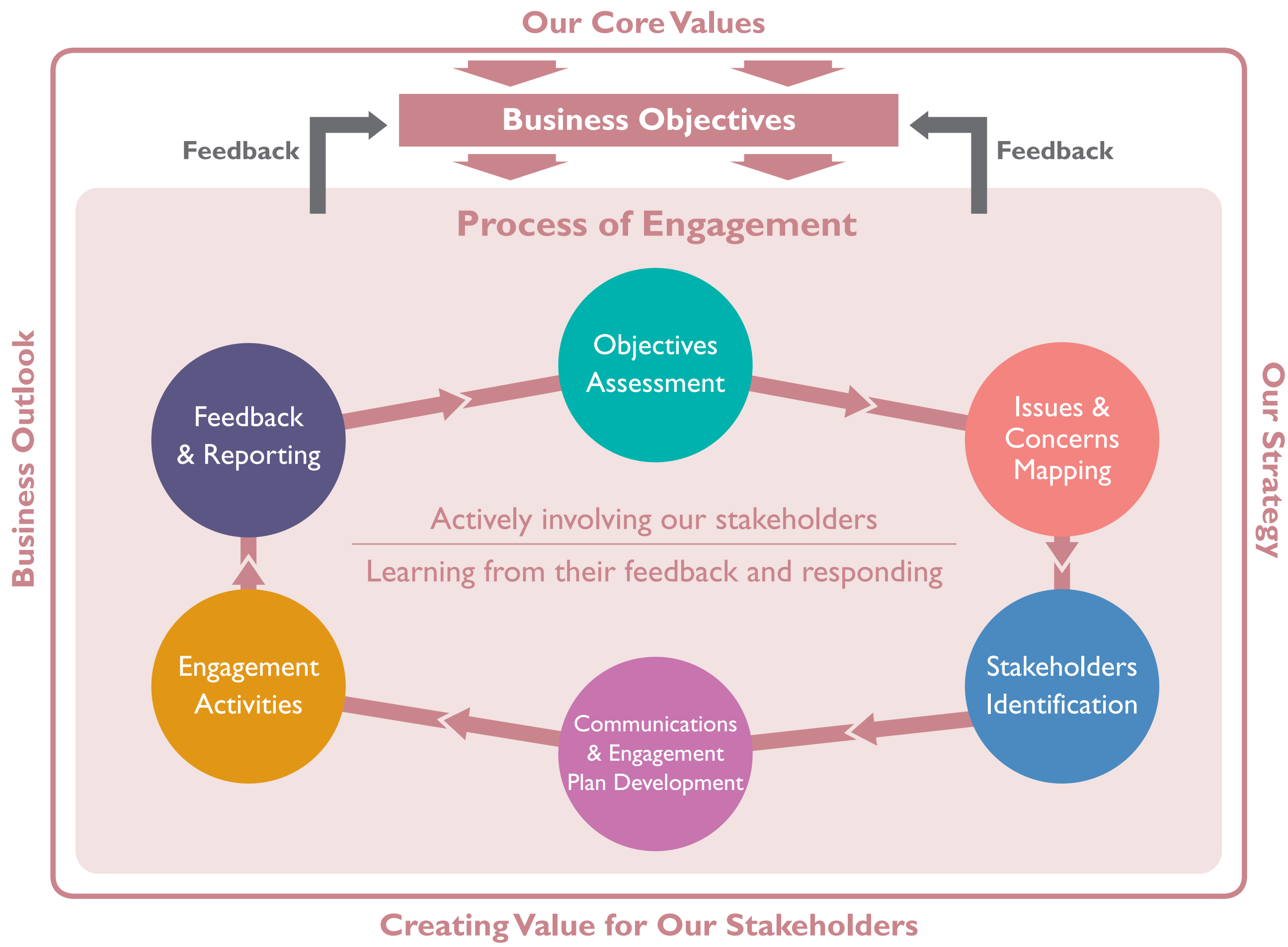
As with any investment that CLP makes, we seek to allocate our resources in a disciplined and systematic way. In 2013, we introduced a Community Investment, Sponsorship and Donation Policy, providing a framework for all business units in their design, implementation and execution of community initiatives. We are confident that selected programmes, carefully chosen, thoroughly implemented and carefully monitored, will enhance our reputation and relationships.

Stakeholder Engagement

Our business units regularly meet with members of the community to listen and understand their views of our operations. These two-way dialogues help us learn about community needs and assess the best way to leverage our resources to contribute to future community development.

While the utility business may be viewed as a local one, we recognise the importance of strengthening our relationship with global leaders as a means of keeping abreast of emerging cross-border issues, and to contribute to wider policy debate at both local and international levels. At the CLP Group level, we complement our business units' efforts by working with international organisations and universities, both to enhance general understanding of the the power sector as well as strengthening our understanding of the material impacts that CLP's operations have on communities.

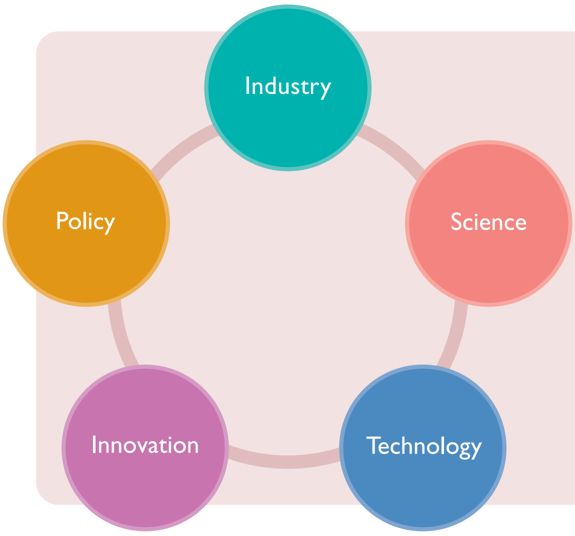
Stakeholder Engagement Strategy



Electricity touches many aspects of our lives. It powers the development of society and contributes to a better quality of living. Yet the electricity business has national security, environmental, public health, economic and social implications. At the operational level, the power sector also touches upon science, technology, innovation, and policy. We recognise that a diversity of solutions, and support from our stakeholders, including governments, shareholders, capital providers, customers, suppliers – are all necessary in formulating energy policies. Consequently, a bulk of our work is focused on facilitating and participating in the dialogue across the private, public and civil society sectors, advocating for carbon and clean energy policies, exchanging best practices, and monitoring emerging issues confronting the sector. These engagements have and will continue to enable CLP, and our stakeholders, to understand the opportunities and risks presented within an evolving landscape and assist us in making informed decisions as we decarbonise our portfolio.

Recognising the role of the power sector in climate change, in 2007 we announced our *Climate Vision 2050*, setting our goal of gradually lowering the carbon intensity of our portfolio. With clean energy playing an important role in enabling us to meet our carbon intensity reduction goals, our executives continue to exchange views with numerous organisations to expand our stakeholders' understanding of the renewable energy sector. Through proactive knowledge sharing with

Strategic Advocacy and Stakeholder Engagement



- Bloomberg New Energy Finance
- Electric Power Research Institute
- Institute for Environmental Research and Education
- International Council on Large Electric Systems
- International Energy Agency
- MIT Joint Programme on Science and Policy of Global Change
- The Climate Group
- Universities e.g. Hong Kong University of Science and Technology, Tsinghua University
- World Business Council for Sustainable Development
- World Energy Council

Ir Ricky Leung
General Manager – Airport Authority

I participated in the CLP Power Hong Kong Green Building Symposium 2013. It was a remarkable event, and a great platform for green building experts, management offices, occupants and other stakeholders to share their challenges and experiences. Will CLP continue to organise events like this? In the event, I have learnt that CLP is developing different energy saving initiatives for customers. Does CLP have anything to help a large organisation like us?

As part of our ongoing commitment to a greener environment, we will definitely be organising similar events to promote EE&C in the future. In addition to our first Green Building Symposium, we also hosted our first Data Centre Symposium in November 2013. This provided a platform to promote best practices in energy management as well as highlighting the ongoing challenges associated with operating data centres in a sustainable and environmentally friendly manner.

We are continuing to develop numerous EE&C measures for our customers. Our enhanced Meter Online Service was unveiled in 2013 and now provides an advance "7-day Energy Forecast" based on the latest weather information. To better manage operation of chillers and air-distribution systems in buildings, we are also developing an energy service to assist building owners and operators to achieve energy saving, without sacrificing comfort.

Quince Chong
Chief Corporate Development Officer

policymakers, regulators and capital providers, we are confident that better market conditions and regulations will achieve our vision of sustainable energy for all.

Complementing our work around climate change, sustainability and corporate governance, our involvement with reporting and governance institutions enables us to contribute to the debate on emerging frameworks and shape the agenda in these areas. Some key advocacy efforts and activities in 2013 included:

- continuing our advocacy efforts on clean energy policies through organisations such as The Climate Group, the Bloomberg New Energy Finance Summit and The First Global Investor Forum on Climate Change;
- organising the first Asia meeting of the San Giorgio Group, bringing together development agencies, policy makers, capital providers, project developers and investors, to develop solutions to promote green financing in Asia;
- contributing our management team's expertise to studies initiated by industry groups, such as the International Energy Agency, on energy technologies, including smart grids and energy storage;
- contributing to the World Energy Council's policy dialogue paper on how to succeed in overcoming the challenges of the energy trilemma: energy security, energy equity, and environmental sustainability;
- supporting sustainability research and development, primarily through our participation in working groups led by the World Business Council for Sustainable Development;
- supporting an energy symposium at the City University of Hong Kong, bringing in a network of international expertise to foster discussion about energy choices for Hong Kong;
- conducting our first webcast to explain our environmental, social and governance (ESG) performance and how this contributes to our overall financial performance, informing the way in which we will report on ESG issues as we apply the HKEx ESG guidelines;
- supporting the development of a corporate governance toolkit for the training of corporate secretaries in developing countries through the Corporate Secretary International Association; and
- supporting efforts of the International Integrated Reporting Council and the Hong Kong Institute of Certified Public Accountants' to strengthen capacity on integrating ESG into annual reporting cycles.

Communicating openly with our stakeholders is a core tenet of CLP's Value Framework. As we continue our journey to powering Asia responsibly, we will continue to share clear, comprehensive, fair and accurate information on our operations to our stakeholders.

EnergyAustralia supports the promotion of swimming safety for children

INTELLECTUAL CAPITAL

Our expertise

In our 2012 Annual Report we identified a range of technology choices available for power generation in CLP's markets. Our expertise and experience in developing and operating projects forms part of the "intellectual capital" of CLP's business. This year we have taken our previous table of technology choices and used examples from 2013 to demonstrate our expertise in action.

CLP Technology Roadmap

1 Australia Wind

- We sold a 75% interest in Waterloo Wind Farm, while retaining the right to operate and manage it.

2 China Wind

- Our wholly-owned Laiwu Phase I commenced operation in January 2014.
- Final-stage development work continued for Xundian Phase I and Laizhou Phase I wind projects, as we continued to seek approval for Huadian Laizhou Phase II.

3 India Wind

- Three new wind projects – Sipla, Bhakrani Phase I and Mahidad Phase I – entered service.
- We commenced construction of Yermala and Jath.

4 Lopburi Solar

- We completed an expansion of 8MW to the Lopburi solar photovoltaic project, bringing the total capacity to 63MW. CLP has a one-third equity share and provided management leadership and technical support for the construction and operation of the project.

5 China Solar

- We commissioned our first solar photovoltaic project in Jinchang, which has a tracking system to align the solar panels to the changing angle of the sun to increase output.
- We have also received approval for a second solar project in Xicun, with construction to be commenced in the first quarter of 2014.

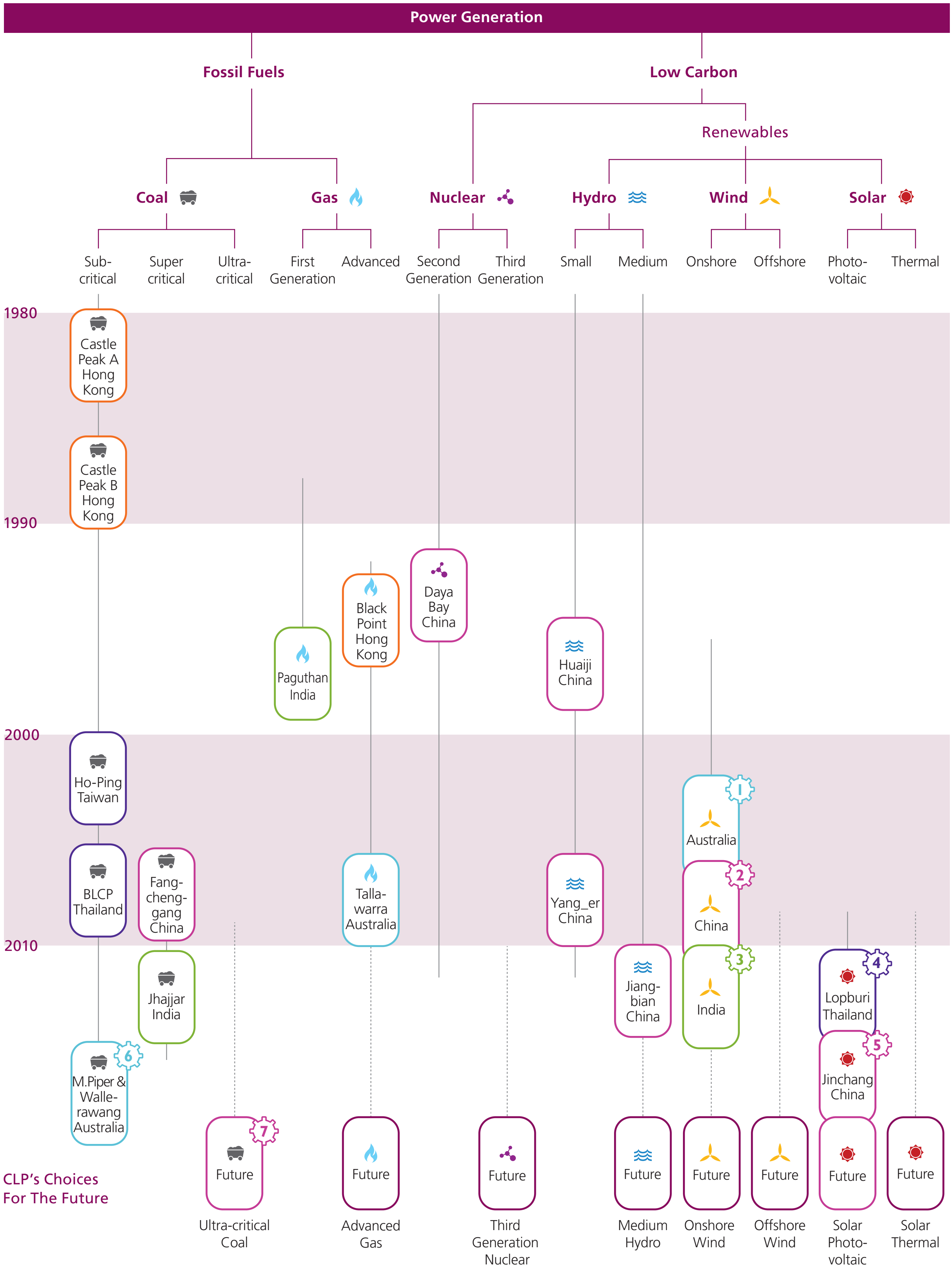
6 Mount Piper and Wallerawang

- We acquired direct ownership of the two power plants in New South Wales.

7 Fangchenggang II

- We are developing a second stage to the Fangchenggang project that will use ultra-supercritical technology.
- CLP will act as the project manager and operator. We hope to receive final approval in the first half of 2014, with full construction to commence as soon as the final consent is granted.

CLP's Choices of Technology – Past, Present and Future



CLP has been developing renewable energy projects in the Asia Pacific region for almost a decade. In the following section, we discuss our views on the potential for renewable energy.

The potential for renewable energy

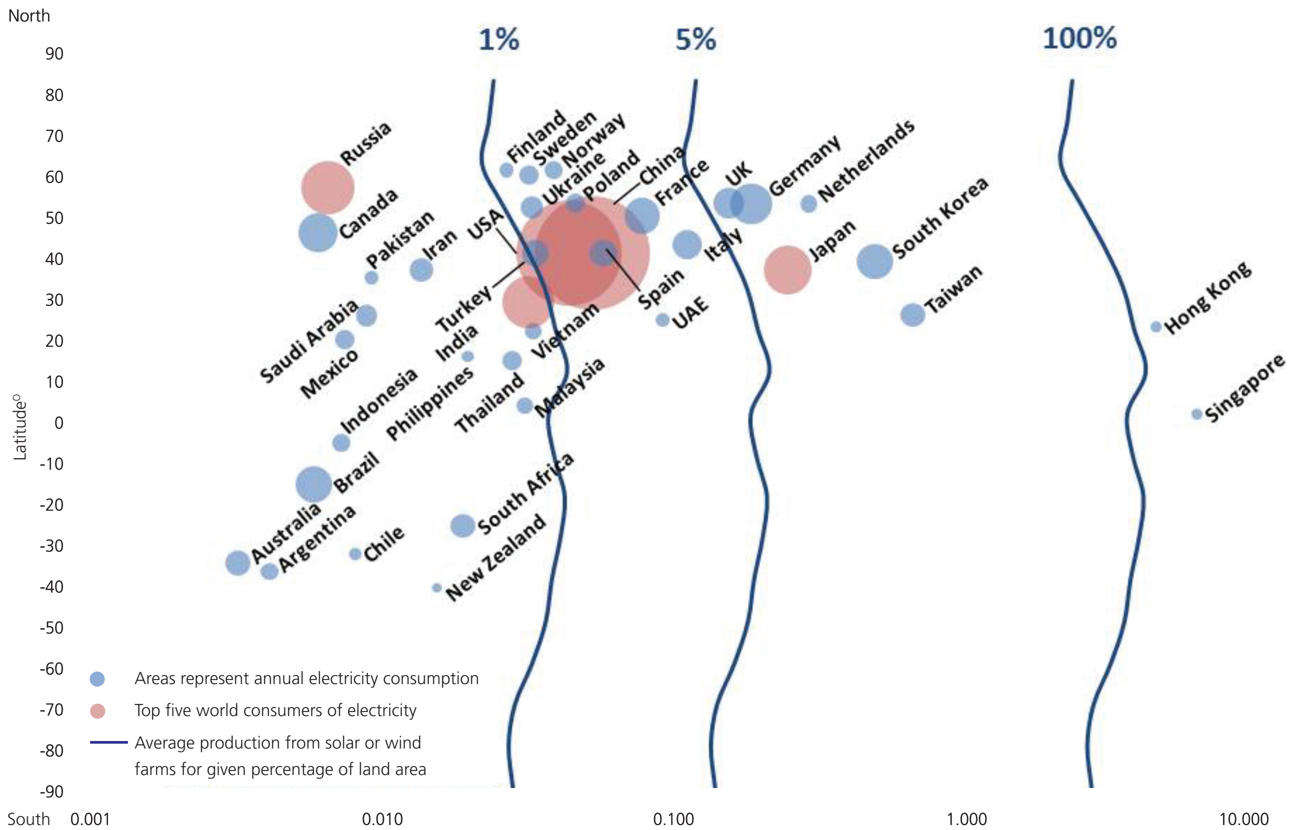
Most of the fuels we currently use for power generation are economic and reliable, but not sustainable in the long term due to their carbon intensity and contribution to climate change. Coal is the most affordable but emits the most carbon. Natural gas is expensive and still has too much carbon to be a long-term solution. Nuclear power does not emit carbon but public acceptance remains an issue. So what alternatives do we have?

There is a certainly vast quantity of energy in the wind and in solar radiation and we consider here how much of it we can convert into electricity and whether these renewable sources could replace conventional forms of power generation.

It turns out that a typical wind farm will produce, on average, around 2 watts of electricity per square metre of land. Solar photovoltaics do somewhat better at around 5 watts per square metre (See note on page 107 for wind and solar farm output calculation methodology). These figures seem low but they take into account the obvious problem that wind speed and solar intensity are variable and intermittent. Less obviously, large wind turbines need to be separated by some hundreds of metres to avoid the wake from one affecting others. Even solar panels need to be well spaced, particularly if they are angled towards the sun, otherwise they will cast shadows on each other. The panels themselves typically cover less than half the area of a solar farm.

Even so, renewables can still produce impressive amounts of energy if we have sufficient land available. We can calculate how much of its land each country or region would need for wind or solar farms to supply all its electricity.

What Percentage of a Country's / Region's Land is Needed to Supply All Its Electricity from Wind or Solar Energy?



Electricity demand (circles) and potential renewable supply (blue lines) in watts/m² – log scale

Sources: CLP and NASA

Australia, Russia, Canada and many others could generate all their electricity from wind or solar farms using a fraction of one percent of their land area. China, India and even the US could do so if they were prepared to allocate up to 2% of their land. At the other extreme, it will probably be impossible for countries such as Japan, the UK and Germany to find enough land to generate all their electricity from renewables, though they might look offshore for other sources of clean power.

Densely populated urban environments such as Hong Kong and Singapore do not have enough land area available to generate a significant amount of their electricity from renewable energy and would have to explore the possibility of imports from adjacent regions.

Renewable energy is currently more expensive than fossil fired sources, though the cost has gradually fallen as the technology improves and the market grows. There needs to be a wider dialogue on how rapidly society can accept a transition to new forms of energy that may have a higher cost and will require the use of significant land resources, but that will be sustainable.

The issues described here will affect each country/region's policy on renewable energy and the opportunities available for CLP to develop renewable projects. China, India and Australia all have viable wind and solar resources, and adequate land areas. We have become a leading developer, investor and operator of wind farms in these markets and we are now starting to develop solar projects. There is clear potential for continuing growth. However, the smaller Southeast Asian countries are more constrained and fewer opportunities have emerged so far.

Hong Kong, on the other hand, is a small and densely populated territory with severe competition for scarce land. There will be some opportunities for renewable generation that should be examined, no matter how small. However, the need for large areas of land to collect meaningful amounts of energy from the wind or the sun means that it will never be possible to generate a significant part of our electricity supply from renewable sources located within Hong Kong.

Note: Wind and solar farm output calculations are averaged over the long term, taking the total energy that can be produced in a year (including zero output at night and full output only occasionally, given the right climatic conditions). Effective annual output is then divided by the total land area used to give an average output in watts/m^2. Note that the land area of a wind or solar farm is much greater than the area occupied by the wind turbines or solar panels alone.

Jinchang Solar in the Chinese mainland, our first majority-owned solar project, occupies 468 hectares of land (equivalent to about 3,744 Olympic-sized swimming pools)


CLP 中電
Powering Asia Responsibly
CLP 中電

GOVERNANCE

What processes support our ability to create value?

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

BOARD OF DIRECTORS

Non-executive Directors

The Honourable Sir Michael Kadoorie
GBS, LLD (Hon.), DSc (Hon.), aged 72,
Chairman, N (Appointed on 19 January 1967▲)

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

William Elkin Mocatta
FCA, aged 60, Vice Chairman, F&G, H, P
(Appointed on 16 January 1993▲)

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

Ronald James McAulay
MA, CA, aged 78
(Appointed on 1 January 1968▲)

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

John Andrew Harry Leigh
aged 60 (Appointed on 10 February 1997▲)

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

Ian Duncan Boyce
FCA, aged 69, F&G
(Appointed on 19 November 1999)

A chartered accountant from the UK, Mr Boyce spent 18 years with the Warburg group, six years of which were as Managing Director of East Asia Warburg in Hong Kong. Mr Boyce was Managing Director (Vice Chairman from April 1998) of Schroders Asia before joining Sir Elly Kadoorie & Sons Ltd. in 1999, of which he became Chairman in April 2006. Mr Boyce is also the Deputy Chairman of The Hongkong and Shanghai Hotels, Ltd. and a Non-executive Director of Tai Ping Carpets International Ltd.

Lee Yui Bor
BSc, MSc, PhD, DIC, C.Eng., MIET, FHKIE,
aged 67 (Appointed on 4 August 2003)

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

Paul Arthur Theys
aged 56 (Appointed on 1 January 2008)

Mr Theys is Lead Country Manager for ExxonMobil's business in the Chinese mainland and Hong Kong. He is the Chairman of ExxonMobil (China) Investment Co., Ltd. and ExxonMobil Hong Kong Ltd.; and ExxonMobil's representative on the boards of the Fujian joint venture companies - Fujian Refining & Petrochemical Co. Ltd. and Sinopec SenMei (Fujian) Petroleum Company Limited. Mr Theys graduated from the University of Leuven, Belgium in 1980 with a Master Degree in Chemical Engineering (greatest distinction).

Independent Non-executive Directors

Vernon Francis Moore
BBS, FCA, FCPA, aged 67, A, F&G, H
(Appointed on 7 March 1997▲)

Mr Moore is an Executive Director of CITIC Pacific Ltd. He is also the Chairman of both the New Hong Kong Tunnel Company Ltd. and the Western Harbour Tunnel Company Ltd., and Deputy Chairman of the Community Chest of Hong Kong.

Tsui Lam Sin Lai Judy
PhD, MSc, BCom, FCPA, FCPA(Aust.),
FCS, FCIS, CA, aged 59, A, S
(Appointed on 10 May 2005)

Professor Judy Tsui was Vice President (International and Executive Education) of The Hong Kong Polytechnic University (PolyU) and Chair Professor of Accounting at PolyU from March 2010 until February 2014. She was the first scholar to be awarded a PhD in Accounting in Hong Kong. Professor Tsui holds positions as Honorary Professor and Visiting Professor at several universities in the Mainland. She has been appointed as a Visiting Scholar of the Sloan School of Management of the Massachusetts Institute of Technology in the USA and an Honorary Professor of the University of Warwick in the UK. She was the first professor in Accounting to be awarded Cheung Kong Chair Professorship by the Ministry of Education in the Mainland. Currently, Professor Tsui serves as a member of the Research Grants Council (2008 - 2014) and she served as a member of the University Grants Committee (2008 - 2013), both appointed by the Hong Kong SAR Government. She has been appointed member of Nominating Committee of International Federation of Accountants (2012 - 2014). Professor Tsui served as an Independent Non-executive Director of China Vanke Co. Ltd. in the Mainland from 2005 to 2011 and as its Consultant (2011-2013).

Sir Roderick Ian Eddington
AO, aged 64, F&G, H
(Appointed on 1 January 2006)

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

Nicholas Charles Allen
aged 58, A, F&G, H, N, S
(Appointed on 12 May 2009)

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

Cheng Hoi Chuen Vincent
GBS, OBE, JP, aged 65, F&G, H, N
(Appointed on 17 August 2011)

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

Law Fan Chiu Fun Fanny
GBS, JP, aged 61, A, S
(Appointed on 17 August 2011 and reappointed on 1 August 2012)

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

Lee Yun Lien Irene
aged 60, A, F&G
(Appointed on 15 October 2012)

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

Rajiv Behari Lall
aged 56, F&G
(Appointed on 13 August 2013)

Dr Lall holds a Bachelor of Arts Degree in Politics, Philosophy and Economics from Oxford University and a Ph. D. in Economics from Columbia University. He has over 30 years' experience with leading global investment banks, multilateral agencies and in academia. His areas of expertise include project finance, private equity/venture capital, international capital markets, trade, infrastructure and macroeconomic policy issues with a focus on emerging markets including India and China in particular. Dr Lall is currently the Executive Chairman of IDFC Limited (formerly known as Infrastructure Development Finance Company Limited), a company listed on the National Stock Exchange of India Limited and the Bombay Stock Exchange. He is also a director of The Great Eastern Shipping Co. Ltd., a company listed on the Bombay Stock Exchange, National Stock Exchange of India Limited and with its global depository receipts listed on the Luxembourg Stock Exchange. He has been a director of NSDL e-Governance Infrastructure Limited (formerly known as National Securities Depository Limited) since 2005.

Executive Directors

Richard Kendall Lancaster
BE, aged 52 , F&G, S
(Appointed on 3 June 2013)

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

Andrew Clifford Winawer Brandler
MA, MBA, ACA, aged 57 , F&G, S
(Appointed on 6 May 2000)

Mr Brandler holds an MA degree from Cambridge University, MBA degree from Harvard Business School, and is a Member of The Institute of Chartered Accountants in England and Wales. He was the Group Managing Director and CEO of the Company from 6 May 2000 until 30 September 2013. Mr Brandler continues to serve as a Director on the Board and a Member of the Finance & General Committee and the Sustainability Committee. Mr Brandler continues to be employed in a limited capacity in CLP Holdings in order to be available to provide advice to the new CEO and support a smooth transition. Mr Brandler is also a Director of EnergyAustralia Holdings Limited (a wholly-owned subsidiary of CLP Holdings) and a member of its Nomination and Remuneration Committee. Mr Brandler is a member of the Operations Review Committee of the Independent Commission Against Corruption of the Government of the Hong Kong SAR.

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

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

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

SENIOR MANAGEMENT

From left to right: Chan Siu Hung, Rajiv Ranjan Mishra, Richard Iain James McIndoe, Poon Wai Yin Paul, Peter Albert Littlewood, Richard Kendall Lancaster, Mark Takahashi, Yuen So Siu Mai Betty, David John Simmonds, Chong Wai Yan Quince, Roy Anthony Massey

Richard Kendall Lancaster

Chief Executive Officer

Mr Lancaster's biography is on page 111.

Mark Takahashi

Group Director & Chief Financial Officer, BSc (Eng.), MBA, aged 55, F&G, P

Since his appointment in June 2009 Mr Takahashi is responsible for group finance, treasury and investor relations. He joined CLP in 2003 and has over 20 years' experience in the power industry in the US and in Asia. He holds an MBA degree from Wharton School, University of Pennsylvania and a BSc degree in Civil Engineering from the University of Colorado.

Yuen So Siu Mai Betty

Vice Chairman – CLP Power Hong Kong, B.Comm., CPA, CA (Canada), aged 56, F&G

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

Peter Albert Littlewood

Group Director – Operations, MA, aged 62

Mr Littlewood is responsible for engineering, construction, operations, fuel procurement; CLP's Southeast Asia businesses; and CLP New Energy activities. He joined the CLP Group in 1977 and has over 41 years' experience in the power industry. He holds an MA degree in Engineering (first class honours) from the University of Cambridge.

Poon Wai Yin Paul

Managing Director – CLP Power Hong Kong, BSc(Eng.), FIET, FIMechE, FHKIE, FIEAust, aged 61

Mr Poon is the Managing Director of CLP Power Hong Kong and holds overall responsibility for the operations of the Hong Kong business. Mr Poon has over 36 years' experience in the power industry. He joined CLP Power Hong Kong in 1981 and had held various management positions in different operational departments and in CLP Power International. He was the Chief Operating Officer – CLP Power Hong Kong before assuming his current position in September 2013.

Richard Iain James McIndoe

Managing Director – EnergyAustralia, MA, MBA, aged 49, F&G

Mr McIndoe became Managing Director of EnergyAustralia Holdings Limited (previously known as TRUenergy Holdings Limited) in 2006. He joined CLP in 2002 and has an extensive background in finance, business development and asset management in the regional electricity industry. He holds an MA degree from the University of Cambridge and an MBA degree from INSEAD Business School in France.

Chan Siu Hung

Managing Director – China, JP, BSc(Eng.), MSc, CEng, MIET, MHKIE, aged 55

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

Rajiv Ranjan Mishra

Managing Director – India, MBA, aged 48

Mr Mishra is responsible for asset management and business development of CLP's investments in India. He joined CLP in 2002 and has 19 years' experience in the power industry, both in India and internationally, mostly involved in project financing, investment appraisal, finance and accounting and general management. He holds a Bachelor's degree in Chemical Engineering (first class distinction) and an MBA degree from the Indian Institute of Management, Lucknow.

David John Simmonds

Group General Counsel & Chief Administrative Officer, LLB, BCom, aged 43

Mr Simmonds holds a Bachelor of Laws (Honours) and a Bachelor of Commerce from the University of Melbourne. Mr Simmonds joined the CLP Group in August 2007 and became the Group General Counsel & Chief Administrative Officer on 30 September 2013. He has extensive infrastructure experience advising on strategic acquisitions and divestments, projects and construction, corporate structuring, regulatory issues and competition laws.

Chong Wai Yan Quince

Chief Corporate Development Officer, BSSc, aged 50

Ms Chong joined CLP Power Hong Kong in September 2012 as Chief Corporate Development Officer. She leads the functions of marketing and customer service, public affairs and community relation to help drive customer service excellence and strengthen ties with customers and the community as a whole. Ms Chong was Director Corporate Affairs of Cathay Pacific Airways before joining CLP. She has over 25 years' experience in corporate communications and customer services and has held various senior management positions in the Hong Kong Tourism Board (formerly the Hong Kong Tourist Association), hotel and aviation industries.

Roy Anthony Massey

Director – Group Human Resources, MBA, LLB, aged 59

Mr Massey joined CLP Power Hong Kong in 2000. Prior to joining CLP, Mr Massey was a management consultant for 16 years, working on projects in the UK, Russia, Romania and the Middle East. Mr Massey was previously a Human Resources Manager in both the UK and with a US multinational in Saudi Arabia. Mr Massey holds an MBA degree from the Manchester Business School, and a degree in Law from Liverpool University.

F&G Finance & General Committee
P Provident & Retirement Fund Committee

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

CORPORATE GOVERNANCE REPORT

CLP's Corporate Governance Framework

Good corporate governance promotes and safeguards the interests of shareholders and other stakeholders, thereby enhancing the credibility and reputation of the Company. Maintaining a good, solid and sensible framework of corporate governance has been and remains one of CLP's top priorities.

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

Our Corporate Governance Framework rests on two important commitments:

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

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

"The CLP Code on Corporate Governance"

The Hong Kong Stock Exchange's Corporate Governance Code and Corporate Governance Report (the Stock Exchange Code), Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the Listing Rules), sets out principles of good corporate governance and two levels of recommendation:

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

Our Board adopted the CLP Code in February 2005. The decision to adopt the CLP Code, as opposed to the Stock Exchange Code, reflected our wish to express our corporate governance practices in our own words and to use a structure which corresponded to our existing framework. The CLP Code is updated from time to time, most recently in February 2012, reflecting new requirements effective on 1 April 2012 under the Stock Exchange Code. Shareholders may download a printable copy of the CLP Code from our website, obtain a hard copy from the Company Secretary on request at any time, or by completing and returning the form enclosed with this Annual Report.

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

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

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

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

Evolution of CLP's Corporate Governance in 2013

In 2013, we made further progress in the evolution of our corporate governance practices, in line with the CLP Code and emerging developments in global corporate governance practices:

- Enriched the composition of the Board by inviting Dr Rajiv Behari Lall, a renowned Indian investment banker, to join the CLP Holdings Board as an additional Independent Non-executive Director.
- Adopted a Board Diversity Policy which will be periodically reviewed by the Nomination Committee.
- Set a 10% cap on the price discount for any new shares to be issued under the General Mandate to issue shares. Such cap will be submitted to shareholders for their approval at the forthcoming Annual General Meeting (AGM) of the Company.
- Reviewed and updated the Procedure for Gifts & Entertainment.
- Included relevant non-financial information in the personal certification of compliance by the CEO and CFO in the annual General Representation Letter.
- Strengthened the working relationship between the CLP Holdings Audit Committee and the EnergyAustralia Audit & Risk Committee, including an open invitation for both Committee members to attend each other's meetings.
- Enhanced interactions between the CLP Holdings Human Resources & Remuneration Committee and the EnergyAustralia Nomination & Remuneration Committee, including providing forward guidance on EnergyAustralia's remuneration policy.
- Held our first-ever ESG webcast on 11 April 2013 to explain our performance in ESG dimensions and how this contributed to our financial performance. The recording of the webcast is available on CLP's website.
- Enhanced our reporting on ESG issues against the ESG Reporting Guide issued by the Hong Kong Stock Exchange.
- Published on the CLP website the CLP Group Community Investment, Sponsorship and Donation Policy.
- Provided training on the implementation of the Continuous Disclosure Obligation Procedures to CLP's management, subsidiaries and joint ventures.
- Contributed our views on corporate governance issues by responding to formal Consultation Papers issued by the Hong Kong Stock Exchange and the International Integrated Reporting Council.
- Continued to undertake corporate governance roadshows to exchange views with institutional investors and international experts in corporate governance.

Shareholders

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

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

Details of the profile of the shareholders in the Company and aggregate shareholding are set out in the "Shareholder Value and Engagement" section on page 27 of this Annual Report.

From publicly available information and as far as our Directors are aware, CLP Holdings has maintained a sufficient public float of its share capital in the Hong Kong stock market throughout the financial year ended 31 December 2013 and has continued to maintain such a float as at 27 February 2014.

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

The most recent Extraordinary General Meeting (EGM) was convened by the Board and held on 22 January 2014 at the Kowloon Shangri-La, Hong Kong to consider the proposed acquisitions of a further 30% interest in Castle Peak Power Company Limited (CAPCO) and the remaining 51% interest in Hong Kong Pumped Storage Development Company, Limited (PSDC). The items discussed and the percentage of votes cast in favour of the resolutions relating to those items are set out below:

- Approval of the CAPCO Acquisition Agreement and the PSDC Acquisition Agreement and the transactions contemplated therein, and authorisation of Directors of the Company to do such things or acts to give effect to such transactions (99.7588%); and
- Election of Mr Richard Lancaster and Dr Rajiv Lall as Directors of the Company (99.0343% and 99.8758% respectively).

Notwithstanding the approval of the CAPCO Acquisition Agreement and the transactions contemplated therein, completion of the CAPCO Acquisition is subject to China Southern Power Grid obtaining approvals from the relevant regulatory bodies in the PRC. Completion of the PSDC Acquisition is in turn inter-conditional on completion of the CAPCO Acquisition. A further announcement will be made by the Company in relation to the completion of the Acquisitions as and when appropriate.

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

The most recent AGM was held on 30 April 2013 at the Hong Kong Polytechnic University, Kowloon, Hong Kong. The major items discussed and the percentage of votes cast in favour of the resolutions relating to those items are set out below:

- Election of Mrs Fanny Law and Ms Irene Lee and re-election of The Honourable Sir Michael Kadoorie, Mr Paul Theys, Mr Andrew Brandler and Mr Nicholas Allen as Directors of the Company (97.9597% to 99.6816% in respect of each individual resolution);
- Revised levels of remuneration payable to the Non-executive Directors including Independent Non-executive Directors who serve on the Board and Board Committees of the Company for each of the financial years of 2013, 2014 and 2015, effective 1 May in respect of each year (99.9913%);
- General mandate to Directors to issue additional shares in the Company, not exceeding five per cent of the issued share capital (General Mandate) (81.3604%); and
- General mandate to Directors to purchase shares in the Company, not exceeding ten per cent of the issued share capital (Share Repurchase Mandate) (99.9971%).

All resolutions put to shareholders at the most recent EGM and AGM were passed. The results of the voting by poll of the 2013 AGM and the EGM have been published on CLP's website and the website of the Hong Kong Stock Exchange.

The full proceedings of the 2013 AGM and the EGM can be viewed on the "Corporate Governance" section of the Company's website. Minutes of the 2013 AGM and the EGM were also published on the Company's website.

In 2013, in response to a concern raised by institutional investors over the possibility of increasing the General Mandate given to Directors to issue shares from a cap of 5% to, potentially, 15% of the Company's issued shares if the Share Repurchase Mandate were fully executed, CLP discontinued the practice to seek for shareholders' mandate to Directors to aggregate the number of shares repurchased to the total number of shares which can be issued under the General Mandate to issue shares. Our proposal to discontinue this practice has received positive feedback from shareholders, as evidenced by the increase in the percentage of votes cast in favour of the General Mandate at the AGM from 76% in 2012 to 81% in 2013.

Some institutional investors have indicated to us that they would vote against a general mandate to issue shares if no price discount cap is imposed on the mandate. It is worth noting that setting a cap on the price discount of new shares to be issued under the general mandate aligns with international best practice. Accordingly, the Board has proposed a 10% cap (rather than 20% as limited under the Listing Rules) on the price discount for any new shares to be issued under the General Mandates to be sought at future AGMs unless and until there is a material change in circumstances or market condition. This proposal will be submitted to shareholders for their approval at the forthcoming AGM.

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

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

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

The Board

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

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

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

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

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

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

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

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

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

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

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

The Directors are responsible for the preparation of the financial statements for each financial period which give a true and fair view of the state of affairs of the Group at each period end and of the results and cash flows for that period. In preparing these financial statements for the year ended 31 December 2013, the Directors have selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group.

Board Composition

As at the date of this Report, the Board comprises 17 Directors. Three of them are women. All Directors (with the exception of the CEO and the Executive Director) are non-executive and independent of management, thereby promoting critical review and control of the management process. The Board includes eight influential and active Independent Non-executive Directors to whom shareholder concerns can be conveyed. The non-executive members of the Board also bring a wide range of business and financial experience to the Board, which contributes to the effective direction of the Group.

Details of all Directors and their biographies are given on pages 110 and 111 of this Annual Report. The relationships (including financial, business, family or other material or relevant relationships) among Members of the Board are also disclosed. There is no such relationship as between the Chairman and the CEO. Six Non-executive Directors (see page 110) are not considered as independent, due to their association with the Kadoorie Family, who have a substantial interest (35.01%) in CLP. In common with all Directors, they are aware of their responsibilities to all shareholders.

Directors are requested to declare their direct or indirect interests, if any, in any proposals or transactions to be considered by the Board at Board meetings and withdraw from the meetings as appropriate. In 2013, Mr Paul Theys, a Non-executive Director who was at the time also the Chairman of ExxonMobil (China) Investment Co., Ltd. and ExxonMobil Hong Kong Ltd., declared interests on two occasions and withdrew from the relevant discussions at the Board meetings with regard to the acquisitions of a further 30% interest in CAPCO and the remaining 51% interest in PSDC as well as the fuel mix strategy for the Hong Kong electricity business.

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

In addition, identified significant related party transactions are disclosed in Note 32 to the Financial Statements of the Annual Report.

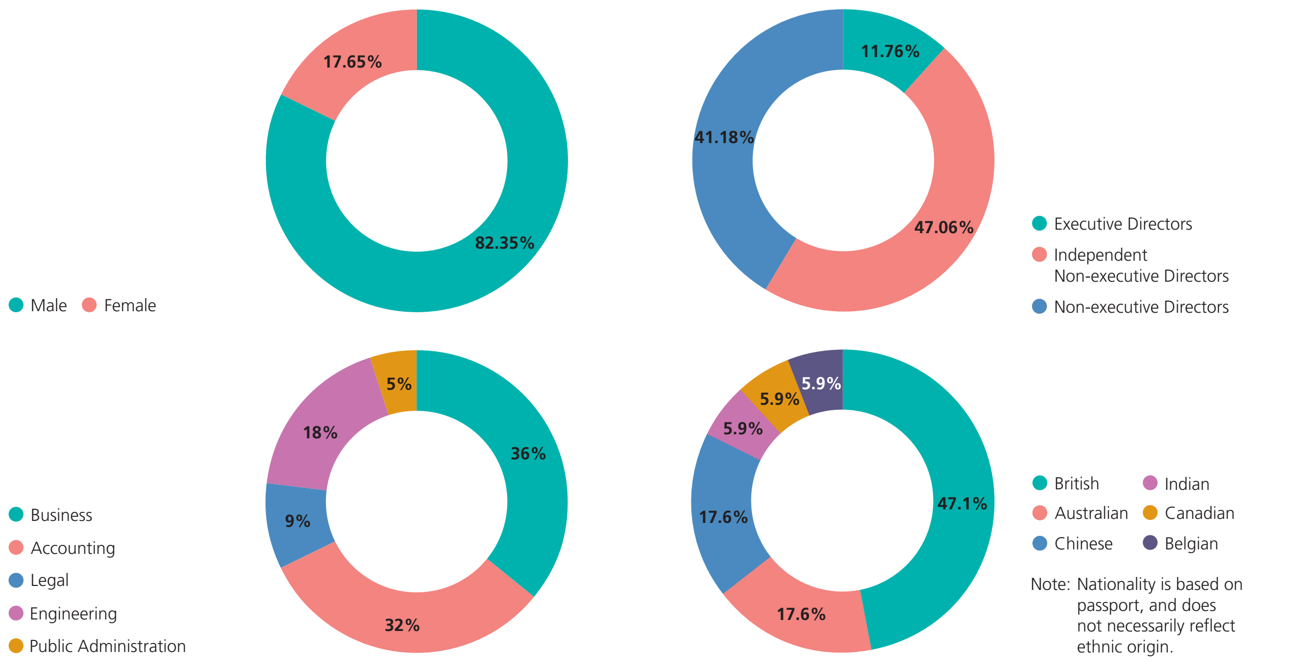
Pursuant to the requirement in the Listing Rules, the Company has received a written confirmation from each Independent Non-executive Director of his/her independence to the Company. The Company considers all of the Independent Non-executive Directors to be independent.

Mr William Mocatta, Vice Chairman, hosts a shareholders' visit at Good Kitchen, a social enterprise

Board Diversity Policy

CLP has had a longstanding policy of diversity in board appointments as reflected in the current composition of the Board which is characterised by significant diversity, whether considered in terms of gender, nationality, professional background and experience, as shown in the following illustrations:

Diversified Board



The Board formally adopted a Board Diversity Policy in August 2013 which seeks to record, more formally, CLP's policy on board diversity and to recognise the terms of the relevant new code provision of the Stock Exchange Code which came into effect on 1 September 2013. CLP's Value Framework emphasises our respect for people and diversity. This Policy is just one example of the wider application of our Value Framework. We believe that board diversity enhances decision-making capability and a diverse board is more effective in dealing with organisational changes and less likely to suffer from group thinking. We recognise that board diversity is an essential element contributing to the sustainable development of the Company. The objectives of this Policy are, with the support of our shareholders, to have a Board which

a) is characterised by a broad range of views arising from different experiences when discussing business;

b) facilitates the making of informed and critical decisions; and

c) has sustainable development as its core value,

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

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

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

The Policy is available on the CLP website.

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

Board and Committee Attendance

The Board meets in person at least five times per annum and on other occasions when a Board decision is required on major issues. Details of Directors' attendance at the AGM, Board and Board Committee meetings held in 2013 are set out in the following table. The overall attendance rate of Directors at Board meetings was 90.6% (2012: 94.6%).

Directors	Meetings Attended / Held								
	Board[a]	Audit Committee[b]	Finance & General Committee	Human Resources & Remuneration Committee	Nomination Committee[c]	Provident & Retirement Fund Committee	Sustainability Committee	AGM[b]	EGM[b]
Non-executive Directors									
The Hon Sir Michael Kadoorie	**4** / 6				**1** / 1			**1**	**1**
Mr William Mocatta	**6** / 6		**7** / 8	**3** / 3		**2** / 2		**1**	**1**
Mr R. J. McAulay	**4** / 6							**1**	**1**
Mr J. A. H. Leigh	**6** / 6							**1**	**1**
Mr I. D. Boyce	**5** / 6		**8** / 8					**1**	**1**
Dr Y. B. Lee	**6** / 6							**1**	**1**
Mr Paul A. Theys	**5** / 6							**0**	**1**
Mr Peter P. W. Tse[d]	**1** / 1							**1**	N/A
Independent Non-executive Directors									
Mr V. F. Moore	**6** / 6	**5** / 5	**8** / 8	**3** / 3				**1**	**0**
Professor Judy Tsui	**6** / 6	**5** / 5					**2** / 2	**1**	**1**
Sir Rod Eddington	**6** / 6		**3** / 8[e]	**0** / 3[e]				**0**	**1**
Mr Nicholas C. Allen	**6** / 6	**5** / 5	**8** / 8	**3** / 3	**1** / 1		**2** / 2	**1**	**1**
Mr Vincent Cheng	**6** / 6		**7** / 8	**3** / 3	**1** / 1			**1**	**0**
Mrs Fanny Law	**5** / 6	**5** / 5					**2** / 2	**1**	**1**
Ms Irene Lee	**6** / 6	**5** / 5	**6** / 8					**1**	**0**
Dr Rajiv Lall[f]	**2** / 2		**4** / 4					N/A	**0**
Executive Directors									
Mr Richard Lancaster[g]	**3** / 3		**5** / 6				**1** / 1	N/A	**1**
Mr Andrew Brandler[h]	**3** / 5		**3** / 8				**2** / 2	**1**	**1**
Mr Peter W. Greenwood[i]	**1** / 1		**2** / 2				**1** / 1	**1**	N/A

(a) Included a Board meeting where the Chairman met Independent and other Non-executive Directors without the Executive Directors and management present.

(b) Representatives of the external auditor participated in every Audit Committee meeting, AGM and EGM.

(c) In addition to the annual meeting, review and approval of nomination of Directors' appointment is by circulars to all the members of the Nomination Committee. The Committee has also reviewed by circular the independence of Independent Non-executive Directors, Directors' time commitment and Directors' continuous professional development.

(d) Mr Peter P. W. Tse retired as a Non-executive Director after the conclusion of the 2013 AGM held on 30 April 2013.

(e) In addition to attending Board Committee meetings, Sir Rod Eddington participated in the review and approval of matters dealt with by circulation to the relevant Board Committees. There were two such occasions in the Human Resources & Remuneration Committee and seven such occasions in the Finance & General Committee in 2013.

(f) Dr Rajiv Lall was appointed as an Independent Non-executive Director and a member of the Finance & General Committee with effect from 13 August 2013.

(g) Mr Richard Lancaster was appointed an Executive Director and a member of the Finance & General Committee and the Sustainability Committee with effect from 3 June 2013. He was appointed the CEO to succeed Mr Andrew Brandler and was appointed the Chairman of the Sustainability Committee with effect from 30 September 2013.

(h) After stepping down as the CEO on 30 September 2013, Mr Andrew Brandler remains employed in a limited capacity by the Company until 31 March 2014 in order to be available to provide advice to the new CEO and support a smooth transition.

(i) Mr Peter W. Greenwood retired as an Executive Director and a member of the Finance & General Committee and the Sustainability Committee on 19 May 2013.

Board Committees

The following chart explains the responsibilities and the work that each Board Committee undertook on behalf of the Board during 2013 and in 2014 up to the date of this Report (the Relevant Period). The terms of reference and membership of all Board Committees are disclosed in full on the websites of CLP and Stock Exchange. They are also available in writing upon request to the Company Secretary.

Audit Committee

Details of the Audit Committee, including its membership, terms of reference and work done during the Relevant Period are set out in the Audit Committee Report at page 144 of this Annual Report.

Human Resources & Remuneration Committee

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

Sustainability Committee

Details of the Sustainability Committee, including its membership, terms of reference and work done during the Relevant Period are set out in the Sustainability Committee Report at page 147 of this Annual Report.

Membership of Nomination Committee

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

Responsibilities and Work Done

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

- considering the nomination of Dr Rajiv Lall as an Independent Non-executive Director with effect from 13 August 2013;
- reviewing the current Board structure and composition;
- endorsing the approach of review of the Board Diversity Policy and its disclosures;
- assessing the independence of all Independent Non-executive Directors, including Dr Rajiv Lall who retired and was elected by shareholders at the EGM and Sir Rod Eddington who will retire and present himself for re-election by shareholders at the 2014 AGM;
- the review of the contribution required from a Director to perform his / her responsibilities and whether he / she has spent sufficient time performing them; and
- reviewing the training and continuous professional development of Directors.

Membership of Finance & General Committee

Mr William Mocatta (Chairman), Mr V. F. Moore, Sir Rod Eddington, Mr Nicholas C. Allen, Mr Vincent Cheng, Ms Irene Lee, Dr Rajiv Lall, Mr I. D. Boyce, Mr Richard Lancaster, Mr Andrew Brandler, Mrs Betty Yuen, Mr Richard McIndoe, Mr Mark Takahashi and Mr Geert Peeters.

Responsibilities and Work Done

This Committee meets as and when required to review the financial operations of the Company. Such reviews include Group-wide financial, accounting, treasury and risk management policies, major financing transactions, corporate plans and budgets and business performance. The Committee also reviews major acquisitions or investments and their funding requirements. The work performed by the Committee during the Relevant Period included the review of:

- the Company's interim and annual results and the amounts of dividends payable to shareholders for the financial years ended 31 December 2012 and 2013;
- the CAPCO and PSDC Acquisitions;
- SoC Interim Review, 2014-2018 Development Plan and 2014 Tariff Review;
- the CLP Group Business Plan and Budget 2014-2018;
- CLP Group cost of capital study;
- CLP's foreign exchange translation risk and counterparty exposures;
- the Company's funding requirement, undertakings, guarantees and indemnities;
- CLP Group Forecast Earning & Credit Metrics;
- Jhajjar – Financing;
- CLP India – Paguthan Power Plant PPA Renegotiation;
- renewable energy projects in the Chinese mainland and India;
- divestment of Boxing Biomass Project;
- updates on EnergyAustralia, including Business Plan, Yallourn Industrial Action and employee consultation on Wallerawang Power Station;
- additional Energy Import from Guangdong Daya Bay Nuclear Power Station;
- transfer of 139-147 Argyle Street; and
- follow-up actions arising from Board Evaluation Report 2012.

Membership of Provident & Retirement Fund Committee

Mr William Mocatta (Chairman), Mr Mark Takahashi, Mr Geert Peeters and a Trustee.

Responsibilities and Work Done

This Committee advises the Trustee on investment policy and objectives for the Group's retirement funds, namely the CLP Group Provident Fund Scheme and CLP Group Top-Up Scheme (the Schemes). During the Relevant Period, the Committee reviewed the position of the funds, monitored the performance of the investment managers, made recommendations on the appointments and removals of the Schemes' trustee, administrator and sub custodian, and reviewed follow-up actions arising from Board Evaluation Report 2012.

Directors' Commitments

The Company has received confirmation from each Director that he / she has given sufficient time and attention to the affairs of the Company for the year. Directors have disclosed to the Company the number and nature of offices held in Hong Kong or overseas listed public companies or organisations and other significant commitments, with the identity of the public companies or organisations and an indication of the time involved. During the year ended 31 December 2013, no current Director held directorships in more than six public companies including the Company. No Executive Directors hold any directorship in any other public companies, but they are encouraged to participate in professional, public and community organisations. Directors are also reminded to notify the Company Secretary in a timely manner and bi-annually confirm to the Company Secretary any change of such information. In respect of those Directors who stand for re-election at the 2014 AGM, all their directorships held in listed public companies in the past three years are set out in the Notice of AGM. Other details of Directors' appointments are set out under "Board of Directors" at page 110 of this Annual Report and on CLP's website.

As part of the continuous professional development programme, Directors participated in the Shareholders' Visit Programme, various briefings and visits to local management and CLP's facilities, as arranged and funded by the Company with appropriate emphasis on the roles, functions and duties of the Directors. This is in addition to Directors' attendance at meetings and review of papers and circulars sent by Management.

Participation in Directors' Continuous Professional Development Programme in 2013

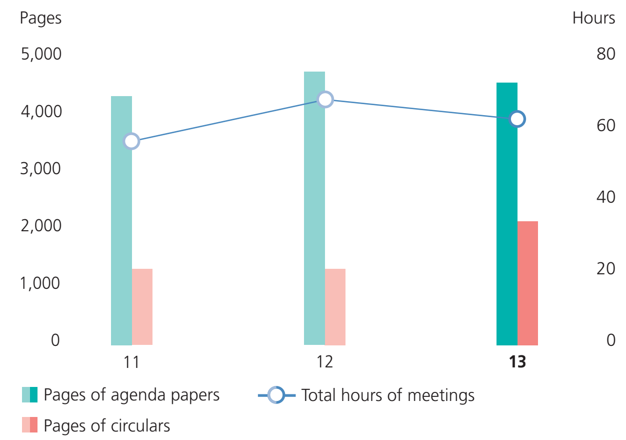
	Reading regulatory updates	Paying visits to local management & CLP's facilities	Hosting Shareholders' Visits	Attending expert briefings / seminars / conferences relevant to the business or directors' duties
Non-executive Directors				
The Hon Sir Michael Kadoorie	✓	✓	✓	✓
Mr William Mocatta	✓	✓	✓	✓
Mr R. J. McAulay	✓	✓		
Mr J. A. H. Leigh	✓		✓	✓
Mr I. D. Boyce	✓		✓	✓
Dr Y. B. Lee	✓			✓
Mr Paul A. Theys	✓			
Independent Non-executive Directors				
Mr V. F. Moore	✓	✓	✓	✓
Professor Judy Tsui	✓	✓	✓	✓
Sir Rod Eddington	✓	✓		
Mr Nicholas C. Allen	✓	✓	✓	✓
Mr Vincent Cheng	✓	✓	✓	
Mrs Fanny Law	✓	✓	✓	✓
Ms Irene Lee	✓	✓	✓	
Dr Rajiv Lall[(a)]	✓	✓		✓
Executive Directors				
Mr Richard Lancaster	✓	✓	✓	✓
Mr Andrew Brandler	✓	✓	✓	✓
Company Secretary				
Mrs April Chan[(b)]	✓	✓	✓	✓

(a) An induction was conducted for Dr Rajiv Lall who was newly appointed to the Board in August 2013.

(b) During 2013, Mrs April Chan served as the Past President on the Council of The Hong Kong Institute of Chartered Secretaries and of Corporate Secretaries International Association and has exceeded the 15 hours of professional training requirement of the Listing Rules.

To further indicate the attention given by our Board to the oversight of CLP's affairs, the following chart summarises the duration of those meetings and the volume of papers submitted to Directors for review during 2013.

Workload of Board and Board Committees



Directors' Interests

The interests in CLP's securities held by Directors as at 31 December 2013 are disclosed in the Directors' Report of this Annual Report at page 160. Particular attention is given to dealings by Directors in shares in CLP. Since 1989, the Company has adopted its own Code for Securities Transactions by Directors, largely based on the Model Code set out in Appendix 10 of the Listing Rules. Our Code is periodically updated to reflect new statutory and regulatory requirements, as well as our strengthened regime of disclosure of interests in our securities. This Code is on terms no less exacting than the required standard set out in the Model Code. All Directors have confirmed, following specific enquiry by the Company, that throughout the year ended 31 December 2013 they complied with the required standard set out in the Model Code and our own Code for Securities Transactions.

Appointment of Directors

CLP follows a formal, considered and transparent procedure for the appointment of new directors. Appointments are first considered by the Nomination Committee. In assessing potential candidates for the Board, the Nomination Committee considers the diversity perspectives, as set out on page 120. Notwithstanding the diversity perspectives, all appointments to the Board are based on merit, having regard to the ability of candidates to complement and expand the skills, knowledge and experience of the Board as a whole.

The recommendations of the Committee are then put to the full Board for decision. Thereafter, all Directors are subject to election by shareholders at the first general meeting following their appointment.

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

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

Chairman and Chief Executive Officer

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

Board Evaluation

Towards the end of 2011, the Board engaged an independent consulting firm, Spencer Stuart & Associates (HK) Ltd., to evaluate the performance of the CLP Holdings Board and Board Committees. The evaluation process was carried out through formal interviews with each Director. The evaluation covered the following areas: Board dynamics; organisation of the Board; roles and duties as Directors; Board composition; Board committees, Board involvement and engagement, communication with shareholders and stakeholders; and overall Board effectiveness. A copy of Spencer Stuart's conclusions has been published on the CLP website. During 2013, management has put forward the various recommendations of Spencer Stuart's Report to the relevant Board Committees or the Board itself for review and implementation as appropriate. Directors agreed that performance evaluation of the Board as a whole and its Board Committees for 2013 would be conducted internally in the form of a questionnaire, with a focus on the review of the implementation of the recommendations of the Spencer Stuart's Report in 2012. A summary of the findings will be disclosed in the next published report. Board performance will be evaluated on an ongoing basis with an independent evaluation every three years.

Company Secretary

The post of Company Secretary is held by Mrs April Chan who was named 2013 Asian Company Secretary of the Year by Corporate Governance Asia. The Company Secretary supports the Chairman, Board and Board Committees by ensuring good information flow and that Board policy and procedures are followed. She advises the Board on governance matters and facilitates the induction and professional development of Directors. The Company Secretary is an employee of the Company and is appointed by the Board. Although the Company Secretary reports to the Chairman and CEO, all Directors may call upon her for advice and assistance at any time in respect to their duties and the effective operation of the Board and Board Committees. The Company Secretary also plays an essential role in the relationship between the Company and its shareholders, including assisting the Board in discharging its obligations to shareholders pursuant to the Listing Rules.

Management and Staff

The task of CLP's management and staff is the successful implementation of strategy and direction as determined by the Board. In doing so, they must apply business principles and ethics which are consistent with those expected by the Board and CLP's shareholders and other stakeholders.

The division of responsibilities as between the Board, Board Committees, CEO and management is aligned with the provisions of the CLP Code. The written procedures documenting the delegation by the Board of specific authorities, including those to management, are expressed in the form of a "Company Management Authority Manual" (CMAM). Revisions to the CMAM which amend the approved authority delegated from the Board to Board Committees and the CEO require the approval of the Board. Revisions to delegation to management and staff below the level of the CEO can be approved by the CEO.

To facilitate the sharing of information, coordination of resources and activities at Group level and serve as a consultation point for decisions which are material for the CLP Group, a Group Executive Committee comprising the most senior executives (as listed on page 113) and the Company Secretary is in place under the chairmanship of the CEO.

All management and staff are subject to a formal Code of Conduct which places them under specific obligations as to the ethics and principles by which our business is conducted. This Code of Conduct, which has been aligned across the CLP Group, is set out in full on our website. Management and staff receive training on the Code and its implications periodically. Management and staff above a designated level or in certain functions are required to sign annual statements confirming compliance with the Code.

We have formalised the procedures for reporting actual or potential violations of the Code and other suspected irregularities into a Whistleblowing Policy to encourage employees and related third parties (such as customers and suppliers) who deal with the Company to raise concerns in confidence about misconducts, malpractices or irregularities in any matters related to the Company. During 2013, there were 14 cases of whistleblowing.

Non-compliance with the Code of Conduct results in disciplinary action. Disciplinary measures are decided by the relevant line management. These measures are then subject to review and endorsement by a Code of Conduct Committee, which comprises the Group Director & Chief Financial Officer, Group General Counsel & Chief Administrative Officer and Director – Group Human Resources, in order to ensure the consistency and fairness of treatment. During 2013, there were 12 breaches of the Code. Sanctions applied ranged from reprimands to dismissal. No breaches of the Code were material to the Group's financial statements or overall operations. One case involved a senior manager of a subsidiary. No waivers of any of the requirements of the Code of Conduct were granted to any senior manager or any other employee.

We have voluntarily extended the CLP Code for Securities Transactions to cover Senior Management and other "Specified Individuals" such as senior managers in the CLP Group. All members of the Senior Management have confirmed, following specific enquiry by the Company, that throughout the year ended 31 December 2013 they complied with the required standard set out in the Model Code and CLP Code for Securities Transactions.

Save for the interests disclosed by Mr Richard Lancaster and Mr Andrew Brandler in the Directors' Report at page 160 of this Annual Report, the interest in 10,600 shares disclosed by the Group Director – Operations, the interest in 600 shares each respectively disclosed by the Managing Director – CLP Power Hong Kong, the Managing Director – China and the Director – Group Human Resources, the other members of the Senior Management did not have any interests in CLP Holdings' securities as at 31 December 2013.

Members of Senior Management are paid in line with market practice and with regard to their performance. The principles and details of the remuneration of individual members of Senior Management are set out in the Human Resources & Remuneration Committee Report at page 150 of this Annual Report.

We have a formal procedure in place for reporting the training and continuous professional development of Senior Managment. Whilst we recognise that the majority of personal development comes from on-the-job experience, we also encourage members of Senior Management to supplement this through a variety of training activities. These include selective nominations to formal executive development programmes at leading business schools, attendance at executive briefings on matters of topical interest, and access to on-line learning and information sources. We also make selective use of systematic and independent executive assessment processes in order to help identify individual development needs and provide inputs to our succession planning decisions.

Participation in Training and Continuous Professional Development of Senior Management in 2013

	Attending formal executive development/training programme	Attending expert briefings/seminars/workshops/conferences relevant to the business or their duties	Participating as speakers at events	Access to web based learning resources
Senior Management				
Mr Richard Lancaster		✓	✓	✓
Mrs Betty Yuen		✓		✓
Mr Mark Takahashi		✓	✓	✓
Mr Peter Littlewood		✓	✓	✓
Mr Richard McIndoe		✓	✓	✓
Mr Rajiv Mishra	✓		✓	✓
Mr Paul Poon (1)	✓	✓	✓	✓
Mr S. H. Chan (2)		✓	✓	✓
Ms Quince Chong (2)	✓	✓	✓	✓
Mr David Simmonds (2)	✓	✓	✓	✓
Mr Roy Massey (3)		✓		✓

Notes:

(1) Mr Paul Poon was appointed as a member of Senior Management on 30 September 2013.

(2) Mr S. H. Chan, Ms Quince Chong and Mr David Simmonds were appointed as members of Senior Management on 19 November 2013.

(3) Mr Roy Massey was appointed as a member of Senior Management on 9 December 2013.

Internal Auditors

CLP's Group Internal Audit (GIA) department plays a major role in monitoring the internal governance of the CLP Group. The department is led by the Director – Group Internal Audit and includes 25 other staff with professional qualifications (including for example, from the Hong Kong Institute of Certified Public Accountants). The tasks of the department are set out in the CLP Code and include:

- unrestricted access to review all aspects of the CLP Group's activities and internal controls;
- comprehensive audits of the practices, procedures, expenditure and internal controls of all business and support units and subsidiaries on a regular basis; and
- special reviews of areas of concern identified by management or the Audit Committee.

The Director – Group Internal Audit reports directly to the Audit Committee and the CEO and has direct access to the Board through the Chairman of the Audit Committee. The Director – Group Internal Audit has the right to consult the Committee without reference to management.

During 2013, GIA issued reports to Senior Management covering various operational and financial units of the Group, including joint venture activities outside Hong Kong. GIA also conducted reviews of major projects and contracts as well as areas of concern identified by management.

The annual audit plan, which is approved by the Audit Committee, is based on a risk assessment methodology, which assists in determining business risks and establishing audit frequencies. Concerns which have been reported by GIA are monitored regularly by management and by the Audit Committee until corrective measures have been implemented.

External Auditor

The Group's external auditor is PricewaterhouseCoopers (PwC). PwC has written to the Audit Committee confirming that they are independent with respect to the Company and that there is no relationship between PwC and the Company which may reasonably be thought to bear on their independence. In order to maintain their independence, PwC will not be employed for non-audit work unless the non-audit work meets the criteria suggested in the Listing Rules and has been pre-approved by the Audit Committee. In addition, there must be clear efficiencies and value-added benefits to CLP from that work being undertaken by the external auditor, with no adverse effect on the independence of their audit work, or the perception of such independence.

During the year, the external auditor (which for these purposes includes any entity under common control, ownership or management with the external auditor or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally) provided the following audit and permissible non-audit services to the Group:

	2013 HK$M	2012 HK$M
Audit	34	39
Permissible non-audit services		
Due diligence and accounting / tax advisory services relating to business developments	7	14
Other services	5	6
Total	46	59

Other Stakeholders

Good governance requires due regard to the impact of business decisions (including environmental impact), both on shareholders and on other key stakeholders. This Annual Report and our online Sustainability Report explain how we discharge our responsibilities to employees, customers, lenders, the environment and the communities in which we operate.

Internal Control

The Company has had in place for many years an integrated framework of internal controls which is consistent with the COSO (the Committee of Sponsoring Organisations of the Treadway Commission) framework as illustrated below:

OPERATIONS, FINANCIAL REPORTING & COMPLIANCE

Control Environment	• Sets tone of organisation influencing control consciousness of its people • Factors include integrity, ethical values, competence, authority and responsibility • Foundation for all other components of control
Risk Assessment	• Risk assessment is the identification and analysis of relevant risks to achieving the entity's objectives – forming the basis for determining control activities
Control Activities	• Policies / procedures that ensure management directives are carried out • Range of activities including approvals, authorisations, verifications, recommendations, performance reviews, asset security and segregation of duties
Information and Communication	• Pertinent information identified, captured and communicated in a timely manner • Access to internally and externally generated information • Flow of information that allows for sucessful control actions from instructions on responsibilities to summary of findings for management action
Monitoring	• Assessment of a control system's performance over time • Combination of ongoing and separate evaluations • Management and supervisory activities • Internal audit activities

Processes (Payroll, Procurement, etc.) **& Business Units**

Under our framework, management (which includes qualified accountants) is primarily responsible for the design, implementation, and maintenance of internal controls, while the Board of Directors and its Audit Committee oversee the actions of management and monitor the effectiveness of the controls that have been put in place.

Control Standards, Checks and Balances

The Company's expectations regarding duty and integrity are clearly spelt out in formal policy manuals, which include the Company's Code of Conduct and Management Control Standards Manual. Similar controls are implemented at our subsidiaries.

Our Management Control Standards form the backbone of all our major policies and procedures. They set out the basic control standards required for the formulation and administration of Group policies and for the planning, organising, and functioning of business entities. The standards cover those required for administrative and operating activities such as delegation of authority, personnel administration, planning, budgeting, performance monitoring, contracting, computer systems and facilities, safeguarding information and derivative instruments. They also cover those standards established to ensure the integrity and objectivity of accounting and financial records and that the objectives of authorisation, accounting and safeguarding of assets are met.

In CLP, our internal control system covers every activity and transaction of our Group. Our system is based on clear stewardship responsibilities, authorities and accountability. We emphasise to our employees that everyone, no matter where he or she stands in the corporate hierarchy, is an important part of our internal control system and we expect them to contribute to that system.

Built into our system are checks and balances such that no one party can "monopolise" a transaction, activity or process to conceal irregularities. As an integral part of our internal control system, well defined policies and procedures are properly documented and communicated.

In addition to setting out guidelines, principles and values, we recognise that an environment where employees feel free to bring problems to management is also necessary to make our internal control system successful. Our Code of Conduct and Whistleblowing Policy make it clear that all reports to management will be handled confidentially to the fullest extent possible under the circumstances and, most importantly, that everyone in Senior Management will fully support those who in good faith report potential or actual breaches of the Code of Conduct and any possible improprieties in any matters related to the Company. The Audit Committee has reviewed the effectiveness of the implementation of the Whistleblowing Policy in 2013 and found no significant areas of concern.

No matter how well an internal control system is designed and maintained, it can only provide reasonable, but not absolute, assurance. No system of control can totally eliminate the possibility of human error or deliberate attempts to defraud the Company. Recognising this, we maintain an effective Internal Audit function, whose main features include:

- independence from operational management;
- fully empowered auditors with access to all data and every operation of the Group;
- adequate resources and well qualified and capable staff; and
- risk-based auditing, concentrating on areas with significant risks or where significant changes have been made.

Control Processes

Upon the redemption of its "Yankee" bonds on 17 April 2006, the compliance obligations of CLP Power Hong Kong with the US Sarbanes-Oxley Act were suspended. As a foreign private issuer, CLP Holdings remained subject to the Sarbanes-Oxley Act until 29 January 2008, whereupon CLP's deregistration from the US Securities and Exchange Act reporting system took effect.

CLP's action to deregister and to no longer be subject to the Sarbanes-Oxley Act does not imply any weakening in our internal control disciplines or in our commitment to timely, honest and accurate financial reporting to our shareholders. Our aim is to maintain compliance with the substance of the Sarbanes-Oxley Act's requirements without being bound by the form. Whenever internal control disciplines fall short of those envisaged by Sarbanes-Oxley these will be remedied.

Management and employees, assisted by external consultants with particular experience in the design and implementation of internal control systems, have evaluated our control environment and conducted risk assessments of businesses and processes, both at the entity level and the various processes / transactions levels. We have documented those processes which are critical to the Group's performance.

Within this exercise, key risks have been identified, along with the controls required to mitigate those risks. High-risk key controls are tested annually by our management and internal auditors. Based on the results of those tests, process owners are able to represent to Senior Management that their internal controls are working as intended or that necessary corrections have been made where control weaknesses have been found. Internal auditors report to Senior Management that controls have been working properly or that changes have been made to ensure the integrity of financial statements. The external auditor also tests the key controls to the extent that they will be relied on for the audit.

The CEO and CFO have a personal obligation to maintain the effectiveness of the disclosure controls and internal controls over financial reporting, and to report to the Audit

Committee and the Group's external auditor any significant changes, deficiencies and material weaknesses in, and fraud related to, such controls.

The CEO and CFO submit an annual "General Representation Letter" to the Audit Committee, in which they give a personal certification of compliance by themselves and their subordinates with a range of key internal control systems, disciplines and procedures, which cover financial and relevant non-financial information. These letters rest on similar letters of representation issued by individual managers across the CLP Group, which certify compliance with internal controls as to their particular businesses, departments and activities. These General Representation Letters reinforce personal responsibility for good governance and controls at all levels within the Group.

The digital Group Internal Control System, which was introduced in 2012 for managers to complete their representation letters, has enhanced the promptness and thoroughness in completion of the General Representation Letter process with a view to bringing material issues, if any, to the CEO and CFO's attention in a timely manner.

In keeping with best practices, CLP Holdings has developed and implemented an anti-fraud policy that states the Company's commitment to preventing, detecting and reporting fraud. The policy clearly defines the roles and responsibilities of directors, officers, employees and auditors in developing and carrying out specific programmes to eliminate fraud.

Individual managers are required to make annual representations related to the prevention, identification and detection of fraud in their respective areas. A checklist providing examples of fraud schemes and potential fraud risks has been developed to assist each business unit to conduct a fraud risk assessment and to identify appropriate anti-fraud controls.

To further strengthen the monitoring of the Group's overall risk management approach and strategy, a Group Risk Management framework has been developed to improve communication of identified risks within management, measure the impact of the identified risks and facilitate implementation of coordinated mitigation measures. The way we manage risk is set out in the Risk Management Report at page 135. The Audit Committee oversees the development and implementation of the Group Risk Management framework.

Sir Rod Eddington, Independent Non-executive Director, thanks staff during a visit to Castle Peak Power Station

Control Effectiveness

The Board is responsible for the Company's internal control system and for reviewing its effectiveness. GIA and management conduct reviews of the effectiveness of the Company's internal control system, including those of its subsidiaries. The Audit Committee reviews the findings and opinion of GIA and management on the effectiveness of the Company's internal control system five times a year, and reports regularly to the Board on such reviews.

In June 2013 GIA undertook and completed a Post Implementation Review of EnergyAustralia's new billing and customer management system – Customer First (C1). A significant number of control issues in C1 were identified. The issues were reviewed by the CLP Holdings Audit Committee as well as the EnergyAustralia Audit & Risk Committee and are being actively addressed by management, including performing alternate substantive procedures to obtain an appropriate level of assurance over revenue related data, balances and transactions for 2013. Save for the control issues identified in C1 and Customer Operations, no other significant areas of concern that might affect shareholders were identified during the twelve months ended 31 December 2013. In respect of the year ended 31 December 2013, the Board considered the internal control system effective and adequate.

The effectiveness of the Audit Committee itself is reviewed annually through a formal process which involves the Company Secretary preparing an evaluation of its effectiveness. This is examined by the internal and external auditors before endorsement by the Board.

Inside Information

With respect to procedures and internal controls for the handling and dissemination of inside information, the Company:

- is aware of its obligations under the Securities and Futures Ordinance and the Listing Rules and the overriding principle that inside information should be announced immediately it is the subject of a decision;
- conducts its affairs with close regard to the "Guidelines on Disclosure of Inside Information" and "Recent Economic Developments and the Disclosure Obligations of Listed Issuers" issued by the Securities and Futures Commission in June 2012 and the Hong Kong Stock Exchange in 2008 respectively;
- has implemented and disclosed its own policy on fair disclosure (set out in Section V of the CLP Code);
- has included in its Code of Conduct a strict prohibition on the unauthorised use of confidential or inside information; and
- has established and implemented procedures for responding to external enquiries about the Group's affairs. Senior managers of the Group are identified and authorised to act as the Company's spokespersons and respond to enquiries in allocated areas of issues.

The Company has also published Continuous Disclosure Obligation Procedures which formalised the current practices for monitoring developments in our businesses for inside information and communicating such information to our shareholders, the media and analysts. These Procedures are on the CLP website. Training on the implementation of the Procedures has been provided to CLP's management, subsidiaries and joint ventures.

Integrated Reporting

CLP aims to present a clear and balanced assessment of its financial position and prospects. Financial results are announced as early as possible, and audited financial statements are published within three months after the end of the financial year. Quarterly statements are issued to keep shareholders informed of the performance and operations of the Group.

CLP's 2013 online Sustainability Report, published at the same time as this Annual Report, describes in detail our delivery of social and environmental value in 2013 and contributes to integrated reporting about all aspects of our activities. The Report discloses our achievements and shortcomings in managing the social and environmental aspects of our business in a comprehensive, honest and accessible way. It also includes an independent assurance report from PwC. We welcome feedback on both the Annual and Sustainability Reports. SR

A detailed account of CLP's different channels of communication with our Shareholders is set out in the "Shareholder Value and Engagement" section at page 24 of our Annual Report. Pursuant to the authority delegated from the Board, the Audit Committee has reviewed the implementation of the Shareholders' Communication Policy in 2013 and considered the communication with Shareholders effective.

Reporting via Internet

The CLP website is a major channel for providing our shareholders and other stakeholders with information on the Company's corporate governance structure, policies and systems. The "Corporate Governance" section of our website includes

- CLP Code on Corporate Governance;
- CLP Fair Disclosure Policy;
- Announcements made during the preceding five years;
- Whistleblowing Policy;
- CLP Value Framework including Code of Conduct and Responsible Procurement Policy Statement;
- CLP Anti-Fraud Policy;
- CLP Procurement Values and Principles;
- Continuous Disclosure Obligation Procedures;
- Board Diversity Policy;
- General Representation Letter;
- Guidelines on Disclosure of Related Party Transactions;
- Code for Securities Transactions by CLP Holdings Directors and Specified Individuals;
- Policy on Making Political Contributions;
- Memorandum and Articles of Association;
- Procedures for shareholders to convene, and put forward proposals at an AGM or EGM;
- Shareholders' Communication Policy;
- Shareholders' Guide;
- Biographical data on Directors and Senior Management;
- Model Letter of Appointment for Non-executive Directors;
- Terms of Reference of Board Committees as well as the frequency and length of meetings, volume of briefing papers considered and Members' attendance;
- AGM and EGM proceedings;
- Top 10 Shareholders of the Company;
- Summary shareholdings identified pursuant to Section 329 of the Securities and Futures Ordinance;
- Analyst briefings and ESG webcast;
- Responses to Consultations; and
- Most frequently asked questions (regularly updated).

We recognise that not all shareholders and stakeholders have ready access to the internet. For those who do not, hard copies of the CLP website information listed above are available free of charge upon request to the Company Secretary.

Corporate Governance – Continuing Evolution and Disclosure

We contribute to the ongoing debate about corporate governance in Hong Kong through frequent and active participation in seminars and workshops. We also make a point of responding to every public consultation by the regulatory authorities on proposed reforms. For example in 2013 we submitted our views on issues relating to connected transaction rules and definitions of connected persons and associate of the Listing Rules and the integrated reporting framework of the International Integrated Reporting Council. We always post our submissions on our website so that shareholders can judge whether we have properly reflected their views and their interests.

Our own corporate governance practices evolve, not only in line with local requirements, but through our own experience and by reference to international developments. Through this Corporate Governance Report, the CLP Code and the Corporate Governance section of our website, we offer a full view of our practices and policies and how these are evolving. Our objective is that, at all times, our corporate governance meets our shareholders' expectations and serves their interests. We will continue to review and, where appropriate, improve on our corporate governance practices in light of evolving experience, regulatory requirements and international developments.

By Order of the Board

April Chan
Company Secretary
Hong Kong, 27 February 2014

Party Secretary of Guangxi Zhuang Autonomous Region Peng Qinghua meets Mrs Fanny Law, Independent Non-executive Director

RISK MANAGEMENT REPORT

CLP's Risk Management Philosophy

We are committed to continually improving our risk management framework, capabilities, and culture across the Group so as to ensure the long-term growth and sustainability of our business. Risk is inherent in CLP's business and the markets in which it operates. The challenge is to identify risks and then manage these so that they can be reduced, transferred, avoided or understood. This demands a proactive approach to risk management and an effective group-wide risk management framework. CLP's overall risk management process is overseen by its Board as an element of solid corporate governance. However, risk management is the responsibility of everyone within CLP. Rather than being a standalone process, risk management is integrated into business processes including strategy development, business planning, investment decisions, capital allocation and day-to-day operations.

At a corporate level, CLP focuses on the assessment of material risks at the Group, business and functional levels in order to better equip itself to pursue the Group's strategic and business objectives. At an operational level, CLP aims to identify, assess, evaluate and mitigate operational hazards and risks in order to create a safe, healthy, efficient and environmentally-friendly workplace for its employees and contractors while ensuring public safety and health, and minimising environmental impact.

CLP's Risk Appetite and Risk Profiling Criteria

CLP's risk appetite represents the amount of risk the Group is willing to undertake in pursuit of its strategic and business objectives. In line with CLP's Value Framework and expectations of its stakeholders, CLP will only take reasonable risks that (1) fit its strategy, (2) can be understood and managed, and (3) do not expose the Group to:

- material financial loss impacting ability to execute the Group's business strategy and/or materially compromising the Group's ongoing financial viability;
- incidents affecting safety and health of our staff, contractors and the general public;
- material breach of external regulations liable for loss of critical operational / business licence and/or substantial fines;
- damage of the Group's reputation and brand name;
- business / supply interruption leading to severe impact on the community; and
- severe environmental incidents.

Based on the above, CLP has established its risk profiling criteria in the form of a risk matrix to help assess and prioritise risks at the Group level. Business units are required to adopt the same risk matrix structure in order to establish their own risk profiling criteria in determining consequence and likelihood of identified risks with reference to their own materiality and circumstances.

Major Risk Management Initiatives in 2013

At the Group level, we continued to improve our group-wide risk management framework, streamline the communication of risk information to Senior Management, facilitate risk management implementation across the Group and share good practices. In addition, we conducted post-implementation review of the Boxing biomass project.

At the business unit or subsidiary company level,

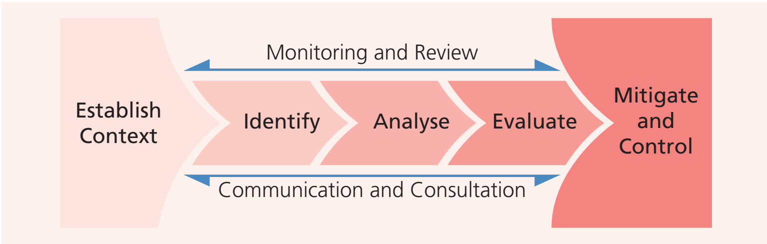
- CLP Power Hong Kong is setting up its company-wide Risk Management Framework and Guidelines to reinforce its effective and consistent implementation across its own units.
- China business unit conducted sharing and communication session on risk management with all majority-owned assets, and started drafting China Risk Management Framework and Guidelines, pending finalisation in coming quarters.
- To strengthen its energy risk management capability, EnergyAustralia has begun introducing a separate book structure for Retail, Wholesale and Strategic Value. This initiative includes integrating trading strategy across the entire value chain by defining time and price determinants of all commodities and revising risk limits to provide flexibility to respond to market signals.
- To drive ownership and accountability, EnergyAustralia has transitioned the update and maintenance of business specific risk profiles into its business units. The roll up and reporting of enterprise-wide risks are still managed centrally at EnergyAustralia's corporate office, focusing on quantifying financial risk exposure across risk scenarios and closer integration with the business planning process.
- To better manage credit risk and quantify the cost of credit, EnergyAustralia has developed a tool to assign ratings to all EnergyAustralia counterparties.

CLP's Risk Management Framework

CLP's risk management framework comprises two key elements: risk governance structure and risk management process.

Risk Governance Structure

Risk Management Process



CLP's Risk Governance Structure	
• Facilitates risk identification and escalation whilst providing assurance to the Board. • Assigns clear roles and responsibilities and facilitates implementation with guidelines and tools. • Consists of three different layers of roles and responsibilities as explained below.	
Oversight	**Audit Committee, acting on behalf of the Board** • Oversees material risks that warrant attention and supervises risk management process as part of good corporate governance.
Risk Reporting and Communication	**Chief Financial Officer and Group Executive Committee** • Supported by the Group Risk Management, communicate and assess the Group's risk profile and material risks at the Group level. • Track progress of mitigation plans and activities of material risks and report on detailed examinations of specific risks as required.
Risk and Control Ownership	**Business Units, Support Functions and Individuals** • Facilitated and coordinated by Group Risk Management, ensure that risk management processes and mitigation plans follow good practices and guidelines established by the Group. • Carry out risk management activities and reporting according to our risk management framework in their day-to-day operations. • At CLP Power Hong Kong, EnergyAustralia, CLP India and China business units, Risk Management Committees or parallel Executive Committees oversee their risk management frameworks and activities. Group Risk Management participates in these committees or reviews risk reports of the business units. • In other business and functional units, executives meet regularly to review their risk profiles and risk management activities. • Risk managers or coordinators at business and functional units have been appointed to facilitate communication, experience sharing and risk reporting.

CLP's Risk Management Process

- Is embedded in our strategy development, business planning, investment decisions, capital allocation and day-to-day operations.
- Is in line with leading industry standards and practices, including ISO 31000 : 2009 Risk Management - Principles and Guidelines.
- Involves establishing the context, identifying risks, assessing their consequences and likelihood, evaluating risk level, control gaps and priorities, and developing control and mitigation plans. This is a continuous process with periodic monitoring and review in place.

Quarterly Risk Review Process at Group Level	• Every quarter, our business and functional units are required to submit their material risks identified through their risk management process to Group Risk Management. • Group Risk Management, through aggregation, filtering and prioritising processes, compile a Quarterly Group Risk Management Report for discussion at the Group Executive Committee, chaired by the CEO. The Committee reviews and scrutinises the material risks and ensures the appropriate controls and mitigation measures are in place or in progress. Emerging risks, which might have a material impact on the Group over a longer timeframe, are monitored and discussed at the Committee. • Following review by the Group Executive Committee, the Quarterly Group Risk Management Report is submitted to the Audit Committee with a summary of the material risks circulated to the Board. "Deep dive" presentations on selected risks are presented to the Audit Committee for more detailed review.
Risk Review Process for Investment Decisions	• All new investments must be endorsed by the Investment Committee, chaired by the CEO, before seeking approval from the Board or Finance & General Committee. • We require independent functional review and sign-off of any investment proposal before submission to the Investment Committee. Group Risk Management sign-off is part of the investment review process. • Group Risk Management facilitates the project owner to conduct a detailed project risk assessment with proper documentation. Detailed checklists and worksheets are adopted for identifying risks/mitigations and assessing risk level. Material risks and associated mitigations are highlighted and discussed at the Investment Committee.
Risk Management in the Business Planning Process	• In our annual business planning process, business units are required to identify all material risks that may impact their achievement of business objectives. Identified risks are evaluated based on the same set of risk profiling criteria as the quarterly risk review process. Plans to mitigate the identified risks are developed for implementation and budget purposes. The material risks set out on pages 138 to 141 of this Annual Report have been extracted from our 2013 business planning process.

Material Risks of the Group

Our 2013 business planning process has identified the following as material risks of the Group.

Regulatory risk across the Group

While governments and regulators continue to pursue low-carbon generations and energy efficiency, consumers are increasingly price sensitive under current economic environment. All CLP's businesses operate under various local and national regulatory regimes and are continually facing the risk of tightening regulation or adverse regulatory changes.

Risk Description	Changes from last year	Key Risk Mitigations
Regulatory and political risk of Hong Kong business		
Rising costs and tariff increases have become a regulatory challenge for the Hong Kong business. We are not only encountering short-term risk with Government's difficulty in explaining the cost implications of its own policy decisions, but also long-term risk of adverse regulatory changes to the SoC.	⬅➡ SoC Interim Review, and 2014-2018 Development Plan and 2014 Tariff Review concluded based on constructive dialogue with the Government	• Implement an optimal fuel mix strategy to minimise the tariff impact arising from increasing gas consumption necessary to meet emissions standards. • Help customers mitigate tariff impact. • Enhance energy efficiency and conservation initiatives. • Prepare for the discussion on future market development with Government and the public. • Implement enhanced Stakeholder Engagement Plan to facilitate sensible and informed discussion on regulatory issues and post-2018 regulatory regime. • Publicity and brand building to reinforce appreciation of CLP's performance and the value of its service to customers. • Exercise stringent cost management as well as strengthen cost justification and transparency.
Lack of competitively priced gas impacting implementation of PPA at Paguthan		
The current PPA protects Paguthan's revenue as long as the plant is available for despatch. Paguthan has been declaring availability mainly based on gas contracts. For supply of expensive re-gassified LNG, Paguthan has entered into spot gas contracts under which supplies are made on a "reasonable endeavour" basis. Given the non-availability of gas at affordable prices, the off-taker is unwilling to schedule despatches. This has resulted in off-taker seeking PPA re-negotiation and asking for a reduction in CLP's capacity payments.	⬆ PPA negotiations ongoing to give off-taker some relief	• Executed spot gas supply and transportation contracts for 2014. • Efforts are being made to extend the existing spot gas contracts or enter into new contracts for the remaining terms of PPA. • Option to use naphtha for declaring plant capacity mitigates revenue risk to the extent of normative availability, i.e. capacity charges get paid in full without incentive.

Potential financial impact on Jhajjar power plant due to state-owned counterparties' inability to perform obligations including PPA off-takers and coal supplier		
Domestic coal supply, which is currently about 50% of Annual Contracted Quantity (ACQ), is unlikely to ramp up by more than 10% of ACQ per annum for the next 3 to 4 years due to nationwide coal shortages. Government approved a mechanism for power plant to import the deficit in domestic coal supplies with the costs being passed through. However, supplementing shortage through imported coal may not always materialise in a timely manner. Jhajjar Power Limited is obtaining a judgment on the PPA disputes with the off-takers that confirms its position on commercial operation date which in turn results in the appropriate capacity charge revenue as envisaged under the PPA.	Improving coal supply situation and power generation	• Efforts are being made to increase domestic coal supply from reliable sources and by other options such as e-auction and higher-graded coal. • Obtain approval to use more than 1.7 million tonnes per annum of imported coal with increased blending ratio. • Establish JPL's right to procure enough imported coal to supplement domestic coal deficit so as to deliver agreed contractual performance under the PPA. • Establish a procurement framework to reduce uncertainties in coal sourcing. • Extensive engagement with off-takers on PPA disputes, supported by improved plant performance and coal supply, to prevent any new disputes from emerging. • Ongoing disputes are to be resolved through Central Electricity Regulatory Commission adjudication process.
Difficulty in meeting tightening Hong Kong environmental policy and regulations		
The HKSAR Government has proposed changing the fuel mix for power generation. However, decisions have yet to be made. There may not be sufficient time for CLP to provide clean generation facilities or import clean power while the public may be reluctant to shoulder costs of environmental initiatives.	Public consultation on future fuel mix for electricity generation in Hong Kong to be held by Government soon	• Monitor climate change and fuel mix related consultation and policy development. • Implement projects under the approved 2014-18 Development Plan that fulfill the commitments in our Energy Vision. • Engage constructively with Government for regulatory clarity and mutually acceptable solutions. • Work with Government on reviewing air pollutant emission caps from 2019 onwards and ensure such emission caps are consistent with our plant operations capability and results of the public consultation on fuel mix. • Engage stakeholders and disseminate messages of the need for a balance between environment, cost, security of supply and reliability. • Enhance operational performance of emissions control equipment and efficiency of generating units.

Risk level increased   Risk level decreased   Risk level remains broadly the same

Liquidity Impact on Executing Business Strategy

A major acquisition in Hong Kong for additional stakes in CAPCO and PSDC has been announced. S&P also announced on 18 October 2013 lowering EnergyAustralia credit rating by one notch to BBB- Negative down from BBB Negative reflecting changes in the local market. Even though the Group has maintained adequate liquidity and firepower for operation and growth, the global financial markets remain uncertain with event risks overhanging which may disrupt the market, reduce liquidity and raise funding costs.

Risk Description	Changes from last year	Key Risk Mitigations
Liquidity risk of inadequate funding for business operations and growth		
Inability to obtain adequate and cost-effective funding on time could adversely impact CLP's operations, weaken financial flexibility to respond to investment opportunity and/or lower credit ratings.	⬇ EnergyAustralia completed refinancing and CLP Holdings has maintained sufficient firepower	• Maintain strong investment grade credit ratings. • Early solicitation of adequate and cost-effective funding in advance of use and replenishment of firepower after significant transactions. • Further diversify funding sources and maintain an appropriate mix of committed credit facilities. • Continue debt funding diversification (sources, lenders, instruments, tenor, and currency) to avoid concentration risk. • Reviewing funding options including slowdown in expansion, sell-down of selective assets, raising hybrid capital or equity to maintain adequate firepower.
EnergyAustralia credit rating downgraded resulting in increased difficulty in securing (re)financing and additional costs to funding. There may be flow-on effects in EnergyAustralia maintaining its bank covenant ratios		
EnergyAustralia may continue to underperform against various financial performance measures or ratios which reflect its balance sheet, cashflow and income situation.	⬆ One notch downgrade in October 2013	• Revisit EnergyAustralia's capital structure. • Review business strategies to recover business and bring back investment returns. • Ongoing monitoring and reporting of debt profile and financial ratios to various risk committees on a monthly basis. • Ongoing communication with credit rating agencies to address concerns. • Lock in long-term funding to ensure liquidity. • Deferral of discretionary operating and capital spending. • Optimal treatment of revenue from sale of carbon units.

⬆ Risk level increased ⬇ Risk level decreased ⬅ ➡ Risk level remains broadly the same

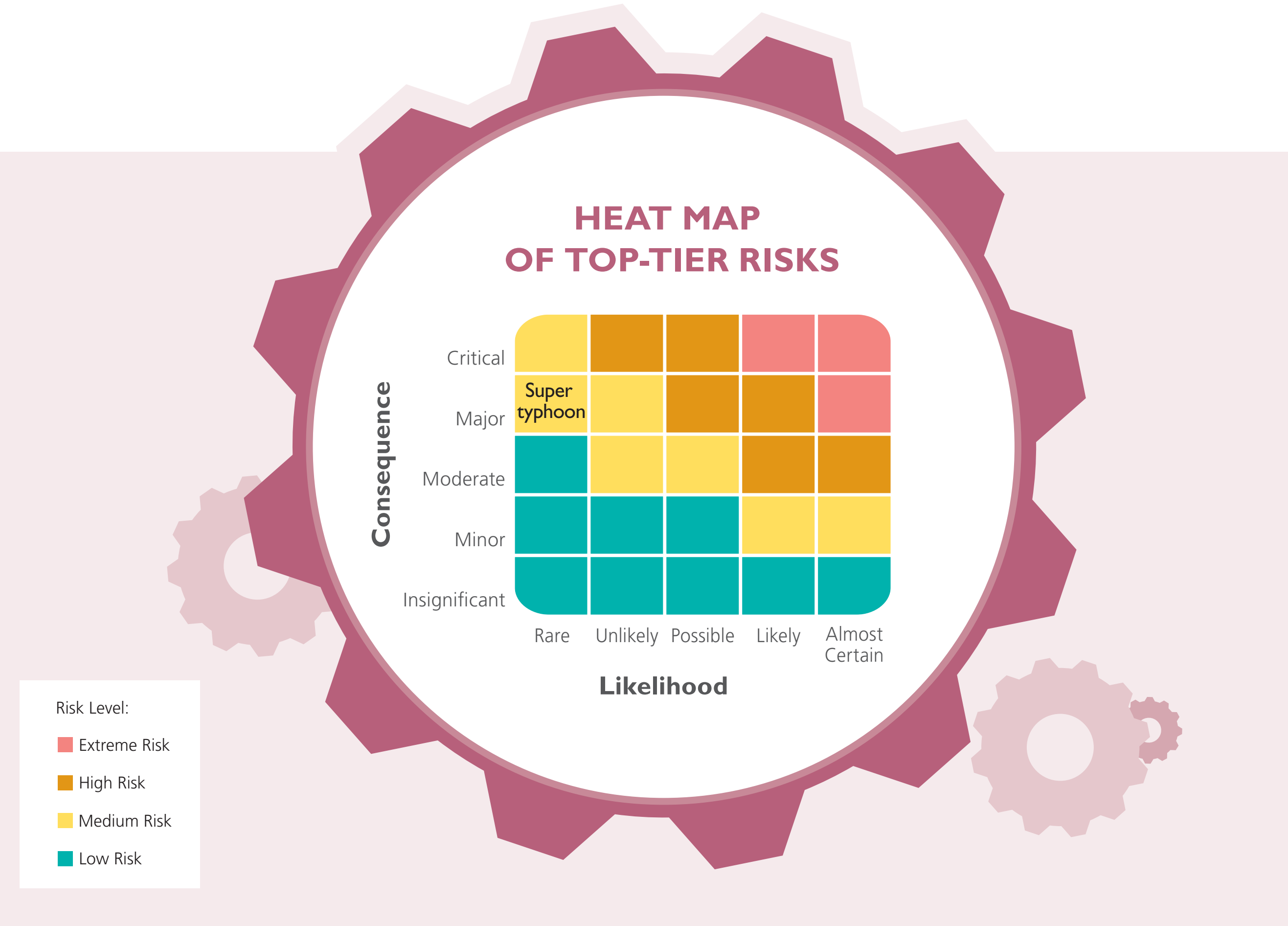
Business challenges of EnergyAustralia

EnergyAustralia's business and financial risk profiles have weakened because of declining electricity demand, discounting of retail electricity and gas pricing, and soft wholesale electricity price trends. Concurrently, EnergyAustralia has focused resources on stabilising its new retail billing platform (C1) which will be critical to the successful integration of Ausgrid customers and the achievement of EnergyAustralia's cost reduction objectives.

Risk Description	Changes from last year	Key Risk Mitigations
Inability to fully integrate Ausgrid customers on schedule due to C1 performance and other system issues resulting in an inability to effectively manage the combined business and increased costs to transition		
The new C1 retail billing platform is a very large and complex system with deployment impacting all of retail operations. The ongoing stability of C1 is critical to the ability to integrate Ausgrid customers into C1 on schedule. The operational performance of C1 has improved to a level comparable to that of before C1 went live in September 2012. Focus has now shifted to enhancing C1's performance in preparation for the EnergyAustralia Integration Programme and the transition of 1.4 million customers from Ausgrid over to C1 by the end of November 2014.	Risk level remains broadly the same Issues with C1 operational performance	• Organisational and process changes to support improved governance, strengthen business engagement, accelerate critical decision making, align more closely with specific user requirements, and lock down the critical path etc. • A risk-based approach to planning the new critical chain allows for an extended period of testing to reduce schedule risk and increase the quality of the solution. • A test-driven approach to expedite discovery and remediation of requirements gaps, functional and data defects. • Key dependency on C1 stabilisation is on track to provide a stable C1 platform for migration. • Preparation for stress and volume testing is underway. Detailed System Integration Testing is currently scheduled to commence in early 2014. • Ability to extend Transition Service Agreement with Ausgrid in the event of delay in integration project schedule.
Significant energy market changes in Australia resulting in overall market demand reduction, reduced pool prices, loss of revenue, compounded by the pending carbon tax repeal, impacting profitability and growth of EnergyAustralia		
Current economic environment is negatively impacting residential and commercial/industrial demand. The closure of a major aluminum smelter in Victoria is likely to result in a drop in demand. Carbon tax repeal, if implemented, will result in loss of compensation partially offset by increased margin, primarily from Yallourn.	Risk level remains broadly the same Carbon tax repeal pending	• Ability to withdraw capacity together with a flexible fuel supply position where necessary to cater for reduced demand. • Cost optimisation initiative to address cost base and productivity. • Marketing campaigns differentiating residential price points to attract more customers. • Developing growth plan for products and services beyond grid energy supply. • Monitoring of all large exposures to single commercial/industrial customers or to single industry sectors.

Risk level increased   Risk level decreased   Risk level remains broadly the same

Case Study: Readiness for Super Typhoon Affecting Hong Kong



- Super typhoon risk assessed in terms of its consequence and likelihood.
- Formulated strategies and contingency plans to safeguard the general public as well as supply reliability.
- Key mitigations:
  - strengthening identified structures in power stations
  - reinforcement of slopes and transmission towers
  - regular typhoon drills and crisis management exercises
  - install flooding barriers and boards at vulnerable flooding areas in power stations, and flooding alarms and water gates at low-lying substations
  - Emergency Management Team
- During the passage of Super Typhoon Usagi in September 2013, CLP Power Hong Kong activated the Emergency Management Team, engaged customers proactively in mitigating risks of operational disruption, and enhanced public awareness of CLP's emergency support.

How CLP Monitors Emerging Risks

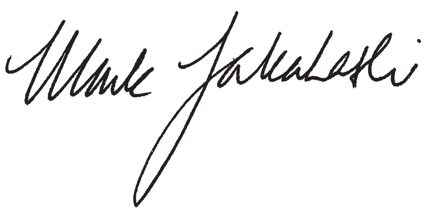
In addition to reviewing risks identified by our business and functional units through a bottom-up approach, emerging risks are also monitored and discussed at the Group level.

What are emerging risks?	• Risks that are recognised but frequency and impact usually unknown • Risks that not currently identified but may emerge
Typical attributes of emerging risks	• Results from changes in the economic, social, legal, or physical environment or advances in technology • Difficult to identify or predict with certainty • Potential significant impact • Cause and effect may be difficult to link
Examples	• Super typhoon (see case study on page 142) • Climate change related policies and regulations • Cyber attack • Shale gas
How emerging risks are identified	• Review publicly available surveys and studies • Stay abreast of geopolitical, economic, technological, and social developments • Keep track of trends in the industry • Seek inputs from the Board, management and other key stakeholders
How emerging risks are monitored	• Compile list of relevant emerging risks on a quarterly basis for discussion at the Group Executive Committee and sharing across the Group

Outlook and Major Initiatives for 2014

- Continue to enhance group-wide risk management framework and its implementation in line with industry best practices.
- Continue to assist business units in roll-out of their own frameworks in line with group-wide framework and guidelines.
- CLP Power Hong Kong will continue to migrate to the online risk management platform after successful implementation in one of its business units with active engagement of front-line managers and staff.
- China business unit will formalise and roll-out its risk management procedures across subsidiary and majority-owned entities.
- CLP India will reassess various insurance covers for projects under construction or commissioned, and continue to carry out post implementation review of commissioned wind projects.
- EA will continue to enhance and implement the various supporting frameworks and processes of investment governance, insurance, energy and credit risk management, and to have its respective business units manage their own risk registers and report accordingly.

An increasingly challenging business environment and a diversified business which is subject to a wide range of current and emerging risks demands continuous and close attention based on effective risk management governance and processes.



Mark Takahashi

Group Director & Chief Financial Officer

Hong Kong, 27 February 2014

AUDIT COMMITTEE REPORT

The Audit Committee is appointed by CLP Holdings' Board of Directors and has five members, all of whom are Independent Non-executive Directors. The Chairman, Mr Vernon Moore, Professor Judy Tsui and Mr Nicholas Allen have appropriate professional qualifications, including membership of the Hong Kong Institute of Certified Public Accountants (HKICPA), and experience in financial matters. Mrs Fanny Law has extensive experience in public administration and Ms Irene Lee has wide experience in financial services, including banking, funds management and general insurance.

The Board has given the Committee written terms of reference prepared by reference to the HKICPA's "Guide for Effective Audit Committees" and the Hong Kong Stock Exchange's Appendix 14 to the Listing Rules "Corporate Governance Code and Corporate Governance Report" (the Stock Exchange Code). Its terms of reference are set out in the CLP Code on Corporate Governance (CLP Code) and on CLP's and the Exchange's websites.

The Committee meets regularly, at least five times per annum, so that full attention can be given to the matters submitted. Special meetings may be called by its Chairman or at the request of the CEO or Director – Group Internal Audit to review significant control or financial issues. There is an open invitation between the Committee and the EnergyAustralia Audit & Risk Committee to attend each other's meetings. Individual attendance of members at the meetings held in 2013 is set out in the Corporate Governance Report on page 121. Members of the EnergyAustralia Audit & Risk Committee participated in two of the meetings of the Committee held in 2013 and members of the Committee participated in one EnergyAustralia Audit & Risk Committee meeting within 2013 and also the meeting held in February 2014.

Responsibilities

The Committee is accountable to the Board, to whom minutes of all meetings are sent. The Chairman reports to the Board on Committee's review of significant internal control issues and the Company's annual / interim results. In addition, the Chairman gives an annual report to the Board on the Committee's activities. The Committee's primary responsibilities are to:

- assure that adequate internal controls are in place and followed;
- assure that appropriate accounting principles and reporting practices are followed;
- satisfy itself as to the adequacy of the scope and direction of external and internal auditing;
- satisfy itself that good accounting, audit and compliance principles, internal controls and ethical practices are applied on a consistent basis throughout the CLP Group; and
- perform the corporate governance duties described further in this Report and fulfill the functions conferred on the Committee pursuant to the CLP Code.

Summary of Work Done

Between 1 January 2013 and the date of this Report (the Relevant Period), the Audit Committee met seven times and discharged its responsibilities in its review of the half-yearly and annual results and system of internal control and its other duties as set out in the CLP Code. The work performed by the Committee during the Relevant Period are summarised in the following paragraphs.

Internal Control

The Committee reviewed the CLP Group's internal control review approach and the Business Practice Review Process for 2013 (excluding EnergyAustralia which will commence its Business Practice Review in 2014). It also reviewed the Group's top-tier risks on a quarterly basis.

The Committee has received regular updates from EnergyAustralia on its new Customer Management and Billing System – Customer First (C1), EnergyAustralia Integration Project, status of key control testing and outstanding audit issues. In June 2013 Group Internal Audit (GIA) undertook and completed a Post Implementation Review of C1. A significant number of control issues in C1 were identified. The issues were reviewed by the CLP Holdings Audit Committee as well as the EnergyAustralia Audit & Risk Committee and are being actively addressed by management, including performing alternate substantive procedures to obtain an appropriate level of assurance over revenue related data, balances and transactions for 2013. Save for the control issues identified in C1 and Customer Operations, no other significant areas of concern that might affect shareholders were identified during the twelve months ended 31 December 2013.

A General Representation Letter, which was signed jointly by the CEO and the CFO regarding compliance with internal control systems, disciplines and procedures for the year ended 31 December 2012 and separately for 2013 Interim as well as for the year ended 31 December 2013, was given to the Audit Committee to assure that adequate internal controls are in place and followed.

Based on the information received from management, the external auditor and GIA, the Committee believes that overall financial and operating controls for the Group during 2013 continue to be effective and adequate. Further information about control standards, checks and balances and control processes is set out in the Corporate Governance Report on pages 129 to 131. The Audit Committee confirms that it has discharged its responsibilities in accordance with the requirements of the CLP Code and is satisfied that the Group has complied with all the Code Provisions of the Stock Exchange Code with respect to internal controls.

Accounting Principles and Reporting Practices

The Committee reviewed the CLP Group's accounting principles and practices and the changes in accounting policies arising from revised financial reporting standards.

The Committee reviewed the 2012 and 2013 Annual Reports including the Corporate Governance Report, the Directors' Report and Financial Statements for the years ended 31 December 2012 and 2013 and the relevant annual results announcement, with a recommendation to the Board for approval. The Committee also reviewed the 2013 Interim Report including the CLP Group Interim Financial Statements for the six months ended 30 June 2013 and the interim results announcement, with a recommendation to the Board for approval.

The Audit Committee paid particular regard to judgmental issues in respect of the Company's Financial Statements for the years ended 31 December 2012 and 2013 and for the six months ended 30 June 2013. Amongst other inputs, the management reports to the Committee and the audit reports submitted by external auditor summarised significant matters of the CLP Group for the years ended 31 December 2012 and 2013 and for the six months ended 30 June 2013, such as in respect of auditing and accounting matters, taxation issues and internal controls, together with the manner in which they had been addressed.

During the Relevant Period the major judgmental issues included, by way of example, the acquisition accounting for acquiring a further 30% interest in Castle Peak Power Company Limited and remaining 51% interest in Hong Kong Pumped Storage Development Company, Limited (if the transaction is completed), as well as the impairment reviews of EnergyAustralia's cash generating units and of CLP India's Paguthan Plant. The Audit Committee held an additional meeting on 10 January 2014 in advance of the Audit Committee's regular review of the Financial Statements on 17 February 2014. It reviewed the likely critical judgmental issues of CLP Group including EnergyAustralia's critical judgmental issues, which earlier had been presented to, and reviewed by, EnergyAustralia's Audit & Risk Committee.

Internal and External Auditing

The Committee reviewed the overall internal audit results for 2012 and 2013 and all the internal audit reports submitted in 2013.

During the twelve month period ended 31 December 2013, the Committee was advised that four reports (out of a total of 28) submitted by GIA regarding Accounts Payable, Remuneration & Rewards, Customer Operations and

Independent Non-executive Directors receive an update on Fangchenggang at the Power Station

Customer Sales at EnergyAustralia carried an unsatisfactory audit opinion. The issues arising from these audits are being addressed by management.

The Committee reviewed the staffing and resources of the Group's Internal Audit department and the audit plans for 2013 and 2014, with areas of emphasis identified.

The Committee reviewed the audit fees payable to the external auditor, PricewaterhouseCoopers (PwC), for the years ended 31 December 2012 and 2013 for approval by the Board, with a recommendation for their reappointment for 2013. PwC were reappointed independent auditor of the Company by shareholders at the AGM held on 30 April 2013. PwC audit all companies in the CLP Group which require statutory audit opinions. Their audit strategy for the year ended 31 December 2013 was reviewed by the Committee.

The Committee has reviewed the proposed engagement of the external auditor in respect of audit-related and permissible non-audit services. Details of fees paid to PwC for their audit-related and permissible non-audit services are set out in the Corporate Governance Report on page 128. Having reviewed PwC's performance during 2013 and satisfied itself of their continuing independence and objectivity within the context of applicable regulatory requirements and professional standards, the Committee has recommended to the Board the reappointment of PwC as independent auditor at the forthcoming AGM. A resolution to that effect has been included in the Notice of AGM.

Compliance

The Committee reviewed the compliance by the Company with the Stock Exchange Code throughout the years ended 31 December 2012 and 2013 and throughout the six months ended 30 June 2013. CLP complies with all the Code Provisions, with one deviation from Recommended Best Practices, which is explained in the Corporate Governance Report on page 116 of this Annual Report.

The Committee also reviewed the Company's compliance with the Listing Rules, Companies Ordinance and Securities and Futures Ordinance throughout the years ended 31 December 2012 and 2013. No breaches were identified.

Every six months, the Committee reviewed legal cases in which CLP Holdings or any member of the CLP Group was a named defendant. None of these cases was material, save as disclosed under Note 33 Contingent Liabilities to the Financial Statements.

During the Relevant Period, the Committee has also reviewed the implementation of Compliance Management System of EnergyAustralia. This system is regularly reviewed by EnergyAustralia Audit & Risk Committee.

Corporate Governance

The terms of reference of the Audit Committee cover all of the corporate governance functions set out in the Hong Kong Stock Exchange's Corporate Governance Code and which may be delegated by the Board to the Audit Committee. In addition to its existing role in corporate governance, the Committee reviews:

- existing policies and practices and monitoring their effectiveness, including the Shareholders' Communication Policy, Code of Conduct, Whistleblowing Policy and Procedure for Gifts & Entertainment;
- the adequacy of training programmes and the budget of the accounting and financial reporting functions;
- new policies and practices on corporate governance matters and making recommendations to the Board;
- Code of Conduct issues identified in 2013. None of the 12 breaches of the Code was material to the Group's financial statements or overall operations. One case involved a senior manager of a subsidiary;
- the Investigations Guidelines for Senior Executives;
- management development, succession planning and training for key finance, accounting and internal audit positions;
- recommendations of 2012 Board Evaluation Report of relevance to the Audit Committee;
- cyber security; and
- Management's Ethical and Controls Commitment Survey Results.

Audit Committee Effectiveness

The Company Secretary has evaluated the performance and effectiveness of the Audit Committee in 2013. The scope of the evaluation was reviewed by internal and external auditors. The CLP Holdings Board has endorsed the evaluation of the Company Secretary to the effect that the Audit Committee was performing its responsibilities in an effective manner and in accordance with its terms of reference.

Vernon Moore

Vernon Moore
Chairman, Audit Committee
Hong Kong, 27 February 2014

SUSTAINABILITY COMMITTEE REPORT

The Sustainability Committee is appointed by the Board to oversee CLP's position and practices on sustainability issues, principally in relation to social, environmental and ethical matters that affect shareholders and other key stakeholders. Effective from 30 September 2013, the Committee was chaired by Mr Richard Lancaster after he succeeded Mr Andrew Brandler as the CEO of the Company. Mr Brandler remained as a member of the Committee. Other members of the Committee include Mr Nicholas C. Allen, Mrs Fanny Law, Dr Jeanne Ng and Professor Judy Tsui.

Summary of Work Done

Between 1 January 2013 and 27 February 2014 (the Relevant Period), the Committee reviewed this Committee Report and:

- CLP's Sustainability Framework – implementation in 2013 and 2014 review;
- CLP's ESG performance in 2013;
- ESG Data Management and Reporting Strategy (2014-2016);
- Climate Vision 2050 Performance and Review 2013;
- the progress of implementation of CLP's Responsible Procurement Policy and 2013 roadmap;
- the 2012 CLP Group online Sustainability Report and feedback received from stakeholders; SR
- PricewaterhouseCoopers' Report on the assurance process review of selected data in the 2012 Sustainability Report;
- the follow-up actions arising from the Board Evaluation Report 2012;
- 2012 and 2013 Group's community investment activities and future plans;
- Group Environmental Strategy – Progress Update;
- CLP Group Community Investment, Sponsorship and Donation Policy;
- CLP Stakeholder Engagement Strategy; and
- the revised Sustainability Committee Terms of Reference.

CLP's Sustainability Framework

The Sustainability Framework, which was introduced in 2012, provides the structure for the Committee's work. The Framework includes 15 sustainability goals. The establishment and achievement of these goals rest on an approach whereby:

- each business sets its own targets under each of the 15 goals as a contribution to the Group's sustainability objective as part of its business planning process;
- each target should make an efficient, positive contribution to business value – this aspect of CLP's activities is treated as part of everyday business operations and, as with everything we do, should increase the value of the business to its shareholders;
- the initial targets will become more demanding over time;
- performance against the targets set during the annual business planning process are assessed at year end, at both business unit and Group level and incorporated into the overall annual CLP Group performance assessment process; and
- internal and external reporting are aligned with the Sustainability Framework.

The ESG Reporting Guide, as Appendix 27 to the Listing Rules (the ESG Guide), was published by the Hong Kong Stock Exchange (HKEx). It sets out ESG subject areas, aspects, general disclosure and key performance indicators (KPIs) which issuers are encouraged to disclose in their Annual Reports or as a separate report. The ESG Guide is organised around four ESG subject areas: work place quality, environmental protection, operating practices and community involvement. These do not precisely correspond to the four critical areas of our own Sustainability Framework, namely: people, business performance, energy supply and environment.

The overall scope of CLP's Sustainability Reporting, which predates the introduction of the ESG Guide, is wider than that of the ESG Guide. Our Sustainability Reporting was constructed around the GRI Guidelines and evolved to incorporate those areas, objectives and goals which we considered most relevant to our business as articulated in our Sustainability Framework.

There is a table, available on our Sustainability Report landing page, which refers the reader to the relevant sections of our Sustainability Report where we set out in detail the manner in which CLP has met, and in many respects exceeded, the terms of the ESG Guide. There are a few matters where the subject areas, aspects, general disclosure and KPIs in the ESG Guide go beyond our reporting in this Annual Report and Sustainability Report. Where this is the case we have explained the differences, and the reasons, in the table available on our Sustainability Report landing page. The Five-year Summary of statistics on the Group's environmental and social performance on pages 258 and 259 of this Annual Report includes cross-references to the HKEx's KPIs.

During the Relevant Period, we have established an ESG Reporting Steering Committee to help facilitate discussion and decision making on KPI measurement and reporting. CLP's sustainability goals, key aspects of delivery against these goals in 2013 and some examples of the relevant KPIs to measure the delivering of these goals are summarised in the table on pages 148 and 149. Full details of the KPIs are available on the online Sustainability Report. SR

Critical Area – Objective	Goals	2013 Highlights	Examples of Relevant KPIs
People – meet the evolving expectations of our stakeholders	• Zero injuries in all our workplaces • Support a healthy workforce • Develop committed and motivated employees • Meet or exceed customer expectations • Earn and maintain community acceptance • Operate our business ethically	• One contractor fatality in India, otherwise strong safety performance • Many initiatives across the Group supporting healthy lifestyle and work life balance initiatives • Relatively positive employee opinion survey results and relatively low turnover rates reflect committed and motivated employees • Excellent customer service performance in Hong Kong; some improvement required in Australia due to implementation issues of the new C1 • Numerous and varied community engagement initiatives organised and supported throughout the Group • A small number of breaches of the Code of Conduct, none of which were material to the Group's financial statements or overall operations	• Health & safety (e.g. number of fatalities, disabling injury incidence rate, total injury frequency rate, loss time injury incidence rate) • Employee turnover (e.g. voluntary turnover rates) • Level of employee engagement (e.g. number of meetings with the Managing Director / General Manager events, feedback from survey) • Customer satisfaction (e.g. 12-month average customer satisfaction percentage, same day reconnection percentage, percentage of calls answered within 30 seconds) • Community engagement & investment (e.g. number of engagements, number of programmes sponsored) • Ethical behaviour (e.g. number of breaches of the Code of Conduct, recap Value Framework in Business Practices Review) • Supply chain management (e.g. Responsible Procurement Policy Statement requirements included in supplier selection and monitoring)
Business Performance – continually increase business value	• Create long-term shareholder value • Adapt proactively to a changing business environment • Enhance individual and organisational capability	• Consistent increase in ordinary dividends, linked to the underlying earnings performance of the business • Comprehensive risk management processes in place as well as many opportunities for new energy efficiency products and services and more advanced generation technologies pursued • Several staff training initiatives pursued and succession planning initiatives implemented	• Business performance (e.g. earnings, liquidity, credit ratings) • Management of risks and opportunities (e.g. mitigation progress of identified risks, number of engagements with governments, number of partnerships / projects to support research and development of new technologies) • Development and training (e.g. number of training man-days, succession index)

Online Sustainability Report

Critical Area – Objective	Goals	2013 Highlights	Examples of Relevant KPIs
Energy Supply – deliver world-class products and services	• Supply energy reliably • Be operationally efficient • Adopt emerging technology in a timely manner	• A wide variety of quantitative operational performance targets set and largely achieved across the Group • Several Smart Grid pilot projects ongoing in Hong Kong and Australia and power station energy efficiency improvement programmes executed • Different types of new and more efficient power generation technologies investigated and pursued	• Service performance (e.g. unplanned customer minutes lost, average service availability, average supply restoration) • Operational performance of assets (e.g. equivalent forced outage rate, energy efficiency targets) • Incremental efficiency improvements of existing assets; pursue new products and opportunities • Investigate and consider adopting new technologies
Environment – minimise environmental impacts	• Move towards zero emissions • Move towards a more sustainable rate of resource use • Move towards no net loss of biodiversity	• Group carbon emissions intensity increased in 2013 relative to 2012 due mainly to the acquisition of coal-fired power stations in Australia and increased output from our Jhajjar coal plant in India compared to 2012, rather than any large changes in the operation of our existing generation portfolio. • Many initiatives to decrease water use and waste production across the Group • Biodiversity efforts conform to local regulations and comply with Group's Environmental Impact Assessment policy	• Reducing emissions (e.g. operational efficiency improvements, use of lower emitting fuel) • Reducing resource use (e.g. water and waste recycling) • Minimising our impact on biodiversity (e.g. including biodiversity impact assessments in environmental impact assessments, land rehabilitation)

The Sustainability Committee will continue to review its role in offering effective support to the Board and oversight to Management in the development, implementation, measurement and reporting of the Sustainability Framework and the Group's performance on social, environmental and ethical matters as a whole. In particular, the Committee will continue to review the development and implementation of the strategic goals set out in the Sustainability Framework, which are based on the values CLP has long committed and expressed in its Value Framework, to ensure that such strategic goals are embraced by employees of different business units and integrated into the business planning process for the sustainable development of the Company.

Richard Lancaster
Chairman, Sustainability Committee
Hong Kong, 27 February 2014

HUMAN RESOURCES & REMUNERATION COMMITTEE REPORT

1. Introduction

On behalf of the Board, the Human Resources & Remuneration Committee (HR&RC) scrutinises the remuneration policies applied within the CLP Group, including the remuneration of Non-executive and Executive Directors and of Senior Management. Our objective is to ensure that CLP applies properly structured and fair remuneration policies which align the interests of Directors and Senior Management with those of the Company and its shareholders. This Report explains the policies applied to determining remuneration levels and sets out the remuneration paid to Non-executive Directors, Executive Directors and Senior Management. This HR&RC Report has been reviewed and endorsed by the Committee.

The contents of sections 6, 7, 8 and 10, in the highlighted boxes below, comprise the "auditable" part of the HR&RC Report and have been audited by the Company's Auditor.

2. Membership

A majority of the members of the HR&RC are Independent Non-executive Directors. In line with good practice, there are no Executive Directors on the Committee. Mr Vincent Cheng, an Independent Non-executive Director, is the Chairman of the Committee. Other members of the Committee include Mr William Mocatta, Mr V. F. Moore, Sir Rod Eddington and Mr Nicholas C. Allen.

3. Responsibilities and Work Done

The HR&RC considers major human resources and pay issues. It also provides forward guidance on EnergyAustralia's remuneration policy through interactions between the Committee and the EnergyAustralia Nomination & Remuneration Committee. Between 1 January 2013 and 27 February 2014 (the Relevant Period), the Committee approved the 2012 and 2013 HR&RC Reports, and reviewed:

- the Group performance for 2012 and 2013 and Group targets for 2013 and 2014;
- 2012 and 2013 organisation performance for CLP India and targets for 2014;
- 2013 organisation performance for CLP Power Hong Kong and targets for 2014;
- 2013 remuneration review for EnergyAustralia;
- the base pay for 2013 and 2014 for Hong Kong payroll staff, CLP India and China;
- the Senior Executive remuneration (Hong Kong and India), including annual incentive payments for 2012 and 2013 and annual pay for 2013 and 2014;
- CEO's remuneration;
- proposed change to Senior Executive Long Term Incentive scheme;
- subsidiary performance targets for Annual Incentive purposes and proposed timetable for 2013 CLP Group performance and 2014 remuneration review;
- proposed final payment arrangements for Mr Andrew Brandler;
- governance of executive remuneration in EnergyAustralia;
- proposed response to preliminary proposals from EnergyAustralia on Executive Remuneration;
- request for extension of Deeds of Indemnity, Insurance and Access to Officers of EnergyAustralia;
- EnergyAustralia Nomination & Remuneration Committee decisions on 20 February 2014;
- Non-executive Directors' fees;
- the follow-up actions arising from the Board Evaluation Report 2012;
- update on Human Resources Policy matters and gender diversity in the Hong Kong workforce;
- proposal for nomination to Senior Management;
- implementation plan of proposed Senior Management changes; and
- training and continuous professional development of Senior Management.

4. Remuneration Policies

The main elements of CLP's remuneration policy have been in place for a number of years and are incorporated in the CLP Code on Corporate Governance (CLP Code):

- No individual should determine his or her own remuneration;
- Remuneration should be broadly aligned with companies with whom CLP competes for human resources; and
- Remuneration should reflect performance, complexity and responsibility with a view to attracting, motivating and retaining high performing individuals and promoting the enhancement of the value of the Company to its shareholders.

5. Non-executive Directors – Principles of Remuneration

The above policies apply to the remuneration of the Non-executive Directors, with appropriate adjustments to reflect good corporate governance practices, the particular nature of their duties and that they are not Company employees.

In considering the level of remuneration payable to Non-executive Directors, we have referred to the:

- Report of the Committee on the Financial Aspects of Corporate Governance of December 1992 (The Cadbury Report);
- "Review of the Role and Effectiveness of Non-executive Directors" (The Higgs Report) of January 2003; and
- Hong Kong Stock Exchange's Corporate Governance Code and associated Listing Rules.

In light of these considerations, CLP's Non-executive Directors are paid fees in line with market practice, based on a formal independent review undertaken no less frequently than every three years. Those fees were most recently reviewed at the beginning of 2013 (the 2013 Review). The methodology adopted in the 2013 Review is the same as that used in the previous reviews and as explained to shareholders in the CLP Code. The methodology is aligned with the recommendations of the Higgs Report and includes:

- the application of an hourly rate of HK$4,500 as an average of the partner rates charged by legal, accounting and consulting firms in providing professional services to CLP. This hourly rate of HK$4,500 has remained unchanged since the last review in 2010;
- the calculation of the time spent by Non-executive Directors on CLP's affairs (including attendance at Board and Board Committee meetings, reading papers, etc.); and
- an additional fee of about 40% and 10% per annum for the Chairmen of the Board/Board Committees and the Vice Chairman of the Board respectively (reflecting the additional workload and responsibility which these offices involve).

The resulting fees were then benchmarked against those paid by leading listed companies in Hong Kong and major utility companies listed on the London Stock Exchange. The methodology and resulting fees were independently reviewed by J.S. Gale & Co, solicitors. Further to CLP's commitment to the adoption of a transparent methodology for determining Non-executive Directors' remuneration, the 2013 Review and the opinion of J.S. Gale & Co on the 2013 Review are placed on CLP's website.

The fee review takes place every three years and the methodology takes into account past and present data, rather than any forward-looking projections. For these reasons, on previous occasions the full amount of the adjustment to annual fees has taken effect upon shareholder approval at the following AGM. Whilst maintaining the same methodology, the Board recommended that, instead of taking effect in one go, the adjustment in fees should be partially deferred by being spread out over the next three years.

In line with our policy that no individual should determine his or her own remuneration, the levels of fees set out in the table below were proposed by Management, reviewed by J.S. Gale & Co and approved by our shareholders at the AGM on 30 April 2013. In this respect, CLP's approach goes beyond that required by law or regulation in Hong Kong or the provisions of the Hong Kong Stock Exchange's Corporate Governance Code.

Fees for Non-executive Directors

	Fees per annum (w.e.f. 1 May 2015) HK$	Fees per annum (w.e.f. 1 May 2014) HK$	Fees per annum (w.e.f. 1 May 2013) HK$	Fees per annum (before 1 May 2013) HK$
Board				
Chairman	666,900	629,200	593,600	560,000
Vice Chairman	524,000	494,300	466,400	440,000
Non-executive Director	476,400	449,400	424,000	400,000
Audit Committee				
Chairman	463,800	407,700	358,300	315,000
Member	334,700	293,200	256,800	225,000
Finance & General Committee				
Chairman	397,500	394,900	392,400	390,000
Member	287,400	284,900	282,400	280,000
Human Resources & Remuneration Committee				
Chairman	85,300	68,900	55,700	45,000
Member	58,800	49,400	41,600	35,000
Sustainability Committee				
Chairman	106,100	94,500	84,200	75,000
Member	78,400	69,600	61,900	55,000
Nomination Committee*				
Chairman	14,000	14,000	14,000	14,000
Member	10,000	10,000	10,000	10,000
Provident & Retirement Fund Committee*				
Chairman	14,000	14,000	14,000	14,000
Member	10,000	10,000	10,000	10,000

* A nominal fee has been maintained for the Chairman and Member of the Nomination Committee and the Provident & Retirement Fund Committee.

Note: Executive Directors and Management serving on the Board and Board Committees are not entitled to any Directors' fees.

6. Non-executive Directors – Remuneration in 2013

The fees paid to each of our Non-executive Directors in 2013 for their service on the CLP Holdings Board and, where applicable, on its Board Committees are set out below. The increase in total Directors' fees, compared to 2012, was primarily due to an increase in the levels of Non-executive Directors' fees which took effect on 1 May 2013 and the full year service of some of the Independent Non-executive Directors who were appointed in 2012.

Higher levels of fees were paid to Chairmen of the Board and Board Committees and the Vice Chairman of the Board as indicated by "C" and "VC" respectively. Executive Directors and Management serving on the Board and Board Committees are not entitled to any Directors' fees.

In HK$	Board	Audit Committee	Nomination Committee	Finance & General Committee	HR&RC	Provident & Retirement Fund Committee	Sustainability Committee	Total 2013	Total 2012
Non-executive Directors									
The Hon Sir Michael Kadoorie	582,553.42(c)	–	14,000.00(c)	–	–	–	–	596,553.42	574,000.00
Mr William Mocatta(1)	457,720.54(vc)	–	–	391,610.96(c)	39,430.14	14,000.00(c)	–	902,761.64	880,475.00
Mr R. J. McAulay	416,109.59	–	–	–	–	–	–	416,109.59	400,000.00
Mr J. A. H. Leigh	416,109.59	–	–	–	–	–	–	416,109.59	400,000.00
Mr I. D. Boyce	416,109.59	–	–	281,610.96	–	–	–	697,720.55	680,000.00
Dr Y. B. Lee	416,109.59	–	–	–	–	–	–	416,109.59	400,000.00
Mr Paul A. Theys	416,109.59	–	–	–	–	–	–	416,109.59	400,000.00
Mr Peter P. W. Tse(2)	131,506.85	–	–	–	–	–	–	131,506.85	251,366.00
Independent Non-executive Directors									
Mr V. F. Moore	416,109.59	344,064.38(c)	–	281,610.96	39,430.14	–	–	1,081,215.07	1,030,000.00
Professor Judy Tsui	416,109.59	246,345.20	–	–	–	–	59,631.50	722,086.29	680,000.00
Sir Rod Eddington	416,109.59	–	–	281,610.96	39,430.14	–	–	737,150.69	715,000.00
Mr Nicholas C. Allen	416,109.59	246,345.20	10,000.00	281,610.96	39,430.14	–	59,631.50	1,053,127.39	1,005,000.00
Mr Vincent Cheng	416,109.59	–	10,000.00	281,610.96	52,182.19(c)	–	–	759,902.74	731,011.00
Mrs Fanny Law	416,109.59	246,345.20	–	–	–	–	59,631.50	722,086.29	488,634.00
Ms Irene Lee	416,109.59	246,345.20	–	281,610.96	–	–	–	944,065.75	192,869.00
Dr Rajiv Lall(3)	163,791.78	–	–	109,091.51	–	–	–	272,883.29	–
Mr Hansen C. H. Loh(4)	–	–	–	–	–	–	–	–	200,055.00
							Total	10,285,498.33	9,028,410.00

Notes:

(1) Mr William Mocatta also received HK$303,000 as fees for his service on the boards of CLP Power Hong Kong Limited, Castle Peak Power Company Limited and Hong Kong Pumped Storage Development Company, Limited. In 2012, he received HK$322,000 as fees for his service on the boards of these companies.

(2) Mr Peter P. W. Tse retired as a Non-executive Director after the conclusion of the 2013 AGM held on 30 April 2013. Mr Tse has extended the property consultancy services contract with CLP Properties Limited for one year from 16 May 2013 at a fee based on actual time incurred at an hourly rate of HK$4,000. This service contract can be terminated by CLP Properties Limited or Mr Tse by giving one month's notice. During the year, Mr Tse has received HK$1,013,600 for providing consultancy services on property matters under this contract.

(3) Dr Rajiv Lall was appointed as an Independent Non-executive Director and a member of the Finance & General Committee with effect from 13 August 2013.

(4) The fee paid to Mr Hansen C. H. Loh (a former Director) is included in the table, solely for the purpose of comparing the total fees paid to Non-executive Directors in 2012 with those in 2013.

7. Executive Directors – Remuneration in 2013

The remuneration paid to the Executive Directors of the Company in 2013 was as follows:

	Base Compensation, Allowances & Benefits HK$M	Performance Bonus (Note A) Annual Incentive HK$M	Performance Bonus (Note A) Long-term Incentive HK$M	Provident Fund Contribution HK$M	Total HK$M
2013					
CEO (Mr Richard Lancaster) (Note B)	3.4	1.7	–	0.4	5.5
Executive Director (Mr Andrew Brandler) (Note C)	6.7	6.9	19.3	0.8	33.7
Group Executive Director – Strategy (Mr Peter W. Greenwood) (Note D)	2.5	5.4	5.2	0.3	13.4
	12.6	14.0	24.5	1.5	52.6
2012					
CEO (Mr Andrew Brandler)	7.5	7.1	2.8	0.9	18.3
Group Executive Director (Mr Peter P. W. Tse) (Note E)	2.0	3.6	8.9	0.2	14.7
Group Executive Director – Strategy	5.6	5.2	–	0.7	11.5
	15.1	15.9	11.7	1.8	44.5

Note A:

Performance bonus consists of (a): annual incentive and (b): long-term incentive.

(a) The annual incentive for the Executive Directors and the members of Senior Management for 2013 was reviewed and approved by the HR&RC after 31 December 2013. Accordingly, the total amount of annual incentive includes: (i) the accruals that have been made in the performance bonus for the Executive Directors and members of Senior Management at the target level of performance; and (ii) the actual bonus paid in 2013 for the last year in excess of the previous accruals made.

(b) The long-term incentive is the incentive for 2010, paid in 2013 when the vesting conditions had been satisfied (the comparative figures are the incentive for 2009 paid in 2012). About 30% of the amount of 2010 long-term incentive payments results from the appreciation of CLP Holdings' share price between 2010 and 2012, with dividends reinvested.

(c) Payment of the annual incentive and granting of the long-term incentive awards relating to 2013 performance will be made in March 2014. These payments and awards are subject to the prior approval of the HR&RC. Details of these will be published on the CLP website at the time that the 2013 Annual Report is published.

Note B:

Mr Richard Lancaster was appointed an Executive Director of the Company with effect from 3 June 2013 and was appointed as the CEO to succeed Mr Andrew Brandler with effect from 30 September 2013. The remuneration covered the period from 3 June 2013 to 31 December 2013.

Note C:

After stepping down as the CEO on 30 September 2013, Mr Andrew Brandler continued to serve on the Board as a Director of the Company. Mr Brandler was also employed in a limited capacity by the Company until 31 March 2014 in order to be available to provide advice to the new CEO and support a smooth transition. During the period from 30 September 2013 to 31 March 2014, Mr Brandler is entitled to a revised monthly remuneration of HK$189,000 and monthly contributions by the Company to CLP Group Provident Fund based on this monthly amount together with other non-remuneration related employment benefits. The revised monthly remuneration is equivalent to the Directors' fees payable on a pro rata basis for service on the boards and committees of the Company and EnergyAustralia on which Mr Brandler will continue to serve. Mr Brandler's entitlement to annual incentive for 2013 ceased on 30 September 2013 and there will be no long-term incentive award made in 2014 for Mr Brandler. This employment arrangement can be extended or terminated by mutual agreement on the provision of one month notice. The annual incentive for the years 2012 and 2013, and the long-term incentive for the years 2010, 2011, 2012 and 2013 were HK$6.9 million and HK$19.3 million respectively. The annual incentive for the year 2013 were made on a pro rata basis up to 29 September 2013.

Note D:

Mr Peter W. Greenwood retired from his position as Group Executive Director – Strategy and also as a Director of the Company on 19 May 2013. The annual incentive for the years 2012 and 2013 was HK$5.4 million. This figure included the additional discretionary annual incentive for year 2013 of HK$2 million. The long-term incentive for the years 2010, 2011, 2012 and 2013 was HK$5.2 million. The annual and long-term incentives for the year 2013 were made on a pro rata basis in respect of Mr Greenwood's service up to 19 May 2013.

Note E:

Mr Peter Tse retired as an Executive Director with effect from 16 May 2012 and retired as a Director after the conclusion of the 2013 AGM held on 30 April 2013.

The Group does not have, and has never had, a share option scheme. No Executive Director has a service contract with the Company or any of its subsidiaries with a notice period in excess of six months or with provisions for predetermined compensation on termination which exceeds one year's salary and benefits in kind.

8. Total Directors' Remuneration in 2013

The total remuneration of Non-executive and Executive Directors in 2013 was:

	2013 HK$M	2012 HK$M
Fees	10	9
Base compensation, allowances and benefits in kind	13	15
Performance bonus *		
– Annual incentive	14	16
– Long-term incentive	24	12
Provident fund contributions	2	2
	63	54

* Refer to Note A on performance bonus on page 154.

Of the total remuneration paid to Directors, HK$8 million (2012: HK$7 million) has been charged to the SoC operation.

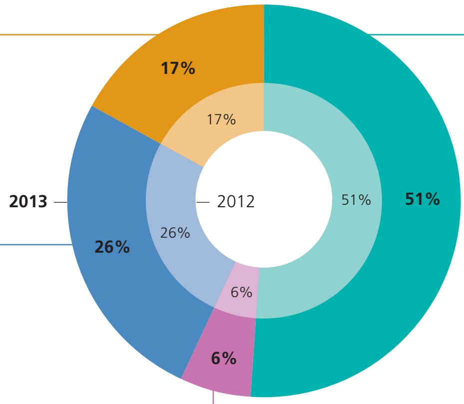
9. Senior Management – Principles of Remuneration

For the purposes of this Section, Senior Management means the managers whose details are set out on page 113. In determining the remuneration of members of Senior Management, the remuneration data of comparable positions in the market, including local and international companies of comparable size, complexity and business scope, are referenced. This is consistent with our remuneration policy to align with companies with whom CLP competes for human resources. Achievement of performance plays a significant part in individual rewards as part of our policy to attract, motivate and retain high performing individuals. The remuneration policies applied to Senior Management including the levels of performance bonus (with exception of Richard McIndoe whose performance bonus is approved by the Board of EnergyAustralia) are subject to the approval of the HR&RC. No members of Senior Management serve on the Committee.

Target total remuneration for Executive Directors / Senior Management is determined in relation to the relevant market and internal relativities. A significant proportion of actual total remuneration is performance related, in the form of the annual and long-term incentive schemes. In determining the amount of performance related pay, members of the HR&RC take a broad and balanced view of Group performance in the relevant year. This means that the Committee considers all aspects of our performance including financial, operational, safety, environmental, social, governance and compliance related. Targets under these headings include making reference to our Group sustainability targets when assessing performance. Both qualitative and quantitative evidence is used to assess performance. However the decision of the Committee is based on a balanced overall judgment rather than a mathematical calculation. We have determined not to create a formulaic link between any metrics and performance related pay. In our opinion such an approach fails to reflect the complexity of the management task, and also risks encouraging dysfunctional behaviour, as was observed in the banking and financial sector during the global financial crisis.

The four components of remuneration of members of Senior Management are explained in the diagram on the following pages, including the proportion of target total remuneration which each component represented in both 2012 and 2013.

Senior Management's Remuneration* (excluding Mr McIndoe)



Base Compensation

Base Compensation is reviewed annually taking into consideration the competitive market position, market practice and the individual performance of members of Senior Management.

Pension Arrangement

The members of Senior Management are eligible to join the Group's defined contribution retirement fund. The Group's contribution to the retirement fund amounts to a maximum of 12.5% of base compensation, subject to a 5% contribution by the employee. This accounts for 6% of his / her target total remuneration in 2013.

Annual Incentive

The annual incentive payout depends upon the performance of the CLP Group and the individuals concerned. Key measures include achievement of financial goals, operational and other performance targets, and individual objectives such as the demonstration of key leadership competencies.

Each member of Senior Management is assigned a "target" annual incentive of 50% of Base Compensation, which accounted for 26% of his / her total remuneration in 2013. Only individuals who attain at least a satisfactory performance rating are awarded any annual incentive. The amount of annual incentive is capped at twice the "target" annual incentive (although this cap may be exceeded in exceptional cases where a discretionary additional annual incentive is awarded by the Committee), with the actual amount being determined by the overall assessment of organisational and individual performance.

A payout was made in 2013, based on a balanced overall assessment of the 2012 performance of the Group and the individuals concerned. The average payout to Senior Management (including Executive Directors) in 2013 was 80% of the 2012 base compensation, compared to 96% of the 2011 base compensation paid in 2012.

Long-term Incentive

Awards under the Long-term Incentive (LTI) plan are based on organisational and individual performance and support the retention of Senior Management. Each of the Senior Management members is assigned a "target" LTI of 33.3% of Base Compensation, which accounts for 17% of his / her total remuneration in 2013. The composition of the LTI award:

Target LTI award set at the beginning of 2013

×

Performance multiplier (Performance for the year preceding that in which the award is made)

=

Actual LTI award:
a) A minimum of 75% of the award and up to a maximum of 100% allocated to CLP Holdings phantom shares
b) The remainder of the award up to a maximum of 25% is allocated to a notional cash deposit

→

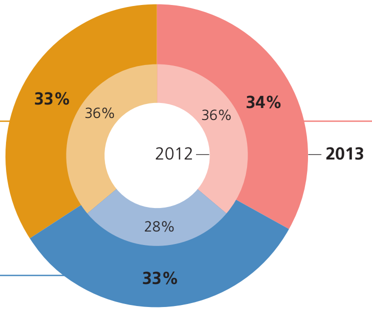
Payment of LTI award will be made in 2016

The final value of the award, at the vesting date, is based on the initial choices made and the subsequent impact of changes in share price, dividend reinvestment, exchange rate movements, and interest earned during the three-year vesting period.

* Mrs Betty Yuen has different arrangements affecting the proportion of target total remuneration with which each component represented in 2012 and 2013. The proportions of her 2012 and 2013 target total remuneration are Base Compensation (61%), Annual Incentive (31%) and Pension (8%) since she no longer participated in the LTI after she had assumed the part time role of Vice Chairman – CLP Power Hong Kong.

In 2013, with the approval of the Board of EnergyAustralia, Mr McIndoe was assigned a "target" annual incentive (AI) of 100% of Fixed Annual Remuneration (FAR) with a cap at 150% of FAR (please refer below for details). For comparison, Mr McIndoe's entitlement of "target" AI was 75% of FAR with a cap at 150% of FAR in 2012. His remuneration components including the proportion of target total remuneration with which each component represented in 2012 and 2013 are explained below.

Mr McIndoe's Remuneration



Fixed Annual Remuneration

FAR includes base salary and employer contribution to the Australian statutory superannuation scheme. It is reviewed annually taking into consideration the competitive market position, compared to ASX 100 companies, market practice and individual performance.

Annual Incentive

Mr McIndoe was assigned a "target" annual incentive of 100% of FAR, which accounted for 33% of his total remuneration in 2013. The annual incentive payout depends upon the performance of EnergyAustralia. Key measures include achievement of financial and non-financial goals and the sustainability of value creation.

The target level of performance is set to be stretching. Unless a minimum level of performance against objectives is achieved, no annual incentive will be paid. The amount of annual incentive is capped at 150% of the "target" annual incentive i.e. 150% of FAR. The actual payout of Mr McIndoe's Annual Incentive will be approved by the Board of EnergyAustralia.

Long-term Incentive

For 2013, Mr McIndoe was assigned an LTI Award of 100% of FAR.

The final 2013 LTI award value to be paid will be decided by the EnergyAustralia Board, depending on the achievement of the LTI Performance Conditions. The following diagram illustrates the calculation of the value of the final 2013 LTI payment:

Final Payment = LTI Award Value × LTI Vesting Factor

The LTI Vesting Factor is calculated according to the table set out below:

	LTI Vesting Factor
Actual performance equal to or greater than (target performance x 110%)	100%
Actual performance equal to or greater than target performance and less than (target performance x 110%)	Progressive on a straight-line basis from 50% to 100%
Actual performance below target performance	Zero

Upon determination of the Final Award Value, 100% of that value (subject to the discretion of the Nomination & Remuneration Committee of EnergyAustralia) will be paid to Mr McIndoe in April 2016 (the Vesting Date).

10. Senior Management – Remuneration in 2013

Senior Management comprises the Executive Directors and managers listed below. Details of their remuneration (excluding Executive Directors) are set out in the table below.

	Base Compensation, Allowances & Benefits HK$M	Performance Bonus * Annual Incentive HK$M	Performance Bonus * Long-term Incentive HK$M	Provident Fund Contribution HK$M	Other Payments HK$M	Total HK$M
2013						
Group Director & Chief Financial Officer (Mr Mark Takahashi)	4.9	3.6	2.8	0.6	–	11.9
Vice Chairman – CLP Power Hong Kong (Mrs Betty Yuen)	3.5	3.3[(a)]	–	0.4	–	7.2 #
Group Director – Operations (Mr Peter Littlewood)	4.1	3.2	2.3	0.5	–	10.1
Group Director – Managing Director Hong Kong (Mr Richard Lancaster)[(b)]	2.1	2.2	3.0[(c)]	0.3	–	7.6 ##
Managing Director – CLP Power Hong Kong (Mr Paul Poon)[(d)]	1.1	0.6	–	0.1	–	1.8 ###
Managing Director – EnergyAustralia (Mr Richard McIndoe)	11.4	(1.2)[(e)]	3.3	0.1	2.0[(f)]	15.6
Managing Director – China (Mr Chan Siu Hung)[(g)]	0.4	0.2	–	–	–	0.6
Managing Director – India (Mr Rajiv Mishra)	3.2	2.2	2.0	0.4	–	7.8
Group General Counsel & Chief Administrative Officer (Mr David Simmonds)[(g)]	0.4	0.2	–	0.1	–	0.7
Chief Corporate Development Officer (Ms Quince Chong)[(g)]	0.4	0.2	–	0.1	–	0.7
Director – Group Human Resources (Mr Roy Massey)[(h)]	0.2	0.1	–	–	–	0.3
	31.7	14.6	13.4	2.6	2.0	64.3
2012						
Group Director & Chief Financial Officer	4.6	4.2	1.5	0.6	–	10.9
Vice Chairman – CLP Power Hong Kong	3.3	3.9[(a)]	2.2	0.4	–	9.8 #
Group Director – Managing Director Hong Kong (Mr Richard Lancaster)	4.7	4.1	1.0	0.6	–	10.4 ##
Managing Director – EnergyAustralia	9.3	10.1	2.1	0.3	5.6[(i)]	27.4
Group Director – Operations	3.9	3.7	1.1	0.5	–	9.2
Managing Director – India	3.3	2.9	0.7	0.4	–	7.3
	29.1	28.9	8.6	2.8	5.6	75.0

Notes:

(a) These figures included additional discretionary annual incentives of HK$0.75 million and HK$1 million paid to Mrs Betty Yuen in 2013 and 2012 respectively.

(b) Mr Richard Lancaster has been appointed as Executive Director from 3 June 2013 and was appointed as the Chief Executive Officer from 30 September 2013. The remuneration covered the period from 1 January to 2 June 2013.

(c) This figure included the additional discretionary long-term incentive for year 2010 of HK$709,554 paid to Mr Lancaster in 2013.

(d) Mr Paul Poon has become member of Senior Management from 30 September 2013 and his remuneration covered the period from that date to 31 December 2013.

(e) No accrual has been made for the annual incentive for year 2013. The negative figure represents the reversal of over-accrual made in 2012.

(f) Australia tax equalisation for the long-term incentive for year 2010.

(g) Mr Chan Siu Hung, Mr David Simmonds and Ms Quince Chong have become members of Senior Management from 19 November 2013 and their remuneration covered the period from that date to 31 December 2013.

(h) Mr Roy Massey has become member of Senior Management from 9 December 2013 and his remuneration covered the period from that date to 31 December 2013.

(i) Payment for tax equalisation, housing allowance and children's education allowances, if any, for secondment to Australia. For 2012, the figure is for the period from 1 January 2012 to 31 March 2012. Out of this payment, HK$5.2 million (93%) was the tax payment to the tax authority of the country where the executive was based during secondment.

* Refer to Note A on performance bonus on page 154.
# HK$1 million (2012: HK$1 million) has been charged to the Non-SoC operation.
HK$1 million (2012: HK$1 million) has been charged to the Non-SoC operation.
HK$1 million has been charged to the Non-SoC operation.

The five highest paid individuals in the Group included three Directors (2012: three Directors), one member of Senior Management (2012: one member) and one former senior executive of the Group (2012: one senior executive). The total remuneration of the five highest paid individuals in the Group is shown below:

	2013 HK$M	2012 HK$M
Base compensation, allowances and benefits in kind	28	29
Performance bonus *		
– Annual incentive	17	29
– Long-term incentive	36	14
Provident fund contributions	2	2
Final payment ψ	3	–
Other payments @	2	9
	88	83

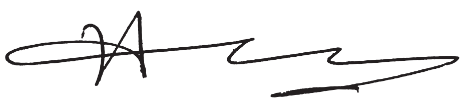
* Refer to Note A on performance bonus on page 154.
ψ The final payment is not part of the remuneration arrangement of the Group, but may be payable, on approval by the HR&RC Chairman or CEO where appropriate.
@ Other payments included tax equalisation and other payments.

The remuneration paid to these five individuals is within the following bands:

	Number of Individuals			Number of Individuals	
	2013	2012		2013	2012
HK$11,000,001 – HK$11,500,000	–	1	HK$11,500,001 – HK$12,000,000	–	1
HK$12,000,001 – HK$12,500,000	–	–	HK$12,500,001 – HK$13,000,000	1	–
HK$13,000,001 – HK$13,500,000	2	–	HK$14,500,001 – HK$15,000,000	–	1
HK$15,500,001 – HK$16,000,000	1	–	HK$18,000,001 – HK$18,500,000	–	1
HK$27,000,001 – HK$27,500,000	–	1	HK$33,500,001 – HK$34,000,000	1	–

II. Continued Scrutiny and Disclosure

The HR&RC remains committed to the careful oversight of remuneration policies and levels in the interests of the Company and its shareholders, and to honest and open disclosure on these matters.



Vincent Cheng
Chairman, Human Resources & Remuneration Committee
Hong Kong, 27 February 2014

DIRECTORS' REPORT

The Directors have pleasure in submitting their Report together with the audited Financial Statements for the year ended 31 December 2013.

Principal Activities

The principal activity of the Company is investment holding and those of its subsidiaries are the generation and supply of electricity. The Company's principal subsidiary companies are listed under Note 14 to the Financial Statements.

Consolidated Financial Statements

The consolidated Financial Statements incorporate the Financial Statements of the Company and its subsidiaries (collectively referred to as the Group) together with the Group's interests in joint ventures, joint operations and associate. Details of the joint ventures and associate are provided under Notes 15 and 16 to the Financial Statements.

Earnings and Dividends

The earnings of the Group for the year are set out under the consolidated statement of profit or loss.

The Directors have declared and paid the first to third interim dividends of HK$1.59 (2012: HK$1.59) per share totalling HK$4,017 million (2012: HK$3,825 million) during the year.

The Directors declared the fourth interim dividend of HK$0.98 (2012: HK$0.98) per share totalling HK$2,476 million (2012: HK$2,476 million).

This fourth interim dividend will be paid on 25 March 2014.

Performance

A discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position are provided on pages 46 to 81 of this Annual Report.

Share Capital

There was no movement in the share capital of the Company during the year. There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed shares during the year.

Reserves

Distributable reserves of the Company amounted to HK$27,751 million as at 31 December 2013 (2012: HK$26,860 million). Movements in the reserves of the Group and the Company during the year are set out under the consolidated statement of changes in equity and Note 29 to the Financial Statements.

Fixed Assets

Additions to the fixed assets of the Group for the year totalled HK$12,049 million, comprising HK$8,547 million in owned assets (transmission and distribution equipment, land and buildings) and HK$3,502 million in leased assets. In 2012, a total addition of HK$11,129 million was recorded, made up of HK$9,135 million for owned assets and HK$1,994 million for leased assets. Details of movements in the fixed assets of the Group are shown under Note 12 to the Financial Statements.

Bank Loans and Other Borrowings

The total borrowings of the Group as at 31 December 2013 amounted to HK$56,051 million (2012: HK$66,198 million). Particulars of borrowings are set out in Note 23 to the Financial Statements.

Financial Assistance and Guarantees to Affiliated Companies

The financial assistance given to affiliated companies and the guarantees given for facilities granted to affiliated companies aggregated to 4.6% of the Group's total assets as at 31 December 2013.

Finance Costs Capitalised

Finance costs amounting to HK$271 million (2012: HK$384 million) were capitalised by the Group during the year as set out in Note 7 to the Financial Statements.

Donations

Donations by the Group for charitable and other purposes amounted to HK$8,449,000 (2012: HK$4,216,000).

Five-year Summary

A summary of the results for the year and of the assets and liabilities of the Group as at 31 December 2013 and for the previous four financial years are on pages 256 and 257 of this Annual Report. A ten-year summary is on the CLP website.

Senior Management

The biographical details of the Senior Management as at the date of this Report are set out on page 113 of this Annual Report. Details of their remuneration are set out in the Human Resources & Remuneration Committee Report at page 150 of this Annual Report.

Major Customers and Suppliers

Sales to the Group's five largest customers together represented less than 30% of the Group's total turnover during the year. Purchases from the Group's five largest suppliers together accounted for 56.87% of the Group's total purchases during the year. The five largest suppliers are set out below in descending order:

1. 19.48% from Castle Peak Power Company Limited (CAPCO) of which Mr David Moore, Mr William Mocatta and Mr Richard Lancaster are directors. CAPCO is currently 40% owned by CLP Power Hong Kong Limited (CLP Power Hong Kong) and supplies electricity to CLP Power Hong Kong only. Pursuant to the CAPCO Acquisition Agreement signed on 19 November 2013 and approved by shareholders at the Extraordinary General Meeting (EGM) held on 22 January 2014, CLP Power Hong Kong will acquire a further 30% interest in CAPCO upon completion of the CAPCO Acquisition as defined in the Circular to shareholders dated 10 December 2013. CLP Power Hong Kong is a wholly-owned subsidiary of the Company.
2. 15.05% from Australian Energy Market Operator (AEMO) in which the Group has no interest. AEMO is the administrator and operator of the Australian energy market, from whom electricity is bought to supply EnergyAustralia group customers and to whom electricity is sold from EnergyAustralia group generators.
3. 13.31% from Ausgrid in which the Group has no interest. EnergyAustralia pays the distribution charges to Ausgrid which owns and operates the electricity distribution network that provides services to customers located in Sydney and the Central Coast and Hunter regions of NSW. EnergyAustralia also pays charges to Ausgrid for certain core services in relation to the operation of EnergyAustralia Retail under the Transition Services Agreement between EnergyAustralia and Ausgrid.
4. 5.60% from Delta Electricity in which the Group has no interest. During the year, the Group made capital expenditure and periodic payments to Delta Electricity to cover its costs of operating and maintaining the Mount Piper and Wallerawang power stations. No further commitments to such capital or operating expenditure were made to Delta Electricity after completion of the Group's acquisition of the two power stations in September 2013.
5. 3.43% from Guangdong Nuclear Investment Company, Limited in which the Group has no interest.

As at 31 December 2013, Bermuda Trust Company Limited, Guardian Limited, Harneys Trustees Limited, Lawrencium Holdings Limited, Lawrencium Mikado Holdings Limited, The Magna Foundation, Mikado Investments (PTC) Limited (formerly known as Mikado Investments Limited), The Mikado Private Trust Company Limited, New Mikado Holding Inc. (formerly known as Mikado Holding Inc.), Oak CLP Limited, Oak (Unit Trust) Holdings Limited, The Oak Private Trust Company Limited, The Hon Sir Michael Kadoorie, Lady Kadoorie, Mr R. J. McAulay, Mr J. A. H. Leigh and Mr R. Parsons who are substantial shareholders of the Company, had indirect interests in CAPCO, which interests arose from the Company's interests in CAPCO.

Directors

With the exception of Mr Richard Kendall Lancaster and Dr Rajiv Behari Lall, the Directors of the Company, whose names appear on pages 110 and 111 of this Annual Report, were Directors for the whole year. Their biographical details as at the date of this Report are set out on the same pages. Details of Directors' remuneration are set out in the Human Resources & Remuneration Committee Report at page 150 of this Annual Report.

Mr Tse Pak Wing Peter retired as a Non-executive Director of the Company after the conclusion of the 2013 AGM held on 30 April 2013.

Mr Peter William Greenwood retired as an Executive Director on 19 May 2013.

Mr Richard Lancaster was appointed an Executive Director of the Company with effect from 3 June 2013 and was appointed the CEO to succeed Mr Andrew Clifford Winawer Brandler with effect from 30 September 2013. After stepping down as the CEO on 30 September 2013, Mr Andrew Brandler continued to serve on the Board as a Director of the Company.

Dr Rajiv Lall was appointed as an Independent Non-executive Director of the Company with effect from 13 August 2013.

Mr Richard Lancaster and Dr Rajiv Lall, being Executive Director and Independent Non-executive Director appointed during the year by the Board, retired at the EGM held on 22 January 2014, being the first general meeting after their appointment, in accordance with the CLP Code on Corporate Governance. They were elected by shareholders at the EGM.

Under the existing Articles of Association of the Company, all the Directors are subject to retirement by rotation and re-election at the AGM. In accordance with Article 103 of the Company's Articles of Association, Mr J. A. H. Leigh, Professor Judy Tsui, Sir Rod Eddington, Mr R. J. McAulay, Mr I. D. Boyce and Dr Y. B. Lee will retire by rotation at the 2014 AGM. Professor Judy Tsui, who has been an Independent Non-executive Director of the Company since 2005, would like to focus on work related to her employment issues. Mr I. D. Boyce, after having served on the Board for over 14 years, has decided to retire in May 2014 and live overseas. Accordingly, both Professor Tsui and Mr Boyce have decided not to stand for re-election at the AGM. All the other retiring Directors, being eligible, offer themselves for re-election. None of the Directors offering themselves for re-election at the AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation.

No contracts of significance in relation to the Group's business to which the Company or any of its fellow subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the financial year.

Alternate Directors

The Alternate Directors in office during the year ended 31 December 2013 were as follows:
Mr I. D. Boyce, alternate to Mr R. J. McAulay and Mr William Mocatta (for the year)
Mr James F. Muschalik, alternate to Mr Paul A. Theys (from 1 January 2013 to 12 August 2013)
Mr David William Moore, alternate to Mr Paul A. Theys (appointed with effect from 13 August 2013)

Interests of Directors and Chief Executive Officer

The interests/short positions of each of the Directors and Chief Executive Officer in the shares, underlying shares and debentures of the Company or any of the Company's associated corporations (within the meaning of the Securities and Futures Ordinance) as at 31 December 2013, as recorded in the register required to be kept under Section 352 of Part XV of the Securities and Futures Ordinance, are set out in the table and explanatory notes below:

I. Aggregate long position in the shares, underlying shares and debentures of the Company and its associated corporations

The interests of Directors and Chief Executive Officer in the shares of the Company (other than pursuant to equity derivatives such as share options, warrants to subscribe or convertible bonds) as at 31 December 2013 were as follows:

Directors	Capacity	Total Interests in Number of Ordinary Shares of the Company	% of the Issued Share Capital of the Company
The Hon Sir Michael Kadoorie	Note (a)	479,372,780	18.97416
Mr William Mocatta	Note (b)	400,000	0.01583
Mr R. J. McAulay	Note (c)	288,811,649	11.43152
Mr J. A. H. Leigh	Note (d)	224,314,077	8.87863
Dr Y. B. Lee	Note (e)	15,806	0.00063
Mrs Fanny Law	Personal	16,800	0.00066
Mr Nicholas C. Allen	Note (f)	12,000	0.00047
Mr Richard Lancaster (Chief Executive Officer)	Personal	600	0.00002
Mr Andrew Brandler	Note (g)	10,600	0.00042

Notes:

(a) The Hon Sir Michael Kadoorie was deemed (by virtue of the Securities and Futures Ordinance) to be interested in 479,372,780 shares in the Company. These shares were held in the following capacity:

 (i) 1,243 shares were held by his spouse, Lady Kadoorie in a personal capacity.

 (ii) 70,146,655 shares were ultimately held by discretionary trusts, of which The Hon Sir Michael Kadoorie is one of the discretionary objects.

 (iii) 233,044,212 shares were ultimately held by a discretionary trust, of which The Hon Sir Michael Kadoorie is one of the beneficiaries and the founder.

 (iv) 170,180,670 shares were ultimately held by a discretionary trust, of which The Hon Sir Michael Kadoorie is one of the beneficiaries and the founder.

 (v) 2,000,000 shares were ultimately held by each of three discretionary trusts, all of which The Hon Sir Michael Kadoorie is one of the beneficiaries and the founder.

 For the purpose of the Securities and Futures Ordinance, the spouse of The Hon Sir Michael Kadoorie was taken to have a discloseable duty in Hong Kong in relation to the shares referred to in (ii) to (v) above. The spouse of The Hon Sir Michael Kadoorie was therefore deemed to be interested in 479,372,780 shares in the Company representing approximately 18.97% of the issued share capital of the Company, of which 1,243 shares were held by her in a personal capacity and an aggregate of 479,371,537 shares were attributed to her pursuant to the Securities and Futures Ordinance for disclosure purposes. Nevertheless, she has no interest, legal or beneficial, in these 479,371,537 shares attributed to her for disclosure purposes.

(b) Mr William Mocatta was deemed (by virtue of the Securities and Futures Ordinance) to be interested in 400,000 shares in the Company. These shares were held in the following capacity:

 (i) 250,000 shares were held in the capacity as the founder of a discretionary trust.

 (ii) 150,000 shares were held by a trust of which Mr William Mocatta is one of the beneficiaries.

(c) Mr R. J. McAulay was deemed (by virtue of the Securities and Futures Ordinance) to be interested in 288,811,649 shares in the Company. These shares were held in the following capacity:

 (i) 13,141 shares were held in a personal capacity.

 (ii) 70,146,655 shares were ultimately held by discretionary trusts, of which Mr R. J. McAulay is one of the discretionary objects.

 (iii) 218,651,853 shares were ultimately held by a discretionary trust, of which Mr R. J. McAulay, his wife and members of his family are discretionary objects.

(d) Mr J. A. H. Leigh was deemed (by virtue of the Securities and Futures Ordinance) to be interested in 224,314,077 shares in the Company. These shares were held in the following capacity:

 (i) 100,000 shares were held in a beneficial owner capacity.

 (ii) 5,562,224 shares were ultimately held by a discretionary trust. Mr J. A. H. Leigh was deemed to be interested in such 5,562,224 shares in his capacity as one of the trustees of a trust which was deemed to be interested in such 5,562,224 shares.

 (iii) 218,651,853 shares were ultimately held by a discretionary trust. Mr J. A. H. Leigh was deemed to be interested in such 218,651,853 shares in his capacity as one of the trustees of a trust which was deemed to be interested in such 218,651,853 shares.

(e) 600 shares were held in a personal capacity and 15,206 shares were held jointly with spouse.

(f) 12,000 shares were held in a beneficial owner capacity and jointly with spouse.

(g) 600 shares were held in a personal capacity and 10,000 shares were held in a beneficial owner capacity.

Messrs I. D. Boyce, V. F. Moore, Paul A. Theys, Vincent Cheng, Ms Irene Lee, Professor Judy Tsui, Sir Rod Eddington and Dr Rajiv Lall who are Directors of the Company, and Mr David Moore who is an Alternate Director, have each confirmed that they had no interests in the shares of the Company or any of its associated corporations as at 31 December 2013. None of the Directors or the Chief Executive Officer had interests in debentures, under equity derivatives or in underlying shares of the Company and its associated corporations as at 31 December 2013.

2. Aggregate short position in the shares, underlying shares and debentures of the Company and its associated corporations

None of the Directors or the Chief Executive Officer had short positions in respect of shares, debentures, under equity derivatives or interests in underlying shares of the Company and its associated corporations as at 31 December 2013.

At no time during the year was the Company, its subsidiaries or its associated companies a party to any arrangement to enable the Directors and the Chief Executive Officer of the Company (including their spouse and children under 18 years of age) to acquire benefits by an acquisition of shares or underlying shares in, or debentures of, the Company or its associated corporations.

Interests of Substantial Shareholders

The interests / short positions of substantial shareholders in the shares and underlying shares of the Company as at 31 December 2013, as recorded in the register required to be kept under Section 336 of Part XV of the Securities and Futures Ordinance, are set out in the following table and explanatory notes.

I. Aggregate long position in the shares and underlying shares of the Company

The Company had been notified of the following substantial shareholders' interests in the shares (other than pursuant to equity derivatives such as share options, warrants to subscribe or convertible bonds) as at 31 December 2013:

Substantial Shareholders	Capacity	Total Interests in Number of Ordinary Shares of the Company		% of the Issued Share Capital of the Company
Bermuda Trust Company Limited	Trustee / Interests of controlled corporations	546,198,166	Note (a)	21.62
Guardian Limited	Beneficiary / Interests of controlled corporations	224,214,077	Note (h)	8.87
Harneys Trustees Limited	Interests of controlled corporations	416,860,706	Note (c)	16.50
Lawrencium Holdings Limited	Beneficiary	170,180,670	Note (b)	6.74
Lawrencium Mikado Holdings Limited	Beneficiary	235,044,212	Note (b)	9.30
The Magna Foundation	Beneficiary	235,044,212	Note (b)	9.30
Mikado Investments (PTC) Limited	Trustee / Interest of controlled corporation	235,044,212	Note (a)	9.30
The Mikado Private Trust Company Limited	Trustee / Interests of controlled corporations	409,224,882	Note (b)	16.20
New Mikado Holding Inc.	Trustee	235,044,212	Note (a)	9.30
Oak CLP Limited	Beneficiary	218,651,853	Note (d)	8.65
Oak (Unit Trust) Holdings Limited	Trustee	218,651,853	Note (a)	8.65
The Oak Private Trust Company Limited	Trustee / Interests of controlled corporations	233,371,475	Note (d)	9.24
The Hon Sir Michael Kadoorie	Note (e)	479,372,780	Note (e)	18.97
Mr R. J. McAulay	Note (f)	288,811,649	Note (f)	11.43
Mr J. A. H. Leigh	Notes (g) & (h)	224,314,077	Notes (g) & (h)	8.88
Mr R. Parsons	Trustee	224,214,077	Note (h)	8.87

Notes:

(a) Bermuda Trust Company Limited was deemed to be interested in the shares in which New Mikado Holding Inc., Mikado Investments (PTC) Limited, Oak (Unit Trust) Holdings Limited, The Oak Private Trust Company Limited and other companies were deemed to be interested, either in the capacity as trustee of various discretionary trusts and / or by virtue of having direct or indirect control over such companies. The interests of Bermuda Trust Company Limited in the shares of the Company include the shares held by discretionary trusts of which The Hon Sir Michael Kadoorie and / or Mr R. J. McAulay are among the discretionary objects as disclosed in "Interests of Directors and Chief Executive Officer".

(b) The Mikado Private Trust Company Limited was deemed to be interested in the shares in which Lawrencium Holdings Limited, Lawrencium Mikado Holdings Limited and other companies were deemed to be interested, either in the capacity as trustee of various discretionary trusts and / or by virtue of having direct or indirect control over such companies. The Magna Foundation was also deemed to be interested in the shares in which Lawrencium Mikado Holdings Limited was deemed to be interested. The interests of The Mikado Private Trust Company Limited in the shares of the Company include the shares held by discretionary trusts of which The Hon Sir Michael Kadoorie is one of the beneficiaries and a founder as disclosed in "Interests of Directors and Chief Executive Officer".

(c) Harneys Trustees Limited controlled The Mikado Private Trust Company Limited and another company and was therefore deemed to be interested in the shares in which such companies were deemed to be interested.

(d) The Oak Private Trust Company Limited was deemed to be interested in the shares in which Oak CLP Limited and other companies were deemed to be interested, either in the capacity as trustee of various discretionary trusts and / or by virtue of having direct or indirect control over such companies. The interests of The Oak Private Trust Company Limited in the shares of the Company include the shares held by a discretionary trust of which Mr R. J. McAulay is one of the discretionary objects as disclosed in "Interests of Directors and Chief Executive Officer".

(e) See Note (a) under "Interests of Directors and Chief Executive Officer".

(f) See Note (c) under "Interests of Directors and Chief Executive Officer".

(g) See Note (d) under "Interests of Directors and Chief Executive Officer".

(h) Mr R. Parsons and Mr J. A. H. Leigh, in their capacities as trustees of a trust, jointly controlled Guardian Limited and therefore were deemed to be interested in the shares in which Guardian Limited was deemed to be interested. Accordingly, the 224,214,077 shares in which Guardian Limited was interested was duplicated within the interests attributed to each of Mr J. A. H. Leigh and Mr R. Parsons.

2. Aggregate short position in the shares and underlying shares of the Company

As at 31 December 2013, the Company had not been notified of any short positions being held by any substantial shareholder in the shares or underlying shares of the Company.

Interests of Any Other Persons

As at 31 December 2013, the Company had not been notified of any persons other than the substantial shareholders who had interests or short positions in the shares or underlying shares of the Company, which are required to be recorded in the register required to be kept under Section 336 of Part XV of the Securities and Futures Ordinance.

Related Party Transactions

Details of the significant related party transactions undertaken in the normal course of business are provided under Note 32 to the Financial Statements. None constitutes a discloseable connected transaction as defined under the Listing Rules.

Corporate Governance

The Company's corporate governance principles and practices are set out in the Corporate Governance Report at page 114 of this Annual Report, whilst our online Sustainability Report describes the Company's actions and initiatives with particular emphasis on the social and environmental aspects of our activities. SR

Auditor

The Financial Statements for the year have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for reappointment at the AGM of the Company.

By Order of the Board

William Mocatta

William Mocatta
Vice Chairman
Hong Kong, 27 February 2014

FINANCIALS

What is an accounting view of our financial performance for 2013 and how we stood at the end of the year?

168 How Can You Approach Our Financial Statements?

170 Accounting Mini-series

174 Consolidated Statement of Profit or Loss — Tells you about our earnings for the year

175 Consolidated Statement of Profit or Loss and Other Comprehensive Income — A bigger picture of our financial performance, it also tells you about the changes in our resources which do not pass through earnings

176 Consolidated Statement of Financial Position

178 Company Statement of Financial Position

Shows our financial resources and obligations

179 Consolidated Statement of Changes in Equity

180 Consolidated Statement of Cash Flows

These are the ins and outs of our cash

181 Significant Accounting Policies — Our policy choices and practices when we apply the accounting standards. Some of these are here, others are incorporated in the Notes

189 Critical Accounting Estimates and Judgments — Areas of management judgments or estimates whose effects are significant

192 Notes to the Financial Statements

Non-statement specific

- **192** 1. General Information
- **192** 2. Business Combination
- **195** 4. Segment Information
- **236** 32. Related Party Transactions
- **240** 34. Event after the End of the Reporting Period

Financial results related

- **194** 3. Revenue
- **198** 5. Other Income
- **198** 6. Operating Profit
- **200** 7. Finance Costs and Income
- **201** 8. Income Tax (Credit) / Expense
- **202** 9. Earnings Attributable to Shareholders
- **202** 10. Dividends
- **202** 11. Earnings per Share

Financial position related

- **203** 12. Fixed Assets, Leasehold Land and Land Use Rights under Operating Leases and Investment Property
- **208** 13. Goodwill and Other Intangible Assets
- **209** 14. Investments in and Advances to Subsidiaries
- **212** 15. Interests in Joint Ventures
- **215** 16. Interest in an Associate
- **216** 17. Finance Lease Receivables
- **217** 18. Derivative Financial Instruments
- **218** 19. Available-for-sale Investments
- **219** 20. Trade and Other Receivables
- **221** 21. Bank Balances, Cash and Other Liquid Funds
- **222** 22. Trade and Other Payables
- **223** 23. Bank Loans and Other Borrowings
- **225** 24. Obligations under Finance Leases
- **225** 25. Deferred Tax
- **227** 26. Fuel Clause Account
- **228** 27. SoC Reserve Accounts
- **229** 28. Share Capital
- **230** 29. Reserves
- **234** 31. Commitments and Operating Lease Arrangements
- **238** 33. Contingent Liabilities

Cash flows related

- **233** 30. Note to the Consolidated Statement of Cash Flows

241 Financial Risk Management — More on risk management, with figures

253 Scheme of Control Statement — Here you can learn more about our SoC business

256 Five-year Summary: CLP Group Statistics — Economic, Environmental and Social

260 Five-year Summary: Scheme of Control Financial & Operating Statistics

HOW CAN YOU APPROACH OUR FINANCIAL STATEMENTS?

Financial Statements Decoded

The purpose of financial statements is to communicate the Group's financial information to its stakeholders, especially shareholders, investors and lenders. In this section we try to help readers who are not familiar with accounting rules and financial expressions to understand our financial information, by explaining the functions and relationships between the essential financial statements: the statement of profit or loss and other comprehensive income, the statement of financial position and the statement of cash flows. For comprehensive and authoritative definitions and explanations, readers should turn to the relevant accounting standards, but we hope this section offers useful guidance.

Statement of profit or loss and other comprehensive income

"Financial performance measured by recording the flow of resources over a period of time"

This statement comprises (a) profit or loss and (b) other comprehensive income ("OCI") which represents changes in net assets / equity not arising from transactions with owners (i.e. shareholders).

An example of OCI in CLP is the exchange losses arising from the translation of our Australia and India businesses in 2013 which decreased our net assets in these two regions. Transactions with owners such as dividends are presented in the statement of changes in equity.

Statement of financial position

"A snapshot, taken at a point in time, of all the assets the company owns and all the claims against those assets"

This statement sums up the Group's economic resources (non-current assets and working capital), obligations (debts and other non-current liabilities) and owners' equity at a particular point of time, in this case, our year end at 31 December 2013. It also shows how the economic resources contributed by lenders and shareholders are used in the business. In the past, we used to call this statement a "balance sheet" because at any given time, assets must equal liabilities plus owners' equity (in other words, be in balance). The current name reflects its function more accurately.

Statement of cash flows

"Where the company gets its cash and how it spends it"

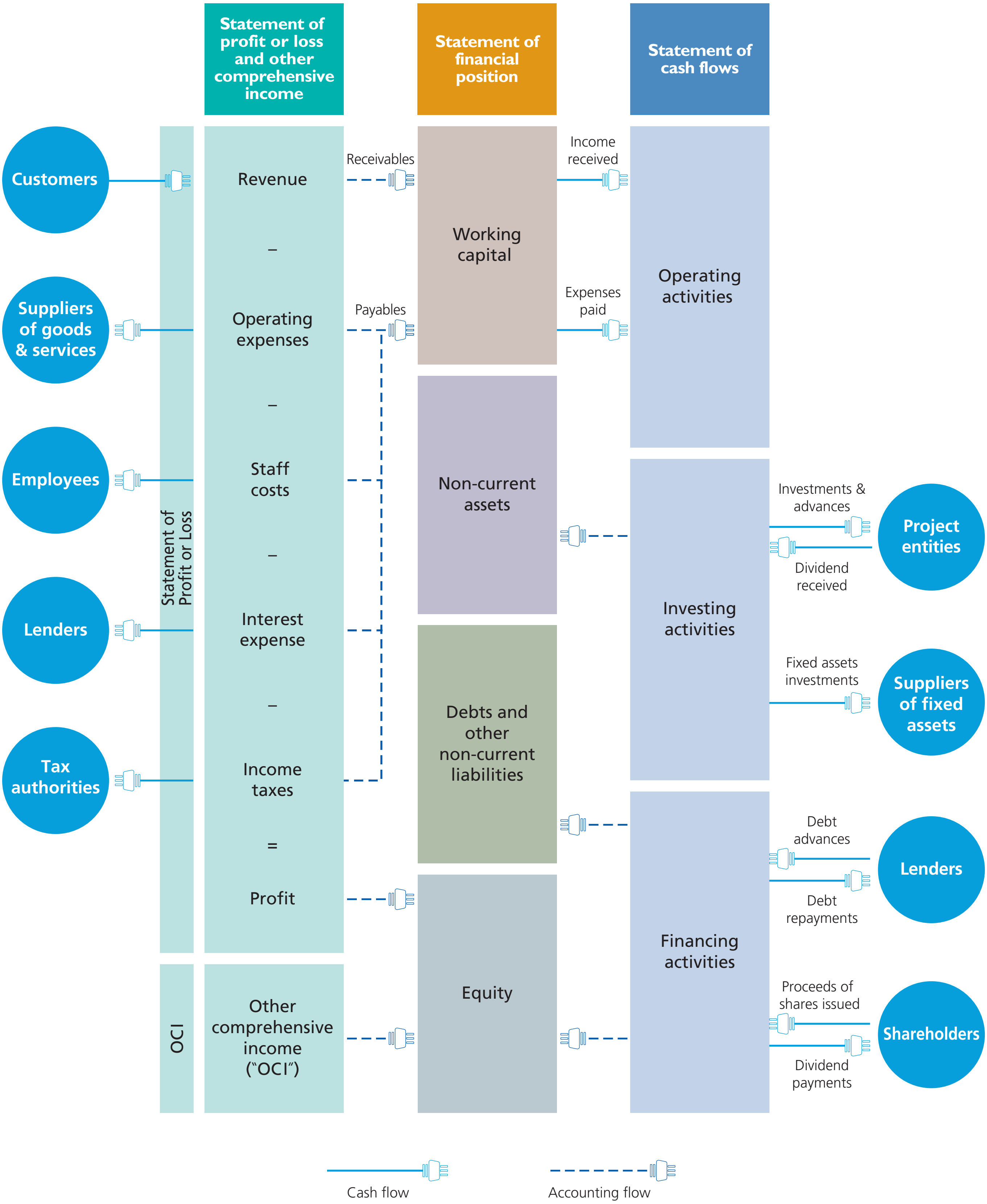
This statement divides the cash flows into operating, investing and financing cash flows. While the operating profit underlies the operating cash flows, certain non-cash charges or credits, such as depreciation, amortisation and fair value changes on derivatives, mean the operating cash flows and the operating profit are different. Investing cash flows are the cash flows arising from the purchase or disposal of non-current assets. Financing cash flows represent the cash flows between the Group, its shareholders and lenders.

Financial Statements Illustrated

The diagram opposite illustrates the relationships between the statement of profit or loss and other comprehensive income, the statement of financial position and the statement of cash flows, as well as their links with the Group's stakeholders.

On the one hand, the Group earns revenue from customers through the deployment of non-current assets and working capital. On the other hand, it pays operating expenses to suppliers of goods and services, incurs staff and interest costs and also invests in additional non-current assets. The net balance of revenue, operating expenses and staff and interest costs is the operating profit. After deducting income taxes charged by tax authorities, this profit is available for payment to lenders and for distribution to shareholders (dividends) in return for their contribution of funds to the Group in the form of debt and equity. The Group also makes investments and advances to its project entities and receives dividend income from them in return.

Financial Statements – An Illustration



ACCOUNTING MINI-SERIES

Each year in our Annual Report we explain an aspect of our accounts which is of particular importance or relevance to our shareholders. In this year's "Accounting Mini-series", we would like to explain the principle of revenue recognition and how revenue is measured and recognised. As electricity business is our core business, our focus will be on the revenue derived from the sales of electricity.

When can revenue be recognised?

To recognise electricity sales revenue, there are two key conditions to be met according to Hong Kong Accounting Standard (HKAS) 18 "Revenue":

1. Significant risks and rewards of ownership of the goods have been transferred to the buyer. In our case, when the customers consume the electricity, we have performed our obligation.
2. It is probable that the economic benefits associated with the transaction will flow to us. This requires us to measure the electricity consumption and the corresponding revenue reliably. It involves a billing system and an estimation technique.

How do we measure electricity sales revenue?

Let us go through the way we measure our electricity sales.

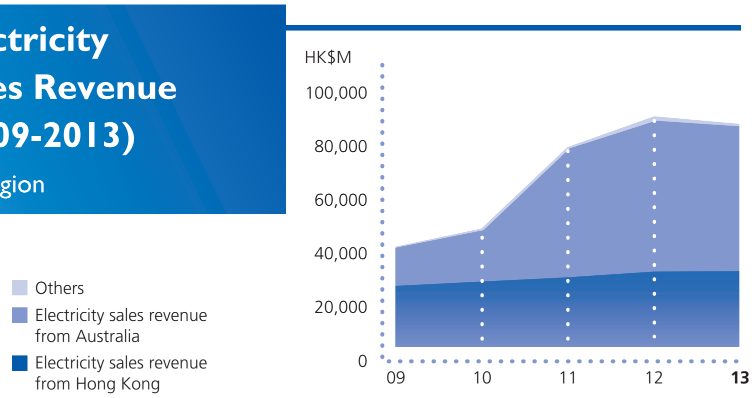
Billed revenue

We bill our customers when they consume electricity. We read the electricity meters which record the electrical power consumed by the customers for a fixed period. Obviously, our meter readers cannot read all the meters on the same day. Therefore, different customers may have different meter reading dates. Based on the meters read, we issue bills to our customers. The customers are notified to settle the bills within the prescribed credit period.

Unbilled revenue

For financial reporting purposes, we will close the accounting books for reporting to our shareholders twice a year (i.e. at 30 June for interim reports and 31 December for annual reports). The basic accounting principle applies an accrual method of accounting. We are required to estimate and accrue revenue between the meter reading dates and the book closing dates (i.e. unbilled revenue) in our financial statements.

Electricity Sales Revenue (2009-2013)
By Region

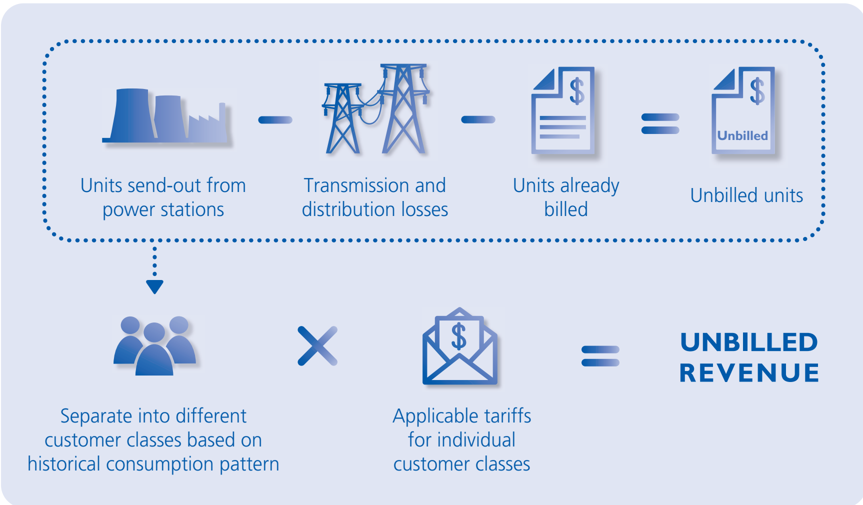


The challenges we face are to ensure that the unbilled revenue is estimated reliably and it is probable that the bills issued subsequently will be settled. Significant judgment is exercised on these aspects.

(a) Reliable measurement

To estimate the unbilled revenue, we need to know (1) the estimated units consumed and (2) the applicable tariffs.

Hong Kong electricity business has a comparatively simple tariff structure and stable electricity consumption. As a result, we can use the following top-down approach in estimating the unbilled revenue.



Electricity market in **Australia** is far more complicated. Our operations in Australia are separated into wholesale and retail segments.

For our wholesale business in Australia, electricity is sold to the National Electricity Market (NEM), where the prices of which are fixed every 5 minutes. As wholesale transactions are real-time transactions, both the units sold and prices are properly recorded. Estimation of wholesale revenue is more straightforward. However, estimation of unbilled revenue for retail business is a real challenge. Retail tariffs are variable for different customer segments and consumption periods to reflect the costs of electricity due to the demand and supply. For example, tariff for the commercial segment is higher during office hours (i.e. peak hours) while during the same period, it is lower for the residential segment (i.e. off peak hours). In Australia, it is not uncommon for the customers to switch from one energy supplier to another. As such, track records on the past consumption pattern of the customers may provide limited information for estimation. In that case, to measure the unbilled revenue reliably, a good billing system and a proven analytical model are essential. They should not only be able to provide the relevant information to estimate the units consumed, but also the applicable tariffs for that period.

(b) Probability that bills subsequently issued will be settled

The probability that the customers will pay for the bills issued subsequently is assessed taking into account the prevailing economic conditions, the credit risk characteristics of different groups of customers and on the basis of historical loss experience. For those customers who have placed cash deposits or bank guarantees to their accounts, the probability that we can collect the debts is high. However, there may still be issues such as disputes on measurement or financial liquidity problem which may jeopardise the collectability of the unbilled balances.

SMART METER – A SOLUTION JUST AROUND THE CORNER

The barrier of reliable measurement of revenue is the on-site meter readings. With the advancement of smart grid technology, smart meter is now available which enables two-way communication between the meter and the central system. It can record consumption of electric energy in intervals and communicates that information back to us for monitoring and billing purposes. With the expectation of the wider application of smart meters in the electricity infrastructure, hopefully in the near future, we can rely on this new technology in measuring the revenue efficiently, accurately and timely.

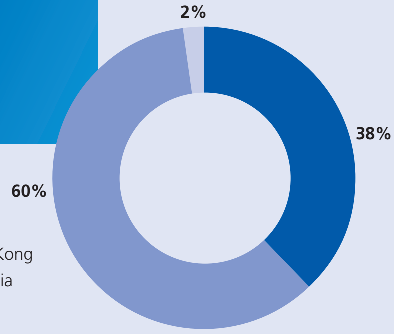
Smart meter

THE DIFFERENCES IN REVENUE RECOGNITION OF ELECTRICITY BUSINESSES IN HONG KONG AND AUSTRALIA

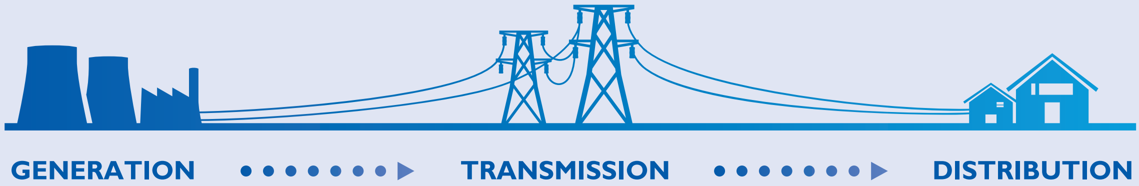
You may be curious why electricity sales revenue from Australia is much higher than from Hong Kong. Excluding the effect due to differences in sales volumes and tariffs of Hong Kong and Australia, this, in fact, reflects the different business models and market structures in these two regions.

2013 Electricity Sales Revenue

By Region



Electricity is provided to our customers through three main processes:



Hong Kong electricity business

In Hong Kong, we engage in the electricity generation, transmission and distribution business. We purchase electricity from Castle Peak Power Company Limited (CAPCO) (40% owned) and Guangdong Nuclear Power Joint Venture Company, Limited (GNPJVC) (25% owned). Electricity purchased is then transmitted and distributed to the customers through our transmission and distribution networks.

According to the accounting standards, we account for the investments in CAPCO and GNPJVC by using the equity method of accounting. As such, wholesale revenues derived by CAPCO and GNPJVC are not consolidated to the Group's revenue. Instead, we share the net profits of CAPCO and GNPJVC. Our consolidated financial statements therefore only include the retail revenue derived from CLP Power's transmission and distribution business.

Australia electricity business

We own generation and retail businesses in Australia. Australian electricity market is substantially deregulated. Electricity generated from our power plants is sold to NEM, which is transported via high voltage transmission lines to electricity distributors, who deliver it to the customers.

The transport of electricity from the generators to the customers is facilitated through a spot market where the output from all generators is aggregated and instantaneously scheduled to meet demand through a centrally-coordinated dispatch process.

Under this market structure, our revenue from the electricity sales is attributed to two separate operating activities:

1. wholesale electricity revenue generated from the power plants for sales to NEM; and
2. retail electricity revenue for purchases from the spot market and sales to our customers.

The wholesale revenue will not be eliminated by the power purchases at the retail segment upon consolidation because the transactions are with different counterparties outside the Group. As a result, electricity revenue from Australia business, which includes both wholesale and retail revenues, is higher than from Hong Kong business.

"WE OWN GENERATION AND RETAIL BUSINESSES IN AUSTRALIA. AUSTRALIAN ELECTRICITY MARKET IS SUBSTANTIALLY DEREGULATED..."

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of CLP Holdings Limited

(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of CLP Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 174 to 252 which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 27 February 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2013

	Note	2013 HK$M	2012 HK$M
Revenue	3	104,530	104,861
Expenses			
Purchases of electricity, gas and distribution services		(49,040)	(50,760)
Operating lease and lease service payments		(12,963)	(13,362)
Staff expenses		(3,017)	(2,935)
Fuel and other operating expenses		(23,763)	(17,682)
Depreciation and amortisation		(7,592)	(7,021)
		(96,375)	(91,760)
Other income	5	751	–
Operating profit	6	8,906	13,101
Finance costs	7	(6,522)	(6,423)
Finance income	7	173	322
Share of results, net of income tax			
Joint ventures	15	2,671	2,405
An associate	16	612	579
Profit before income tax		5,840	9,984
Income tax credit / (expense)	8	232	(1,692)
Profit for the year		6,072	8,292
Earnings attributable to:			
Shareholders	9	6,060	8,312
Non-controlling interests		12	(20)
		6,072	8,292
Dividends	10		
First to third interim dividends paid		4,017	3,825
Fourth interim dividend declared		2,476	2,476
		6,493	6,301
Earnings per share, basic and diluted	11	HK$2.40	HK$3.45

Fuel and other operating expenses included the impairment and other provisions for Australia, the Chinese mainland and India. Please refer to Note 6 for details.

The notes and disclosures on pages 181 to 252 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 2013

	2013 HK$M	2012 HK$M
Profit for the year	6,072	8,292
Other comprehensive income		
Items that can be reclassified to profit or loss		
Exchange differences on translation	(5,774)	626
Cash flow hedges	128	(501)
Fair value changes on available-for-sale investments	10	4
Reclassification adjustment upon sale of a subsidiary	(8)	–
Share of other comprehensive income of joint ventures	9	6
	(5,635)	135
Items that cannot be reclassified to profit or loss		
Fair value gain on revaluation upon transfer from fixed asset to investment property	2,055	–
Share of other comprehensive income of joint ventures	250	1
	2,305	1
Other comprehensive income for the year, net of tax	(3,330)	136
Total comprehensive income for the year	2,742	8,428
Total comprehensive income attributable to:		
Shareholders	2,727	8,447
Non-controlling interests	15	(19)
	2,742	8,428

This statement of profit or loss and other comprehensive income includes not only conventional profit for the year, but also "other comprehensive income". The concept of other comprehensive income is explained on page 168. Further details of other comprehensive income attributable to shareholders are presented in Note 29.

The notes and disclosures on pages 181 to 252 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2013

	Note	2013 HK$M	2012 HK$M
Non-current assets			
Fixed assets	*12(A)*	126,876	132,463
Leasehold land and land use rights under operating leases	*12(B)*	1,806	1,866
Investment property	*12(C)*	2,221	–
Goodwill and other intangible assets	*13*	23,847	28,479
Interests in joint ventures	*15*	19,940	19,197
Interest in an associate	*16*	1,675	1,856
Finance lease receivables	*17*	989	1,665
Deferred tax assets	*25*	3,084	1,025
Fuel clause account	*26*	–	337
Derivative financial instruments	*18*	3,118	3,285
Available-for-sale investments	*19*	1,263	1,289
Other non-current assets		147	141
		184,966	191,603
Current assets			
Inventories – stores and fuel		1,482	1,667
Renewable energy certificates		997	1,991
Trade and other receivables	*20*	17,953	18,552
Finance lease receivables	*17*	49	158
Derivative financial instruments	*18*	1,005	1,759
Bank balances, cash and other liquid funds	*21*	5,233	13,026
		26,719	37,153
Current liabilities			
Customers' deposits	*20(a)*	(4,506)	(4,420)
Trade and other payables	*22*	(19,325)	(21,732)
Income tax payable		(141)	(233)
Bank loans and other borrowings	*23*	(7,118)	(6,895)
Obligations under finance leases	*24*	(2,763)	(2,406)
Derivative financial instruments	*18*	(1,279)	(1,762)
		(35,132)	(37,448)
Net current liabilities		(8,413)	(295)
Total assets less current liabilities		176,553	191,308

	Note	2013 HK$M	2012 HK$M
Financed by:			
Equity			
Share capital	*28*	12,632	12,632
Share premium		8,119	8,119
Reserves	*29*		
Declared dividends		2,476	2,476
Others		64,134	67,900
Shareholders' funds		87,361	91,127
Non-controlling interests		120	74
		87,481	91,201
Non-current liabilities			
Bank loans and other borrowings	*23*	48,933	59,303
Obligations under finance leases	*24*	25,213	24,649
Deferred tax liabilities	*25*	8,548	8,370
Derivative financial instruments	*18*	3,440	4,084
Fuel clause account	*26*	1,464	–
Scheme of Control (SoC) reserve accounts	*27*	28	1,245
Other non-current liabilities		1,446	2,456
		89,072	100,107
Equity and non-current liabilities		176,553	191,308

The more familiar name for the Statement of Financial Position is "Balance Sheet"

William Mocatta
Vice Chairman
Hong Kong, 27 February 2014

Richard Lancaster
Chief Executive Officer

Mark Takahashi
Chief Financial Officer

The notes and disclosures on pages 181 to 252 are an integral part of these consolidated financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION

as at 31 December 2013

	Note	2013 HK$M	2012 HK$M
Non-current assets			
Fixed assets	*12(A)*	172	171
Investments in subsidiaries	*14*	52,350	53,093
Advance to a subsidiary	*14*	39	39
Other non-current assets		14	25
		52,575	53,328
Current assets			
Trade and other receivables	*20*	55	45
Bank balances and cash		3	2
		58	47
Current liabilities			
Trade and other payables	*22*	(223)	(273)
Advances from subsidiaries	*32(D)*	–	(99)
Bank loans and other borrowings	*23*	(816)	–
		(1,039)	(372)
Net current liabilities		(981)	(325)
Total assets less current liabilities		51,594	53,003
Financed by:			
Equity			
Share capital	*28*	12,632	12,632
Share premium		8,119	8,119
Reserves	*29*		
Declared dividends		2,476	2,476
Others		27,767	26,876
		50,994	50,103
Non-current liabilities			
Bank loans and other borrowings	*23*	600	2,900
Equity and non-current liabilities		51,594	53,003

William Mocatta

William Mocatta
Vice Chairman
Hong Kong, 27 February 2014

Richard Lancaster
Chief Executive Officer

Mark Takahashi

Mark Takahashi
Chief Financial Officer

The notes and disclosures on pages 181 to 252 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2013

	Attributable to Shareholders				Non-controlling Interests	Total Equity
	Share Capital HK$M	Share Premium HK$M	Reserves HK$M	Total HK$M	HK$M	HK$M
Balance at 1 January 2012	12,031	1,164	68,064	81,259	93	81,352
Profit for the year	–	–	8,312	8,312	(20)	8,292
Other comprehensive income for the year	–	–	135	135	1	136
Issue of shares	601	6,955	–	7,556	–	7,556
Dividends paid						
2011 fourth interim	–	–	(2,310)	(2,310)	–	(2,310)
2012 first to third interim	–	–	(3,825)	(3,825)	–	(3,825)
Balance at 31 December 2012	12,632	8,119	70,376	91,127	74	91,201
Balance at 1 January 2013	12,632	8,119	70,376	91,127	74	91,201
Profit for the year	–	–	6,060	6,060	12	6,072
Other comprehensive income for the year	–	–	(3,333)	(3,333)	3	(3,330)
Sale of a subsidiary	–	–	–	–	35	35
Dividends paid						
2012 fourth interim	–	–	(2,476)	(2,476)	–	(2,476)
2013 first to third interim	–	–	(4,017)	(4,017)	–	(4,017)
Dividends paid to non-controlling interests of subsidiaries	–	–	–	–	(4)	(4)
Balance at 31 December 2013	**12,632**	**8,119**	**66,610**	**87,361**	**120**	**87,481**

The notes and disclosures on pages 181 to 252 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2013

	Note	2013 HK$M	2013 HK$M	2012 HK$M	2012 HK$M
Operating activities					
Net cash inflow from operations	*30*	21,798		24,438	
Interest received		205		281	
Income tax paid		(982)		(804)	
Net cash inflow from operating activities			21,021		23,915
Investing activities					
Capital expenditure		(8,462)		(9,056)	
Capitalised interest paid		(236)		(400)	
Proceeds from disposal of fixed assets		258		264	
Additions of other intangible assets		(1,144)		(985)	
Decrease in available-for-sale investments		21		–	
Acquisition of business	*2*	(954)		–	
Acquisition of subsidiaries		–		(207)	
Proceeds from sale of a subsidiary	*6(e)*	1,708		–	
Deferred consideration paid		(339)		(540)	
Investments in and advances to joint ventures		(185)		(272)	
Dividends received from					
Joint ventures		1,911		1,686	
An associate		803		523	
An available-for-sale investment		24		61	
Net cash outflow from investing activities			(6,595)		(8,926)
Net cash inflow before financing activities			14,426		14,989
Financing activities					
Proceeds from long-term borrowings		11,275		27,388	
Repayment of long-term borrowings		(18,712)		(24,698)	
Repayment of obligations under finance leases		(2,546)		(2,302)	
Increase / (decrease) in short-term borrowings		648		(2,106)	
Interest and other finance costs paid		(5,612)		(5,928)	
Issue of shares		–		7,556	
Dividends paid to shareholders		(6,493)		(6,135)	
Dividends paid to non-controlling interests of subsidiaries		(4)		–	
Net cash outflow from financing activities			(21,444)		(6,225)
Net (decrease) / increase in cash and cash equivalents			(7,018)		8,764
Cash and cash equivalents at beginning of year			11,890		3,104
Effect of exchange rate changes			(88)		22
Cash and cash equivalents at end of year			4,784		11,890
Analysis of balances of cash and cash equivalents					
Deposits with banks			3,510		11,961
Cash at banks and on hand			1,723		1,065
Bank balances, cash and other liquid funds	*21*		5,233		13,026
Excluding: cash restricted for specific purposes			(449)		(1,136)
			4,784		11,890

The notes and disclosures on pages 181 to 252 are an integral part of these consolidated financial statements.

SIGNIFICANT ACCOUNTING POLICIES

Apart from the accounting policies presented within the corresponding notes to the financial statements, other significant accounting policies are set out below.

1. Basis of Preparation

The Company, CLP Holdings Limited, and its subsidiaries are collectively referred to as the Group in the consolidated financial statements.

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

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise their judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are especially significant to the consolidated financial statements, are disclosed in Critical Accounting Estimates and Judgments on pages 189 to 191.

2. Changes in Accounting Policies

(A) Adoption of new standards, amendments to standards and interpretations effective 1 January 2013

The Group has adopted the following new standards, amendments to standards and interpretations effective 1 January 2013 for the first time for the financial year beginning on 1 January 2013:

- Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income
- Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to HKFRS 10, HKFRS 11 and HKFRS 12)
- Amendments to HKFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities
- Annual Improvements to HKFRS 2009-2011 Cycle
- HKFRS 10 Consolidated Financial Statements
- HKFRS 11 Joint Arrangements
- HKFRS 12 Disclosure of Interests in Other Entities
- HKFRS 13 Fair Value Measurement
- HKAS 19 (2011) Employee Benefits
- HKAS 27 (2011) Separate Financial Statements
- HKAS 28 (2011) Investments in Associates and Joint Ventures
- HK(IFRIC)-Int 20 Stripping Costs in the Production Phase of a Surface Mine

The adoption of these new standards, amendments to standards and interpretations has not had any implication for the Group's accounting policies applied in these consolidated financial statements except for below:

HKFRS 10 Consolidated Financial Statements provides additional guidance on the determination of control. Under HKFRS 10, 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 over the entity. The Group has applied HKFRS 10 retrospectively in accordance with the standard which had no significant impact on the results and financial position of the Group.

HKFRS 11 Joint Arrangements classifies joint arrangements as either joint operations or joint ventures. The determination of whether a joint arrangement is a joint operation or a joint venture is based on the parties' rights and obligations under the arrangement and the existence of a separate legal vehicle is no longer a key factor. The Group has applied HKFRS 11 retrospectively in accordance with the standard which has no significant impact on the results and financial position of the Group.

2. Changes in Accounting Policies (continued)

(A) Adoption of new standards, amendments to standards and interpretations effective 1 January 2013 (continued)

HKFRS 13 Fair Value Measurements defines fair value and provides a single source of fair value measurement and disclosure requirements for use across HKFRS. The requirements do not extend the use of fair value accounting. The Group has applied the new fair value measurement and disclosure requirements prospectively in accordance with the standard.

(B) New standards, amendments to standards and interpretations that have been issued but are not yet effective

The following new standards, amendments to standards and interpretations, have been issued and are mandatory for adoption by the Group for accounting periods beginning on or after 1 January 2014. The Group has not early adopted them:

- Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – Investment Entities
- Amendments to HKAS 19 (2011) – Defined Benefit Plans: Employee Contributions
- Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities
- Amendments to HKAS 36 – Recoverable Amount Disclosures for Non-Financial Assets
- Amendments to HKAS 39 – Novation of Derivatives and Continuation of Hedge Accounting
- HKFRS 9 Financial Instruments
- HKFRS 9 Financial Instruments (Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39)
- HK(IFRIC) – Int 21 Levies
- Annual Improvement to HKFRS 2010-2012 Cycle
- Annual Improvement to HKFRS 2011-2013 Cycle

HKFRS 9 Financial Instruments addresses the classification, measurement and recognition of financial assets and financial liabilities. The amendments to HKFRS 9 Financial Instruments (Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39) introduces a new hedge accounting model which represents a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in their financial statements. The adoption of HKFRS 9 and amendments may have an effect on the Group's classification and the treatment of fair value changes of existing available-for-sale investments and the application of hedge accounting.

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

3. Consolidation

(A) Basis of consolidation

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

The financial statements of subsidiaries acquired during the year are included in the consolidated financial statements from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group entities are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary to ensure consistency with the policies adopted by the Group, adjustments are made to the financial statements of subsidiaries, joint ventures and associates.

3. Consolidation (continued)

(B) Subsidiaries

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

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

(C) Joint ventures and associates

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

An associate is an entity over which the Group has significant influence but not control nor joint control over the financial and operating policies, generally accompanying a shareholding of between 20% and 50% of the voting rights.

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

In the consolidated statement of financial position, interests in joint ventures / associates comprise the carrying amounts of the investments and its net advances made to the joint ventures / associates (where the advances are neither planned nor likely to be settled in the foreseeable future).

When the Group's share of losses of a joint venture / associate equals or exceeds its interest therein, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures / associates.

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

Dilution gains or losses arising in investments in joint ventures / associates are recognised in profit or loss.

(D) Joint operations

A joint operation is an arrangement in which the Group has joint control (as explained in (C) above), whereby the Group has rights to the assets, and obligations for the liabilities, relating to the arrangement.

When Group entity undertakes its activities under joint operations, the Group as a joint operator recognises its direct right to, and its share of jointly held assets, liabilities, revenues and expenses of joint operations. These have been incorporated in the financial statements under appropriate headings.

3. Consolidation (continued)

(E) Change in ownership interests

Transactions with non-controlling interests are treated as transactions with equity owners of the Group. For purchases of ownership interests from non-controlling interests, the difference between any consideration paid and the relevant share of the carrying value of net assets of a subsidiary acquired is recorded in equity. For disposal of ownership interests to non-controlling interests that do not result in loss of control, gains or losses on disposals to non-controlling interests are also recorded in equity.

If the ownership interest in a joint venture or associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

For changes in ownership interests that result in loss of control of subsidiaries, loss of joint control in joint ventures or loss of significant influence in associates, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest as a joint venture, associate or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are reclassified to profit or loss.

A quick guide to the classification of different entities:

Control → Subsidiary
Joint Control → Joint Venture or Joint Operation
Significant Influence → Associate
Less than Significant Influence → Available-for-sale Investment

4. Impairment of Non-Financial Assets

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

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

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

Indefinite useful life ≠ Infinite useful life

An indefinite useful life only means that there is no foreseeable limit to the period over which an asset is expected to generate cash flows to the Group. It does not necessarily mean that it will generate such cash flows forever.

Readers who would like to revisit our expanded discussion on impairment assessment can find this on our website as part of our accounting "mini-series".

5. Derivative Financial Instruments and Hedging Activities

A derivative is initially recognised at fair value on the date a derivative contract is entered into and is subsequently remeasured at its fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either fair value hedges, which are hedges of the fair value of recognised financial assets or financial liabilities or firm commitments (e.g. fixed interest rate loans and foreign currency trade receivables) or cash flow hedges, which are hedges of the cash flows of recognised financial assets or financial liabilities or highly probable forecast transactions (e.g. floating interest rate loans, future purchases of fuels denominated in US dollar).

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

(A) Fair value hedges

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

(B) Cash flow hedges

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

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged items affect profit or loss. Such reclassification from equity will offset the effect on profit or loss of the corresponding hedged item to achieve the overall hedging result. However, when the highly probable forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset at the time of acquisition. The deferred amounts are ultimately recognised in cost of goods sold in the case of inventory or in depreciation in the case of fixed assets.

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

(C) Derivatives not qualifying for hedge accounting or held for trading purposes

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

The Group enters into sale and purchase transactions for commodities within the ordinary course of business. Transactions that take the form of contracts that are within the scope of HKAS 39 are fair valued at the end of each reporting period. Contracts that were entered into and continue to be held for the purpose of receipt or delivery of commodities in accordance with the Group's expected sale, purchase or usage requirements are not within the scope of HKAS 39 but need to be assessed at inception to determine if they contain embedded derivatives.

An embedded derivative is one or more implicit or explicit terms in a contract that affect the cash flows of the contract in a manner similar to a stand-alone derivative instrument. Any embedded derivative that meets the separation criterion shall be separated from its host contract and measured as if it were a stand-alone derivative if its economic characteristics are not closely related to those of the host contract.

6. Inventory

Inventory comprises stores and fuel and is stated at the lower of cost and net realisable value. Cost is calculated on the weighted average basis for stores, coal and gas. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

7. Renewable Energy Products

(A) Renewable energy schemes

Under the Australia Renewable Energy (Electricity) Act, the Group's Australia business is liable to surrender renewable and efficiency energy products under different renewable energy and energy efficiency schemes. The major schemes affecting the Group's Australia business are Renewable Energy Certificates (RECs), New South Wales Greenhouse Gas Abatement Certificates (NGACs) and Victorian Energy Efficiency Certificates (VEECs).

The renewable and efficiency energy products held for own use to satisfy relevant regulatory requirements are accounted for on an accrual basis. That is, when a buy or sell contract is entered into, no recording is made until legal title transfers.

(B) Carbon units / certificates

As part of the Clean Energy Legislation Package which commenced on 1 July 2012, the Australian Government has announced the establishment of the Energy Security Fund (ESF). A component of the ESF is transitional assistance in the form of allocations of free carbon units and cash payments.

Carbon compensation in the form of cash and free carbon units received through financial assistance is initially recognised at fair value as a government grant and subsequently released to the profit or loss on a systematic basis being a straight-line method over the relevant period. Carbon units / certificates held for own use (surrender) are subsequently measured at cost.

The carbon liability at the end of each reporting period is recognised based on the expected weighted average price of carbon units for the obligation period. Purchased or earned carbon units / certificates are not treated as a reduction in the "net liability" of surrender obligations.

8. Current and Deferred Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised either in other comprehensive income or directly in equity. In this case, the tax is also recognised in either other comprehensive income or equity, respectively.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax is also provided on temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

9. Employee Benefits

(A) Retirement benefits

The Group operates and/or participates in a number of defined contribution plans in Hong Kong, including the CLP Group Provident Fund Scheme (GPFS) administered by Bank Consortium Trust Company Limited and the Mandatory Provident Fund (MPF) scheme administered by HSBC Life (International) Limited. These schemes are set up as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance. The assets of these schemes are held in separate trustee-administered funds. The pension plans are funded by payments from employees and by the participating companies of the Group, and provide benefits linked to contributions and investment returns on the plans. The Group has no further legal or constructive payment obligations if the fund does not hold sufficient assets to pay all employees the benefit relating to employee service in the current and prior periods, once the contributions have been paid.

The Group's employees outside Hong Kong are primarily covered by the respective defined contribution schemes in accordance with local legislation and practices.

Contributions to the defined contribution plans are recognised as expenses in the year to which the contributions relate, except to the extent that they are capitalised as part of the cost of qualifying assets.

(B) Incentive bonus and employee leave entitlement

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

10. Foreign Currency Translation

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

Foreign currency transactions are translated into the relevant functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies by using the exchange rates at the end of the reporting period are recognised in profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges or qualifying net investment hedges.

For subsidiaries, joint ventures and associates that have a functional currency different from the Group's presentation currency for the purpose of consolidation, assets and liabilities for each statement of financial position presented are translated using the closing rate at the end of the reporting period; whilst income and expenses for each statement of profit or loss presented are translated at the average exchange rate for the reporting period (unless this average rate is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the date of the transactions). All resulting exchange differences are recognised in other comprehensive income and as a separate component of equity.

10. Foreign Currency Translation (continued)

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated using the closing rate at the end of the reporting period.

Upon disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary / loss of joint control over a joint venture / loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in a joint venture or associate that do not result in the Group losing joint control or significant influence) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

Monetary assets and liabilities are assets to be received and liabilities to be paid in fixed money amounts. For example, a trade receivable is a monetary asset (the amount to be received is fixed) but a fixed asset is not a monetary asset because it is uncertain how much you will receive if the fixed asset is to be sold.

A company entity can have both functional currency and presentation currency; however, a consolidation group can only have presentation currency but not functional currency. This is because presentation currency is a matter of choice but functional currency is based on the different primary economic environment in which each group entity is operating.

11. Leases

Leases of assets in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under an operating lease and the corresponding cumulative lease income / expense is amortised on a straight-line basis over the term of the lease to profit or loss.

Leases of assets where the lessee has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at their commencement at the lower of the fair value of the leased asset and the present value of the minimum lease payments. A fixed asset held under a finance lease is depreciated over the shorter of its useful life or the lease term. The corresponding rental obligations, net of finance charges, are included as obligations under finance leases in current and non-current liabilities. Where assets are leased out under a finance lease, the present value of the lease receipts is recognised as a receivable.

For a finance lease, each lease receipt / payment is allocated between the receivable / liability and finance income / charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the lease receipt / payment is recognised in profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the receivable / liability for each period.

In the case of an electricity supply or a power purchase contractual arrangement, where the fulfilment of the arrangement is dependent on the use of specific assets and the arrangement conveys an exclusive right to use these assets, such a contractual arrangement is accounted for as containing a finance or an operating lease. Payments for services and the cost of inputs of the arrangement are excluded from the calculation of the minimum lease payments and are recognised as lease service income / payment. In respect of the power purchase arrangement between CLP Power Hong Kong Limited (CLP Power Hong Kong) and Castle Peak Power Company Limited (CAPCO), the effective interest rate of the finance lease obligation is a variable rate akin to a price index which moves with reference to the return allowed under the SoC Agreement and accordingly, the finance charge has been treated as contingent rent. Contingent rent is recognised as an expense in the period in which it is incurred.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

In preparing the consolidated financial statements, management are required to exercise significant judgments in the selection and application of accounting principles, as well as in making key estimates and assumptions. The following is a review of the more significant judgments and uncertainties made, in respect of which different amounts may be reported under a different set of conditions or using different assumptions.

1. Deferred Tax

At 31 December 2013 a deferred tax asset of HK$2,542 million (2012: HK$3,797 million) in relation to unused tax losses (Note 25) was recognised in the consolidated statement of financial position. Estimating the deferred tax asset to be recognised requires a process that involves determining appropriate tax provisions, forecasting future years' taxable income and assessing our ability to utilise tax benefits through future earnings. In cases where the actual future profits generated are less than expected, a material reversal of the deferred tax asset may arise, which would be recognised in profit or loss for the period in which such a reversal takes place. The Group's deferred tax asset arises mainly from tax losses in our Australia business. The current financial models indicate that the tax losses can be utilised in the foreseeable future, and with no expiry date for utilising losses in Australia, management believe that any reasonable changes in the model assumptions would not affect management's view as at the close of 2013. However, any unexpected changes in assumptions and estimates and in tax regulations could affect the recoverability of this deferred tax asset in future.

2. Asset Impairment

The Group has made substantial investments in fixed assets, joint ventures and associates. The Group conducts impairment reviews of these assets whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. The Group also tests annually whether goodwill has suffered any impairment in accordance with the relevant accounting standards.

Determining whether an asset or a cash generating unit is impaired requires an estimation of the value in use, which requires the Group to estimate the future cash flows, a growth rate (that reflects the economic environments in which the Group operates) and a pre-tax discount rate (that reflects the current market assessments of the time value of money and the risks specific to the asset) in order to calculate the present value. Where the expected cash flows are less than the asset's carrying amount, an impairment loss may arise. During 2013, after reviewing the business environment as well as the Group's strategies and past performance of the investments, management concluded that there was impairment for EnergyAustralia Holdings Limited (EnergyAustralia)'s generation assets of HK$4,347 million (Note 6(d)), investments in CSEC Guohua International Power Company Limited (CSEC Guohua) and CLP Guohua Shenmu Power Company Limited (Shenmu) totalled HK$297 million (Note 15) and finance lease receivables of Paguthan Plant (Paguthan) of HK$519 million (Note 17) (2012: impairment for the fixed assets of Jhajjar Power Limited (Jhajjar) of HK$350 million and CLP Huanyu (Shandong) Biomass Heat and Power Company Limited (Boxing Biomass) of HK$119 million).

Apart from the assets impaired above, the latest annual impairment models for other relevant assets indicated that sufficient headroom (meaning the excess of the recoverable amount over carrying value) existed. Management believe that any reasonably possible changes in the assumptions used in the models would not affect management's view on impairment at 2013 year end.

3. Asset Retirement Obligations

CLP Power Hong Kong and CAPCO have been investing in the transmission and distribution network and power stations respectively to supply electricity to the customers in its supply area in Hong Kong. CLP Power Hong Kong and CAPCO expect that the land currently used for its transmission and distribution network and generation facilities will continue to be used for generation and distribution of electricity supply in order to maintain the electricity supply to customers for the foreseeable future. It is considered remote that the transmission and distribution network and the power stations would be removed from the existing land sites. As such, an asset retirement obligation has not been recognised upfront in the respective accounts of CLP Power Hong Kong and CAPCO in accordance with the requirements of accounting standards.

4. SoC-related Accounts

As stipulated in the SoC, the balances in the Tariff Stabilisation Fund and the Rate Reduction Reserve shall represent liabilities in the financial statements of CLP Power Hong Kong and shall not accrue to the benefit of its shareholders save as provided for by the SoC. The Group considers that CLP Power Hong Kong is required under the SoC to discharge its obligations arising from the SoC upon the expiry of the SoC Agreement to customers such that the Tariff Stabilisation Fund and the Rate Reduction Reserve meet the definition of a liability.

5. Lease Accounting

The application of HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease" has resulted in finance lease accounting being applied to CLP Power Hong Kong as lessee (for its Electricity Supply Contract with CAPCO), whilst being applied to CLP India Private Limited (CLP India) as lessor (for the Power Purchase Agreement (PPA) with its off-taker). To apply finance lease accounting, a number of assumptions in the lease models have been made, such as the determination of minimum lease payments, implicit interest rates and residual values of the power plants at the end of contract periods. For the power purchase arrangement between CLP Power Hong Kong and CAPCO, in determining the minimum lease payments, the assumption has been made that the return contained in the lease is a variable rate return which moves with reference to the return allowed under the SoC and accordingly, the finance charge has been treated as contingent rent. Any future changes to these assumptions will affect the value of the lease assets and liabilities recognised and the corresponding lease income and expenses.

6. Revenue Recognition

The Group records revenue for retail and wholesale energy sales under the accrual method. Retail electricity and gas revenues are recognised when the commodity is provided to customers on the basis of periodic cycle meter readings and include an estimated accrual for the value of the commodity consumed from the meter reading date to the end of the reporting period. The unbilled revenue is calculated at the end of the reporting period based on estimated daily consumption after the meter reading date to the end of the reporting period. Estimated daily consumption is derived using historical customer profiles adjusted for weather, long unbilled customers and other measurable factors affecting consumption. Unbilled revenue for the Group (included in trade and other receivables) totalled HK$7,216 million at 31 December 2013 (2012: HK$8,669 million).

7. Cash Generating Units

The way that the Group defines its cash generating units (CGUs) in Australia is an area of considerable judgment, incorporating an assessment of various competing criteria. The Group is required to recognise its CGUs consistently from period to period, unless a change is justified.

In the current financial year the Group has re-assessed the formation of the Portfolio Gas CGU in Australia incorporating the Iona gas storage facility (Iona), the Tallawarra combined cycle gas turbine generation plant, the contract to operate the Newport and Jeeralang gas-fired plants (the Master Hedge Agreement (MHA) with Ecogen) and the Hallett gas-fired generation plant. It is now considered that each separate facility / plant should form its own separate CGU. This change is triggered by the recent and expected future decline in the operational interdependence between gas storage and gas-fired generation for the reasons detailed below:

- The expected changes to forward gas and electricity prices support a change in the sales mix for gas from the electricity market to other markets and therefore promoting a change in the role the Iona gas storage facility plays;
- The expected abolition of the carbon tax increases the short run marginal cost of our gas generators, relative to the other generators, hence making them less competitive;

7. Cash Generating Units (continued)

- The gas-fired generators are predominantly peaking plants. With the increasing electricity supply surplus in the market where these gas-fired generators operate, the reliance on gas supply as a primary point of interdependence within the portfolio of gas assets reduces; and
- Reduced demand from the factors above results in reduced interdependence between Iona and the gas-fired generators.

The change in CGU has been appropriately considered in the impairment testing that has identified 2013 impairment for EnergyAustralia's generation assets (Note 6(d)).

8. Fair Value Estimation of Derivative Financial Instruments and Investment Property

Please refer to "Financial Risk Management" No. 2 Fair Value Estimation for Financial Instruments on page 248 for derivative financial instruments. For fair value estimation of investment property, please refer to Note 12(C).

NOTES TO THE FINANCIAL STATEMENTS

1. General Information

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

The financial operations of the Company's major subsidiary, CLP Power Hong Kong, and its joint venture, CAPCO, (collectively referred as SoC Companies) are governed by a SoC entered with the Hong Kong Government. Our electricity business in Hong Kong is therefore also referred to as the SoC business. The main features of the SoC Agreement are summarised on pages 253 and 254.

These financial statements have been approved for issue by the Board of Directors on 27 February 2014.

2. Business Combination

Accounting Policy

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

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised either in profit or loss or other comprehensive income as appropriate. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

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

On 2 September 2013 the Group completed the acquisitions of the Mount Piper Power Station (Mount Piper) and the Wallerawang Power Station (Wallerawang) (both located in New South Wales (NSW), Australia) that underpin the existing Delta Western GenTrader contracts. Mount Piper is a 1,400MW power station comprising two 700MW black coal-fired steam turbine generators. Wallerawang is a 1,000MW power station comprising two 500MW black coal-fired generating units.

Under the terms of the Mount Piper GenTrader contract, it was determined that the Group had control over the underlying generation assets at Mount Piper and as a result recognised them as a finance lease. The Wallerawang GenTrader contract was accounted for as deferred consideration as the estimated unavoidable costs of meeting the obligations under the contract exceeding the economic benefits expected to be received under it.

2. Business Combination (continued)

These acquisitions are therefore incremental to the initial GenTrader contracts, whereby the consideration paid relates to net assets of Mount Piper and Wallerawang which were not previously controlled. These include deferred tax assets arising upon the transfer of legal title of tax bases, and other working capital related balances. The acquisitions have resulted in the Group being released from any committed expenditure to Delta Electricity under the terms of the GenTrader contracts.

The net cash consideration for the acquisitions is HK$954 million (A$138 million). The following table summarises the consideration paid and the incremental assets acquired and liabilities assumed:

	HK$M
Cash paid to vendor	1,089
Less: stamp duty paid through vendor	(135)
Cash consideration [(a)]	954
Less:	
Recognised amounts of identifiable assets acquired and liabilities assumed	
Fixed assets	79
Deferred tax assets	1,185
Other current assets	80
Trade and other payables	(266)
Total identifiable net assets acquired	1,078
Release of deferred consideration payable to vendor with respect to the Wallerawang GenTrader contract [(b)]	627
Gain on bargain purchase [(c)]	(751)

Acquisition-related costs charged to profit or loss (included in fuel and other operating expenses) totalled HK$158 million (HK$151 million after tax), which comprised stamp duty of HK$135 million and other costs of HK$23 million (HK$16 million after tax).

Notes:

(a) The cash paid was HK$1,089 million (A$157 million), being HK$1,111 million (A$160 million) consideration paid less working capital completion amount subsequently received of HK$22 million (A$3 million). This cash paid included stamp duty of HK$135 million (A$19 million) paid through vendor as part of the purchase price.

(b) A deferred consideration liability with respect to Wallerawang of HK$627 million (A$90 million) (net of deferred tax of HK$269 million (A$39 million)) existed at 31 August 2013. The acquisition has resulted in the Group being released from any committed expenditure to Delta Electricity in relation to this amount under the terms of the GenTrader contract. The deferred consideration liability was deemed to be at fair value.

(c) The gain on bargain purchase of HK$751 million (A$108 million) (HK$600 million (A$87 million) after acquisition-related costs and tax) was recognised in profit or loss and presented in other income. It has been recognised as the consideration paid is less than the fair value of the identifiable net assets acquired. This was mainly due to the recognition of deferred tax assets of HK$1,185 million (A$171 million) related to the acquisition of tax bases underpinning both power stations, originally acquired the right to use under the GenTrader contracts.

The revenue and loss before income tax included in the consolidated statement of profit or loss from September 2013 to December 2013 contributed by the acquisitions were HK$1,572 million (A$221 million) and HK$240 million (A$34 million) respectively. As the Group had the rights to the assets under the GenTrader contracts, it is not possible to quantify the revenue and profit or loss which would have derived from them had they been consolidated from 1 January 2013.

3. Revenue

Accounting Policy

Revenue primarily represents sales of electricity and gas, engineering and maintenance service fees, other electricity-related revenue such as temporary electricity supply works and reconnection fees and adjustments stipulated under the SoC. It is measured at the fair value of the consideration received or receivable, net of applicable tax, discounts and rebates.

Sales of electricity and gas are based on actual and accrued consumption or the amount billed in accordance with the terms of the contractual agreements where applicable during the year. Other revenue is recognised when services are rendered or sales are completed.

Lease service income comprises servicing income and fuel costs received from lessees with respect to the leased assets. Finance lease income represents the interest element of the lease receipts on lease receivables and is recognised over the lease period using the effective interest method. Operating lease income is recognised on a straight-line basis over the term of the lease. Interest income is recognised on a time proportion basis using the effective interest method.

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

	2013 HK$M	2012 HK$M
Sales of electricity	88,555	91,351
Sales of gas	8,388	9,256
Lease service income under PPA	626	1,454
Finance lease income under PPA	252	287
Operating lease income under PPA	2,778	742
Other revenue (note)	3,290	2,075
	103,889	105,165
Transfer for SoC to / (from) revenue (Note 27)	641	(304)
	104,530	104,861

Note: Including carbon compensation in the form of cash assistance and free carbon units totalling HK$1,923 million (A$259 million) (2012: HK$1,035 million (A$129 million)) received by EnergyAustralia under the ESF with respect to Yallourn Power Station (Note 22(c)). The compensation received was recognised as revenue over the relevant period on a systematic basis.

The lease service income and finance lease income under PPA relate to Paguthan. In accordance with HK(IFRIC)-Int 4 and HKAS 17, servicing income and fuel costs received by Paguthan from the lessee with respect to the leased assets are not part of the minimum lease payments and are recognised as lease service income.

The operating lease income under PPA relates to Jhajjar, whose PPA has been accounted for as an operating lease.

4. Segment Information

Accounting Policy

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive Officer, who is the chief operating decision-maker of the Group. In accordance with the Group's internal organisation and reporting structure, the operating segments are based on geographical regions.

Segment revenue is based on the geographical region in which the electricity is generated and / or services are rendered. Segment capital additions represent the total costs incurred during the year to acquire fixed assets and other segment assets that are expected to be used for more than one year. Unallocated items comprise mainly corporate expenses, corporate assets, and the Company's liquid funds and borrowings.

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

4. Segment Information (continued)

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

	Hong Kong HK$M	Australia HK$M	Chinese Mainland HK$M	India HK$M	Southeast Asia & Taiwan HK$M	Unallocated Items HK$M	Total HK$M
For year ended 31 December 2013							
Revenue	34,172	64,976	991	4,371	14	6	104,530
Operating profit / (loss)	10,439	(2,181)	407	690	(26)	(423)	8,906
Finance costs	(3,685)	(1,620)	(205)	(957)	–	(55)	(6,522)
Finance income	11	44	4	80	5	29	173
Share of results, net of income tax							
Joint ventures	1,235	(14)	1,188 [(a)]	–	262	–	2,671
An associate	–	–	612 [(a)]	–	–	–	612
Profit / (loss) before income tax	8,000	(3,771)	2,006	(187)	241	(449)	5,840
Income tax credit / (expense)	(1,010)	1,315	(151)	78	–	–	232
Profit / (loss) for the year	6,990	(2,456)	1,855	(109)	241	(449)	6,072
Earnings attributable to non-controlling interests	–	–	(12)	–	–	–	(12)
Earnings / (loss) attributable to shareholders	6,990	(2,456) [(b)]	1,843	(109)	241	(449)	6,060
Capital additions	9,292	2,139	483	1,243	–	39	13,196
Depreciation and amortisation	4,412	2,506	213	424	–	37	7,592
Impairment provisions							
Fixed assets and leasehold land and land use rights under operating leases	–	3,862	38	–	–	–	3,900
Interests in joint ventures	–	–	297	–	–	–	297
Receivables and others	–	1,670	3	716	–	–	2,389
At 31 December 2013							
Fixed assets	93,782	15,889	5,405	11,628	–	172	126,876
Goodwill and other intangible assets	–	23,778	40	29	–	–	23,847
Interests in joint ventures	9,478	324	8,349	–	1,789	–	19,940
Interest in an associate	–	–	1,675	–	–	–	1,675
Deferred tax assets	–	3,021	60	3	–	–	3,084
Other assets	10,044	15,702	3,177	5,443	87	1,810	36,263
Total assets	113,304	58,714	18,706	17,103	1,876	1,982	211,685
Bank loans and other borrowings	28,293	14,406	3,457	8,479	–	1,416	56,051
Current and deferred tax liabilities	8,193	–	188	308	–	–	8,689
Obligations under finance leases	27,947	29	–	–	–	–	27,976
Other liabilities	13,768	15,708	400	1,426	3	183	31,488
Total liabilities	78,201	30,143	4,045	10,213	3	1,599	124,204

The difference between total assets and total liabilities represents shareholders' financing.

4. Segment Information (continued)

	Hong Kong HK$M	Australia HK$M	Chinese Mainland HK$M	India HK$M	Southeast Asia & Taiwan HK$M	Unallocated Items HK$M	Total HK$M
For year ended 31 December 2012							
Revenue	33,873	66,843	943	3,178	19	5	104,861
Operating profit / (loss)	10,154	2,941	220	300	(24)	(490)	13,101
Finance costs	(3,565)	(1,843)	(213)	(709)	–	(93)	(6,423)
Finance income	8	208	5	77	5	19	322
Share of results, net of income tax							
Joint ventures	1,253	(8)	898 (a)	–	262	–	2,405
An associate	–	–	579 (a)	–	–	–	579
Profit / (loss) before income tax	7,850	1,298	1,489	(332)	243	(564)	9,984
Income tax expense	(1,117)	(298)	(112)	(165)	–	–	(1,692)
Profit / (loss) for the year	6,733	1,000	1,377	(497)	243	(564)	8,292
Loss attributable to non-controlling interests	–	–	20	–	–	–	20
Earnings / (loss) attributable to shareholders	6,733	1,000 (b)	1,397	(497)	243	(564)	8,312
Capital additions	7,571	2,582	100	1,935	–	93	12,281
Depreciation and amortisation	4,068	2,357	209	355	–	32	7,021
Impairment provisions							
Fixed assets and leasehold land and land use rights under operating leases	–	89	119	350	–	–	558
Interests in joint ventures	–	–	–	–	–	–	–
Receivables and others	–	780	–	64	–	–	844
At 31 December 2012							
Fixed assets	89,393	25,659	5,001	12,239	–	171	132,463
Goodwill and other intangible assets	–	28,408	39	32	–	–	28,479
Interests in joint ventures	9,294	99	8,049	–	1,755	–	19,197
Interest in an associate	–	–	1,856	–	–	–	1,856
Deferred tax assets	–	964	61	–	–	–	1,025
Other assets	12,847	18,781	2,861	7,148	77	4,022	45,736
Total assets	111,534	73,911	17,867	19,419	1,832	4,193	228,756
Bank loans and other borrowings	33,435	16,618	3,367	9,878	–	2,900	66,198
Current and deferred tax liabilities	7,852	–	176	575	–	–	8,603
Obligations under finance leases	26,987	68	–	–	–	–	27,055
Other liabilities	12,204	21,297	300	1,663	4	231	35,699
Total liabilities	80,478	37,983	3,843	12,116	4	3,131	137,555

Notes:

(a) Out of the total amount of HK$1,800 million (2012: HK$1,477 million), HK$696 million (2012: HK$659 million) was attributed to investments in Guangdong Nuclear Power Joint Venture Company, Limited (GNPJVC) and Hong Kong Pumped Storage Development Company, Limited (PSDC), whose generating facilities serve Hong Kong.

(b) Excluding the one-off items from Australia of a post-tax loss of HK$2,582 million (2012: HK$685 million), the operating earnings of Australia were HK$126 million (2012: HK$1,685 million).

5. Other Income

	2013 HK$M	2012 HK$M
Gain on bargain purchase of Mount Piper and Wallerawang (Note 2)	751	–

6. Operating Profit

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

	2013 HK$M	2012 HK$M
Charging		
Staff costs		
Salaries and other costs	2,715	2,725
Retirement benefits costs [a]	302	210
Auditor's remuneration		
Audit	34	39
Permissible non-audit services [b]	12	20
Operating lease expenditure on the agreement with Ecogen	311	331
Net loss on disposal of fixed assets	173	151
Loss on disposal of Boxing Biomass [c]	23	–
Yallourn mine flooding	110	1,129
Impairment of *		
Fixed assets and leasehold land and land use rights under operating leases	150	558
Other intangible assets	176	41
Finance lease receivables (Note 17)	519	–
Impairment and other provisions for EnergyAustralia's generation assets [d]	4,437	–
Net fair value (gain)/loss on derivative financial instruments		
Cash flow hedges, reclassified from equity to		
Purchases of electricity, gas and distribution services	(437)	(402)
Fuel and other operating expenses	(201)	(99)
Transactions not qualifying as hedges	(91)	570
Ineffectiveness of cash flow hedges	(1)	(74)
Net exchange (gain)/loss	(73)	50
Crediting		
Gain on sale of interest in Waterloo [e]	(24)	–
Net rental income from properties	(7)	(13)

* Excluding the impairment of EnergyAustralia's generation assets detailed in note (d) below.

6. Operating Profit (continued)

Notes:

(a) The retirement benefit plans for staff employed by the Group entities in Hong Kong are regarded as defined contribution schemes. The current scheme, GPFS, provides benefits linked to contributions and investment returns on the scheme. Contributions paid to defined contribution schemes, including GPFS and MPF as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, totalled HK$218 million (2012: HK$214 million), of which HK$62 million (2012: HK$63 million) was capitalised.

Staff employed by the Group entities outside Hong Kong are primarily covered by defined contribution schemes in accordance with local legislation and practices. Total contributions amounted to HK$189 million (2012: HK$104 million).

(b) Permissible non-audit services comprise accounting / tax advisory services for business development, auditor's attestation, system reviews and capital market assurance services.

(c) In November 2013, the Group transferred its entire 79% interest in Boxing Biomass to its joint venture partner for nil consideration. Together with provisions for various assets before the transfer, total loss from the divestment amounted to HK$75 million (2012: nil).

(d) During the current year the Group's view of the Australian energy sector has changed. This change has been driven by the continuation of certain trends, particularly in relation to wholesale electricity prices, that began several years ago. The key impacts from these changes include the following:

- Sharp increases in retail prices and the uptake of rooftop photovoltaic and energy efficiency products and services on the back of government-based subsidies over the last four years have changed energy consumption patterns;
- A change in composition of Australia's Gross Domestic Product (GDP) from manufacturing industries to service sectors, resulting in lower energy intensity. This has also led to a shift in the location of energy use by industry, particularly as China and India seek to utilise more and more of Australia's mineral resources;
- Together with falling demand, wholesale electricity prices have softened, resulting in lower revenue for generators. Some generators, including EnergyAustralia, have sought to either reduce output or reassess their reliability standard, with consequential flow-on impacts to planned maintenance programmes. Despite such measures, there has been little impact on the growing gap between available supply of generation and demand;
- Significant impacts have also been experienced on the supply side of the market, largely due to the Renewable Energy Target (RET). Substantial and unanticipated reductions on forecast energy demand in the National Energy Market has meant the current overall RET (20% of market share of renewable energy generation by 2020) is likely to be exceeded. One unintended consequence is that the RET leads to an over-supplied wholesale market, further dampening wholesale prices; and
- Transformational change is also being experienced in the gas market, driven primarily by domestic gas prices linking to world gas prices via liquefied natural gas (LNG) projects coming to market. The expansion and exploitation of unconventional gas in meeting global demand is also resulting in an increase in input costs above historical domestic levels adding further pressure to gas prices.

These factors, individually and in unison, have had a substantial impact on the valuation of each of our cash generating units in the current year. As a result, impairment and other provisions have been incurred across the majority of EnergyAustralia's generation assets and included in the Australia segment.

The impairment and other provisions for each individual CGU are presented below:

	Pre-tax HK$M	Post-tax HK$M
Yallourn (i) – coal-fired generation	3,043	2,130
Tallawarra (ii) – gas-fired generation	650	455
Ecogen (iii) – contract to operate two gas-fired generators	654	458
Hallett (iv) – gas-fired generation	90	63
	4,437	3,106

(i) Impairment of fixed assets of HK$3,010 million (A$435 million) and other intangible assets (mining licences) of HK$33 million (A$5 million). The impairment is triggered by the Group's view of lower future wholesale prices in Victoria.

(ii) Impairment of fixed assets of HK$650 million (A$94 million) which is triggered by the lowered forecast wholesale prices in NSW and forecast growth in gas prices.

(iii) Impairment of other intangible assets (MHA with Ecogen – including the right to operate the Newport and Jeeralang Power Stations) of HK$564 million (A$82 million) and provision for onerous contract of HK$90 million (A$13 million) in relation to committed premium payments till April 2019. The impairment is triggered by lower forecast wholesale prices in Victoria. In view of the unavoidable costs under MHA exceeding the expected benefits, the difference is recognised as a provision for onerous contract at year end.

(iv) Impairment of fixed assets of HK$90 million (A$13 million) which is triggered by lower forecast wholesale prices in South Australia.

In 2012, Tallawarra, Ecogen and Hallett were allocated to a Portfolio Gas CGU which also included Iona gas storage facility. These assets are now considered as separate CGUs as the interdependence of these assets no longer exists. Please refer to "Critical Accounting Estimates and Judgments" No. 7 for details of this revision.

The recoverable amount of the CGUs tested for impairment has been determined based on value in use calculations. The cash flow projections are discounted using pre-tax discount rates ranged from 9.1% to 12.1%. The discount rates reflect the current market assessments of the time value of money and are based on the estimated cost of capital.

(e) In May 2013, the Group sold its 75% interest in Waterloo Investment Holdings Pty Ltd (Waterloo) for a consideration of HK$1,708 million (A$228 million) with a gain of HK$24 million (A$3 million) (2012: nil). Following the sale, Waterloo became a 25% owned joint venture of the Group.

7. Finance Costs and Income

Accounting Policy

Borrowing costs are recognised as an expense in the year in which they are incurred, except to the extent that they are capitalised when they are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use.

	2013 HK$M	2012 HK$M
Finance costs		
Interest expenses on		
Bank loans and overdrafts	1,537	1,874
Other borrowings		
Wholly repayable within five years	253	578
Not wholly repayable within five years	917	909
Tariff Stabilisation Fund (a)	1	2
Customers' deposits, fuel clause over-recovery and others	31	1
Finance charges under finance leases (b)	2,753	2,735
Other finance charges	444	451
Net fair value loss / (gain) on financing related derivative financial instruments		
Cash flow hedges, reclassified from equity	895	478
Fair value hedges	1,027	(33)
Not designated as hedges	(3)	–
Ineffectiveness of cash flow hedges	18	5
(Gain) / loss on hedged items in fair value hedges	(992)	28
Other net exchange gain on financing activities	(88)	(221)
	6,793	6,807
Less: amount capitalised (c)	(271)	(384)
	6,522	6,423
Finance income		
Interest income on short-term investments, bank deposits and fuel clause under-recovery	173	322

Notes:

(a) CLP Power Hong Kong is required to credit, to a Rate Reduction Reserve in its financial statements, a charge of the average of one-month Hong Kong interbank offered rate on the average balance of the Tariff Stabilisation Fund under the SoC (Note 27).

(b) Finance charges under finance leases primarily relate to contingent rent in respect of the power purchase arrangement between CLP Power Hong Kong and CAPCO accounted for as finance lease in accordance with HK(IFRIC)-Int 4 and HKAS 17.

(c) Finance costs have been capitalised at average interest rates of 3.17% – 10.68% (2012: 3.26% – 10.91%) per annum.

8. Income Tax (Credit) / Expense

Accounting Policy No. 8

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

	2013 HK$M	2012 HK$M
Current income tax		
Hong Kong	534	654
Outside Hong Kong	305	228
	839	882
Deferred tax		
Hong Kong	473	463
Outside Hong Kong (note)	(1,544)	347
	(1,071)	810
	(232)	1,692

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits for the year. Income tax on profits assessable outside Hong Kong has been provided at the rates prevailing in the respective jurisdictions.

The income tax on the Group's profit before income tax differs from the theoretical amount that would arise using the Hong Kong profits tax rate as follows:

	2013 HK$M	2012 HK$M
Profit before income tax	5,840	9,984
Less: Share of results of joint ventures and associate, net of income tax	(3,283)	(2,984)
	2,557	7,000
Calculated at an income tax rate of 16.5% (2012: 16.5%)	422	1,155
Effect of different income tax rates in other countries	(501)	363
Income not subject to tax	(182)	(75)
Expenses not deductible for tax purposes	178	296
Revenue adjustment for SoC not subject to tax (Note 27)	(105)	51
Over-provision in prior years	(53)	(3)
Tax losses not recognised	9	11
Utilisation of previously unrecognised tax losses	–	(1)
Tax consolidation benefit (note)	–	(105)
Income tax (credit) / expense	(232)	1,692

Note: In 2012, the amount included tax consolidation benefit of HK$105 million (A$14 million) of EnergyAustralia. On 25 November 2011, the Australian Federal Government announced plans to amend the tax consolidation rules that were enacted in 2010 and the legislation was passed by the Senate on 27 June 2012. The change in legislation required a recalculation of the tax cost bases of certain assets of EnergyAustralia which resulted in a tax credit in 2012. In 2013, the income tax credit mainly related to EnergyAustralia.

9. Earnings Attributable to Shareholders

Earnings attributable to shareholders have been dealt with in the financial statements of the Company to the extent of HK$7,384 million (2012: HK$5,288 million).

CLP Holdings is the investment holding company. Its earnings were mainly derived from dividends of subsidiaries.

10. Dividends

	2013 HK$ per share	2013 HK$M	2012 HK$ per share	2012 HK$M
First to third interim dividends paid	**1.59**	**4,017**	1.59	3,825
Fourth interim dividend declared	**0.98**	**2,476**	0.98	2,476
	2.57	**6,493**	2.57	6,301

At the Board meeting held on 27 February 2014, the Directors declared the fourth interim dividend of HK$0.98 per share (2012: HK$0.98 per share). The fourth interim dividend is not reflected as dividends payable in the financial statements, but as a separate component of the shareholders' funds at 31 December 2013.

11. Earnings per Share

The earnings per share are computed as follows:

	2013	2012
Earnings attributable to shareholders (HK$M)	**6,060**	8,312
Weighted average number of shares in issue (thousand shares)	**2,526,451**	2,410,088
Earnings per share (HK$)	**2.40**	3.45

Basic and fully diluted earnings per share are the same as the Company did not have any dilutive equity instruments throughout the year ended 31 December 2013 (2012: nil).

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

Accounting Policy

(A) Fixed assets and leasehold land and land use rights under operating leases

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the fixed asset. Cost may also include transfer from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of fixed assets. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. For any asset replacement, the carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as expenses in the period in which they are incurred.

Fixed assets employed for the electricity business in Hong Kong, also referred to as SoC fixed assets, represent a major portion of the assets of the Group. Depreciation of fixed assets and amortisation of leasehold land is on a straight-line basis using the rates authorised under the SoC which reflect the pattern in which the assets' economic benefits are consumed.

Leasehold land	unexpired term of the lease
Cable tunnels	100 years
Buildings and civil structures at power stations	35 years
Other buildings and civil structures	50 years
Overhead lines (33 kV and above)	50 years
Overhead lines (below 33 kV)	45 years
Cables (132 kV and above)	55 years
Cables (below 132 kV)	60 years
Switchgear and transformers	50 years
Generating plant	25 years
Substation miscellaneous	25 years
Meters	15 years
System control equipment, furniture, tools, communication and office equipment	10 years
Computers and office automation equipment other than those forming part of the generating plant	5 years
Motor vehicles and marine craft	5 years
Refurbished or improved assets	remaining original life plus any life extension

Fixed assets used for the non-SoC business primarily relate to the electricity businesses located outside Hong Kong. Amortisation of leasehold land and depreciation of fixed assets are calculated, using the straight-line method, to allocate their costs to their estimated residual values over the unexpired term of the lease or their estimated useful lives, as appropriate. Their estimated useful lives are similar to those of the SoC fixed assets and are set out below:

12. Fixed Assets, Leasehold Land and Land Use Rights under Operating Leases and Investment Property (continued)

Accounting Policy (continued)

(A) Fixed assets and leasehold land and land use rights under operating leases (continued)

Leasehold land	unexpired term of the lease
Buildings	30 – 40 years
Generating plant	17 – 35 years
Switchgear and transformers	17 – 45 years
Gas storage plant	25 years
Other equipment	10 – 30 years
Computers, furniture and fittings and office equipment	3 – 10 years
Motor vehicles	3 – 10 years
Freehold land	not depreciable

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period. For plant under construction, no depreciation is provided until the construction is completed and the assets are ready for their intended use. Leasehold land commences amortisation from the time when the land interest becomes available for its intended use. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

(B) Investment Properties

Investment properties include properties that are being constructed or developed for future use as investment properties. Land held under operating leases is accounted for as an investment property when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment properties are measured initially at cost, including related transaction costs. Subsequent to initial recognition, investment properties are measured at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Any gains and losses arising from changes in the fair value or from the retirement or disposal of an investment property are recognised in profit or loss in the period in which they arise.

If an item of owner occupied property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised directly in revaluation reserve within equity.

12. Fixed Assets, Leasehold Land and Land Use Rights under Operating Leases and Investment Property (continued)

Fixed assets, leasehold land and land use rights under operating leases and investment property totalled HK$130,903 million (2012: HK$134,329 million), which included assets under construction with book value of HK$11,597 million (2012: HK$7,937 million). Movements in the accounts are as follows:

(A) Fixed Assets

Group

	Land		Buildings		Plant, Machinery and Equipment		
	Freehold HK$M	Leased HK$M	Owned HK$M	Leased [(a)] HK$M	Owned HK$M	Leased [(a)] HK$M	Total HK$M
Net book value at 1 January 2012	880	572	12,066	5,716	81,611	27,726	128,571
Acquisition of a subsidiary	1	–	–	–	38	–	39
Additions	8	–	1,631	246	7,496	1,748	11,129
Transfers and disposals	–	(19)	(64)	(7)	(219)	(149)	(458)
Depreciation	–	(15)	(308)	(338)	(3,759)	(1,996)	(6,416)
Impairment charge	(18)	–	(89)	–	(451)	–	(558)
Exchange differences	(6)	–	6	–	44	112	156
Net book value at 31 December 2012	865	538	13,242	5,617	84,760	27,441	132,463
Cost	883	623	16,913	11,875	131,452	51,976	213,722
Accumulated depreciation and impairment	(18)	(85)	(3,671)	(6,258)	(46,692)	(24,535)	(81,259)
Net book value at 31 December 2012	865	538	13,242	5,617	84,760	27,441	132,463
Net book value at 1 January 2013	865	538	13,242	5,617	84,760	27,441	132,463
Acquisition of business (Note 2)	62	–	–	–	17	–	79
Sale of a subsidiary (Note 6(e))	–	–	(74)	–	(1,578)	(178)	(1,830)
Additions	41	–	964	363	7,542	3,139	12,049
Revaluation surplus [(b)]	–	2,055	–	–	–	–	2,055
Transfers and disposals	(34)	(2,073)	(190)	(7)	5,012	(5,422)	(2,714)
Depreciation	–	(14)	(323)	(358)	(3,825)	(2,127)	(6,647)
Impairment charge	–	–	(75)	–	(3,807)	–	(3,882)
Exchange differences	(108)	–	(71)	–	(4,058)	(460)	(4,697)
Net book value at 31 December 2013	826	506	13,473	5,615	84,063	22,393	126,876
Cost	842	601	17,462	12,219	135,460	48,126	214,710
Accumulated depreciation and impairment	(16)	(95)	(3,989)	(6,604)	(51,397)	(25,733)	(87,834)
Net book value at 31 December 2013	826	506	13,473	5,615	84,063	22,393	126,876

12. Fixed Assets, Leasehold Land and Land Use Rights under Operating Leases and Investment Property (continued)

(A) Fixed Assets (continued)

Notes:

(a) These leased assets include mainly CAPCO's operational generating plant and associated fixed assets of net book value of HK$27,947 million (2012: HK$26,987 million), which are deployed for the generation of electricity supplied to CLP Power Hong Kong under the Electricity Supply Contract between the two parties; and in 2012, Delta Electricity's power station at Mount Piper of net book value of HK$5,804 million under the Delta Western GenTrader contract. These arrangements have been accounted for as finance leases in accordance with HK(IFRIC)-Int 4 and HKAS 17. The Delta Western GenTrader contracts were terminated following the acquisitions of Mount Piper and Wallerawang (Note 2). The leased assets of Mount Piper were reclassified as owned assets.

(b) The property at the Argyle Street site was transferred from fixed asset to investment property during the year pursuant to its redevelopment. A revaluation surplus of HK$2,055 million was recognised in revaluation reserve upon the transfer. Whilst the use and development of the property is subject to both regulatory and statutory restrictions imposed by the Hong Kong Government, future use of the property is undetermined.

Company

The net book value of fixed assets of the Company was HK$172 million (2012: HK$171 million), comprising mainly office furniture, fittings and equipment. The additions, disposals and depreciation for the year were HK$39 million (2012: HK$93 million), HK$1 million (2012: HK$7 million) and HK$37 million (2012: HK$32 million) respectively.

(B) Leasehold Land and Land Use Rights under Operating Leases

Group

	2013 HK$M	2012 HK$M
Net book value at 1 January	1,866	1,811
Additions	3	101
Amortisation	(48)	(46)
Impairment charge	(18)	–
Exchange differences	3	–
Net book value at 31 December	1,806	1,866
Cost	2,237	2,250
Accumulated amortisation and impairment	(431)	(384)
Net book value at 31 December	1,806	1,866

(C) Investment Property

Group

	2013 HK$M	2012 HK$M
At 1 January	–	–
Transfers	2,221	–
At 31 December	2,221	–

12. Fixed Assets, Leasehold Land and Land Use Rights under Operating Leases and Investment Property (continued)

(C) Investment Property (continued)

The Group's investment property is located at Argyle Street, Kowloon. They were revalued at 31 December 2013 and the valuations of the property were with reference to an independent valuation prepared by DTZ Debenham Tie Leung Limited ("DTZ") based on the highest and best use approach. In formulating the optimal development of the property, DTZ has taken into account the development constraints stipulated on the covenants of the Government Leases and subsequent modifications. DTZ has adopted the residual valuation method, which is a modification of income approach based on discounted cash flows, by making reference to the development potential of the subject property after deduction of other relevant costs for completion of the development. The valuation relies upon a series of assumptions which produce an estimation of the expected current market value of the property held for development or redevelopment. These assumptions include the statutory and non-statutory restrictions associated with development that may be imposed by the Government. Comparable transactions of similar development in the locality were gathered for gross development value assessment. The valuations are performed and reported twice a year, in line with the Group's reporting dates, to management.

The recurring fair value measurement of the Group's investment property is categorised within Level 3 of the fair value hierarchy at 31 December 2013. The significant unobservable input used other than assumptions made in relation to development potential of the property is discount rate, cost of development and estimated return in the future for the property. The discount rate used is 4% and the higher the rate, the lower the fair value of the property.

(D) Tenure of Leasehold Land and Land Use Rights

The tenure of leasehold land and land use rights (under finance or operating leases) and investment property of the Group is as follows:

	2013 HK$M	2012 HK$M
Held in Hong Kong		
On long-term leases (over 50 years)	2,341	123
On medium-term leases (10 – 50 years)	2,063	2,130
On short-term leases (less than 10 years)	6	7
	4,410	2,260
Held outside Hong Kong		
On medium-term leases (10 – 50 years)	123	144
	4,533	2,404

13. Goodwill and Other Intangible Assets

Accounting Policy

(A) Goodwill

Goodwill represents the excess of the consideration transferred of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in "intangible assets". Goodwill is tested for impairment at least annually or whenever there is an indication that it may be impaired and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash generating units which are expected to benefit from the business combination in which the goodwill arose.

(B) Other intangible assets

Intangible assets other than goodwill are measured initially at cost or, if acquired in a business combination, fair value at the acquisition date. An intangible asset with a finite useful life is amortised on a straight-line basis over its useful life of 1 – 34 years or using the unit of production method and carried at cost less accumulated amortisation and accumulated impairment losses.

	Goodwill [a] HK$M	Licences [b] HK$M	Others [c] HK$M	Total HK$M
Net carrying value at 1 January 2012	21,616	2,412	3,341	27,369
Acquisition of a subsidiary	171	–	–	171
Additions	–	118	933	1,051
Cost adjustment	–	(66)	–	(66)
Amortisation	–	(6)	(553)	(559)
Impairment charge	–	–	(41)	(41)
Exchange differences	438	48	68	554
Net carrying value at 31 December 2012	22,225	2,506	3,748	28,479
Cost	22,225	2,669	5,516	30,410
Accumulated amortisation and impairment	–	(163)	(1,768)	(1,931)
Net carrying value at 31 December 2012	22,225	2,506	3,748	28,479
Net carrying value at 1 January 2013	22,225	2,506	3,748	28,479
Sale of a subsidiary (Note 6(e))	–	–	(112)	(112)
Additions	–	177	967	1,144
Amortisation	–	(5)	(892)	(897)
Impairment charge	–	(33)	(740)	(773)
Exchange differences	(3,116)	(365)	(513)	(3,994)
Net carrying value at 31 December 2013	**19,109**	**2,280**	**2,458**	**23,847**
Cost	19,109	2,458	5,500	27,067
Accumulated amortisation and impairment	–	(178)	(3,042)	(3,220)
Net carrying value at 31 December 2013	**19,109**	**2,280**	**2,458**	**23,847**

13. Goodwill and Other Intangible Assets (continued)

Notes:

(a) Goodwill predominantly arose from the previous acquisitions in Australia of the Merchant Energy Business (MEB) in 2005 and the energy retail business from the NSW Government in 2011. 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 2013 based on an approved Business Plan which has a forecast covering a period of ten years and necessary updates. Projections for a period of greater than five years have been used on the basis that a longer projection period represents the long dated nature of our generation assets and a more appropriate reflection of future cash flows from anticipated legislative, regulatory and structural changes in the industry. The cash flow projections are discounted using a pre-tax discount rate of 12.76% (2012: 13.30%) for MEB and 11.37% (2012: 11.85%) for energy retail business in NSW. The discount rates reflect the current market assessments of the time value of money and are based on the estimated cost of capital.

The key assumptions used in the value in use calculations are as follows:

- Electricity pool prices, generation volumes, dispatch levels, carbon prices and gas prices were derived using modelling of the electricity wholesales and gas markets. The modelling is prepared internally, where possible, using observable inputs. These inputs to the modelling are consistent with management's view of the electricity wholesales and gas markets based on past experience and observable market activity.
- Retail prices are sensitive to regulatory changes (i.e. regulation and deregulation of retail tariffs). In absence of any known or expected changes to the current pricing structure, our retail price path assumptions are based on management estimates and expectations on current market conditions and our expectation of regulatory outcomes.
- The electricity and gas volumes for purchases and sales represent the forecast projections in the EnergyAustralia Business Plan. External information was used to verify and align internal estimates.
- Electricity and gas network (distribution) cost assumptions are based on published regulated price paths. When no estimates are available, network costs are assumed to escalate by the relevant Consumer Price Index.
- Customer account numbers growth for electricity and gas aligns with the EnergyAustralia Business Plan.
- Retail operating costs are escalated by relevant cost drivers using activity-based costing principles. Non-contracted fuel cost of Mount Piper are based on management's estimation of the future coal price.
- Terminal value growth rates have been utilised in estimating cash flows beyond a period of ten years. The terminal growth rate for the current period is 3.0% (2012: 3.0%) for MEB and 2.5% (2012: 3.0%) for energy retail business in NSW.

(b) Licences include a 20% working level interest in petroleum licences acquired in 2011, giving the Group the right to exploration, extraction and production of petroleum within the licence area, largely within the Gunnedah Basin of NSW.

(c) The balance includes contracted customers and other identifiable intangible assets from EnergyAustralia.

A more detailed discussion and explanation on goodwill can be found on our website as part of our accounting "mini-series".

14. Investments in and Advances to Subsidiaries

Accounting Policy No. 3(B)

	2013 HK$M	2012 HK$M
Unlisted shares, at cost	23,635	23,635
Provision for impairment losses	(100)	(100)
Advances to subsidiaries, less provisions (note)	28,815	29,558
	52,350	53,093

Note: The advances to subsidiaries are unsecured, interest-free and have no fixed repayment terms (Note 32(D)). These advances are considered equity in nature.

Apart from the above advances to subsidiaries which are considered equity in nature, the Company has also made an advance to CLP Engineering Limited of HK$39 million (2012: HK$39 million), which is interest-free and due on or after 30 June 2015 upon demand. This advance is classified as a long-term receivable in the Company's financial statements.

14. Investments in and Advances to Subsidiaries (continued)

The table below lists the principal subsidiaries of the Group at 31 December 2013:

Name	Issued Share Capital / Registered Capital	% of Ownership Interest at 31 December 2013 and 2012	Place of Incorporation / Business	Principal Activity
CLP Power Hong Kong Limited	2,488,320,000 ordinary shares of HK$5 each	100	Hong Kong	Generation and Supply of Electricity
Hong Kong Nuclear Investment Company Limited	300,000 ordinary shares of HK$1,000 each	100	Hong Kong / Chinese mainland	Power Projects Investment Holding
CLP Engineering Limited	4,995 ordinary shares of HK$10,000 each	100	Hong Kong	Engineering Services
CLP Power Asia Limited	1,000 ordinary shares of US$1 each	100	British Virgin Islands / International and Chinese mainland	Power Projects Investment Holding
CLP Power China Limited	192,000,000 ordinary shares of US$1 each	100 (a)	British Virgin Islands / Chinese mainland and Hong Kong	Power Projects Investment Holding
CLP Power International Limited	692,000 ordinary shares of US$1,000 each	100 (a)	British Virgin Islands / International	Power Projects Investment Holding
CLP Properties Limited	15,000,000 ordinary shares of HK$10 each	100	Hong Kong	Property Investment Holding
CLP Research Institute Limited	1 ordinary share of US$1 each	100	British Virgin Islands / Hong Kong	Research and Development
EnergyAustralia Holdings Limited	533,676,005 ordinary shares of A$1 each	100 (a)	Australia	Energy Business Investment Holding
EnergyAustralia Yallourn Pty Ltd	15 ordinary shares of A$1 each	100 (a)	Australia	Generation and Supply of Electricity
EnergyAustralia Pty Ltd	3,368,686,988 ordinary shares of A$1 each	100 (a)	Australia	Retailing of Electricity and Gas
EnergyAustralia NSW Pty Ltd	2 ordinary shares of A$1 each	100 (a), (b)	Australia	Generation of Electricity
CLP India Private Limited	2,368,909,677 equity shares of Rs.10 each	100 (a)	India	Generation of Electricity and Power Projects Investment Holding

14. Investments in and Advances to Subsidiaries (continued)

Name	Issued Share Capital / Registered Capital	% of Ownership Interest at 31 December 2013 and 2012	Place of Incorporation / Business	Principal Activity
Jhajjar Power Limited	20,000,000 equity shares of Rs.10 each; 2,324,882,458 compulsory convertible preference shares of Rs.10 each	100 (a)	India	Generation of Electricity
CLP Sichuan (Jiangbian) Power Company Limited (c)	RMB496,380,000	100 (a)	Chinese mainland	Generation of Electricity
Guangdong Huaiji Changxin Hydro-electric Power Company Limited (d)	RMB69,098,976	84.9 (a)	Chinese mainland	Generation of Electricity
Guangdong Huaiji Gaotang Hydro-electric Power Company Limited (d)	RMB249,430,049	84.9 (a)	Chinese mainland	Generation of Electricity
Guangdong Huaiji Weifa Hydro-electric Power Company Limited (d)	US$13,266,667	84.9 (a)	Chinese mainland	Generation of Electricity
Guangdong Huaiji Xinlian Hydro-electric Power Company Limited (d)	RMB141,475,383	84.9 (a)	Chinese mainland	Generation of Electricity

Notes:

(a) Indirectly held

(b) Incorporated on 27 May 2013

(c) Registered as a wholly foreign owned enterprise under People's Republic of China (PRC) law

(d) Registered as Sino-Foreign Cooperative Joint Ventures under PRC law

15. Interests in Joint Ventures

Accounting Policy No. 3(C)

	2013 HK$M	2012 HK$M
Share of net assets	10,186	9,522
Goodwill	162	154
Carrying amounts	10,348	9,676
Advances	9,592	9,521
	19,940	19,197

Advances to joint ventures are unsecured, interest-free and have no fixed repayment terms. These advances are considered equity in nature.

The Group's interests in joint ventures are analysed as follows:

		2013				2012			
		Share of Net Assets HK$M	Goodwill HK$M	Advances HK$M	Total HK$M	Share of Net Assets HK$M	Goodwill HK$M	Advances HK$M	Total HK$M
CAPCO	(A)	199	–	9,178	9,377	216	–	9,059	9,275
CSEC Guohua and Shenmu	(B)	3,142	114	–	3,256	3,105	109	–	3,214
CLP Guangxi Fangchenggang Power Company Limited (Fangchenggang)	(C)	1,767	–	–	1,767	1,745	–	–	1,745
OneEnergy Taiwan Ltd	(D)	1,340	–	192	1,532	1,166	–	313	1,479
Shandong Zhonghua Power Company, Limited	(E)	1,044	–	–	1,044	996	–	–	996
PSDC	(F)	13	–	69	82	13	–	96	109
Others	(G)	2,681	48	153	2,882	2,281	45	53	2,379
		10,186	162	9,592	19,940	9,522	154	9,521	19,197

15. Interests in Joint Ventures (continued)

Summarised financial information of joint ventures and the Group's share of results and net assets are as follows:

	2013				2012			
	CAPCO HK$M	Fangcheng-gang HK$M	Others HK$M	Total HK$M	CAPCO HK$M	Fangcheng-gang HK$M	Others HK$M	Total HK$M
Revenue	14,865	2,975	28,191	46,031	14,696	2,880	27,648	45,224
Depreciation and amortisation	(83)	(181)	(2,531)	(2,795)	(95)	(176)	(2,280)	(2,551)
Interest income	–	12	18	30	–	6	11	17
Interest expense	(16)	(193)	(1,312)	(1,521)	(20)	(211)	(1,345)	(1,576)
Other expenses	(11,042)	(1,742)	(19,244)	(32,028)	(10,795)	(2,077)	(20,488)	(33,360)
Profit before income tax	3,724	871	5,122	9,717	3,786	422	3,546	7,754
Income tax expense	(638)	–	(1,153)	(1,791)	(654)	4	(687)	(1,337)
Non-controlling interests	–	–	(679)	(679)	–	–	(485)	(485)
Profit for the year	3,086	871	3,290	7,247	3,132	426	2,374	5,932
Other comprehensive income	4	–	281	285	4	–	15	19
Total comprehensive income	3,090	871	3,571	7,532	3,136	426	2,389	5,951
Group's share								
Profit for the year (note)	1,234	610	827	2,671	1,253	298	854	2,405
Other comprehensive income	2	–	257	259	2	–	5	7
Total comprehensive income	1,236	610	1,084	2,930	1,255	298	859	2,412
Dividends from joint ventures	1,258	639	645	2,542	1,245	–	526	1,771
Non-current assets	28,346	5,118	63,488	96,952	29,620	4,967	60,452	95,039
Cash and cash equivalents	–	1,311	941	2,252	–	287	1,092	1,379
Other current assets	6,476	665	5,678	12,819	6,345	810	5,709	12,864
Current financial liabilities (excluding trade and other payables)	(5,077)	(267)	(11,940)	(17,284)	(6,180)	(312)	(11,768)	(18,260)
Other current liabilities	(1,516)	(1,275)	(3,347)	(6,138)	(2,526)	(254)	(3,861)	(6,641)
Non-current financial liabilities (excluding trade and other payables)	(800)	(2,995)	(18,130)	(21,925)	(1)	(2,982)	(18,756)	(21,739)
Other non-current liabilities	(3,987)	(32)	(2,678)	(6,697)	(4,072)	(22)	(2,159)	(6,253)
Shareholders' loans	(22,946)	–	(1,032)	(23,978)	(22,646)	–	(903)	(23,549)
Non-controlling interests	–	–	(6,775)	(6,775)	–	–	(6,185)	(6,185)
Net assets	496	2,525	26,205	29,226	540	2,494	23,621	26,655
Group's share of net assets	199	1,767	8,220	10,186	216	1,745	7,561	9,522
Goodwill	–	–	162	162	–	–	154	154
Carrying amounts	199	1,767	8,382	10,348	216	1,745	7,715	9,676
Advances	9,178	–	414	9,592	9,059	–	462	9,521
	9,377	1,767	8,796	19,940	9,275	1,745	8,177	19,197

Note: The Group's share of results of joint ventures included an impairment provision for CSEC Guohua and Shenmu of HK$297 million.

15. Interests in Joint Ventures (continued)

	2013 HK$M	2012 HK$M
Share of capital commitments	1,956	1,756
Share of contingent liabilities	61	59

The Group's capital commitments in relation to its interests in joint ventures are disclosed in Note 31.

Details of the joint ventures are summarised below:

(A) CAPCO is incorporated and operates in Hong Kong and its ordinary share capital is 40% owned by CLP Power Hong Kong and 60% owned by ExxonMobil Energy Limited (EMEL). Its principal activity is the generation of electricity for the sole supply to CLP Power Hong Kong. While CAPCO owns the power generation assets, CLP Power Hong Kong builds and operates all CAPCO's power stations and is the sole off-taker. In accordance with HK(IFRIC)-Int 4 and HKAS 17, such arrangement is considered as a finance lease and the power generation assets are accounted for as leased fixed assets on the Group's statement of financial position (Note 12).

Pursuant to the terms of a bank covenant of CAPCO, CLP Power Hong Kong's advances to CAPCO will not be repaid without prior approval of certain lenders if a defined ratio of borrowed moneys to shareholders' funds of CAPCO is exceeded after repayment of the advances. In this context the shareholders' funds represent the sum of the issued share capital, shareholders' advances, special advances, deferred taxation, retained profits and any proposed dividend.

In November 2013, the Group entered into an agreement to acquire an additional 30% interest in CAPCO from EMEL subject to certain conditions (Note 34).

(B) CSEC Guohua, a joint stock company with 70% of its registered capital owned by China Shenhua Energy Company Limited and 30% owned by the Group, is incorporated in the Chinese mainland. It holds interests in five coal-fired power stations, namely Beijing Yire Power Station in Beijing, Panshan Power Station in Tianjin, Sanhe Power Station in Hebei, Zhungeer Power Station in Inner Mongolia and Suizhong Power Station in Liaoning, with a combined capacity of 7,650MW.

Shenmu is incorporated in the Chinese mainland and 49% of its registered capital is owned by the Group. This company holds an interest in a coal-fired power station, Shenmu Power Station, with an installed capacity of 220MW.

(C) Fangchenggang is incorporated in the Chinese mainland and 70% of its registered capital is owned by the Group. This company owns and operates a 1,260MW coal-fired power station in Guangxi. All power generated is for supply to the Guangxi power grid.

Under the joint venture agreement, none of the joint venture partners has unilateral control over the economic activities of Fangchenggang and hence, the Group's interest is accounted for as a joint venture.

(D) OneEnergy Taiwan Ltd is incorporated in the British Virgin Islands and 50% of its ordinary share capital is owned by each of Mitsubishi Corporation of Japan and the Group. This company owns a 40% interest in Ho-Ping Power Company.

(E) Shandong Zhonghua Power Company, Limited is incorporated in the Chinese mainland and 29.4% of its registered capital is owned by the Group. This company owns four coal-fired power stations, namely Shiheng I, Shiheng II, Heze II and Liaocheng, with a combined installed capacity of 3,060MW. All power generated is for supply to the Shandong power grid.

15. Interests in Joint Ventures (continued)

(F) PSDC is incorporated in Hong Kong and its ordinary share capital is 49% owned by CLP Power Hong Kong and 51% owned by EMEL. This company has the right to use 50% of the capacity of Phase 1 of the Guangzhou Pumped Storage Power Station in Guangdong Province until 2034.

In November 2013, the Group entered into an agreement to acquire remaining 51% interest in PSDC from EMEL subject to certain conditions (Note 34).

(G) The Group's other investments include the following key projects:

- 33.3% interest in the ordinary share capital of Natural Energy Development Co., Ltd., which is incorporated in Thailand and owns a solar farm in Lopburi Province in Central Thailand, with an installed capacity of 63MW;
- 25% interest in the Waterloo Investment Holdings Pty Ltd, which is incorporated in Australia and owns a wind farm with a capacity of 111MW in South Australia, Australia;
- 51% interest in the registered capital of Jinchang Zhenxin PV Power Company Limited, which is incorporated in the Chinese mainland and owns Jinchang Solar Power Station, with an installed capacity of 100MW in Gansu; and
- 49% interests in the registered capital of various Chinese joint ventures at a carrying amount of HK$1,379 million (2012: HK$1,357 million) in aggregate. These joint ventures are incorporated in the Chinese mainland and hold interests in various wind power stations in Shandong and Jilin, with a total installed capacity of 593MW.

16. Interest in an Associate

Accounting Policy No. 3(C)

The balance represents the Group's share of net assets of GNPJVC at the end of the reporting period.

GNPJVC is unlisted, incorporated and operates in the Chinese mainland, and its registered capital is 25% owned by the Group and 75% owned by Guangdong Nuclear Investment Company, Limited. GNPJVC constructed and operates the Guangdong Daya Bay Nuclear Power Station and its principal activity is the generation of electricity for supply to Hong Kong and Guangdong Province.

Summarised financial information of GNPJVC and the Group's share of results and net assets are as follows:

	2013 HK$M	2012 HK$M
Revenue	6,829	6,955
Profit and total comprehensive income	2,447	2,317
Group's share of profit and total comprehensive income	612	579
Dividends from an associate	793	184

16. Interest in an Associate (continued)

	2013 HK$M	2012 HK$M
Non-current assets	2,204	3,227
Current assets	9,417	9,085
Current liabilities	(1,731)	(1,873)
Non-current liabilities	(3,189)	(3,014)
Net assets	6,701	7,425
Group's share of net assets	1,675	1,856

At 31 December 2013, the Group's share of capital commitments of its associate was HK$194 million (2012: HK$166 million).

17. Finance Lease Receivables

Accounting Policy No. 11

	Minimum Lease Payments		Present Value of Minimum Lease Payments	
	2013 HK$M	2012 HK$M	2013 HK$M	2012 HK$M
Amounts receivable under finance leases				
Within one year	187	401	49	158
After one year but within five years	1,470	993	989	126
Over five years	–	1,745	–	1,539
	1,657	3,139	1,038	1,823
Less: unearned finance income	(619)	(1,316)		
Present value of minimum lease payments receivable	1,038	1,823		
Analysed as:				
Current (recoverable within 12 months)			49	158
Non-current (recoverable after 12 months)			989	1,665
			1,038	1,823

The finance lease receivables, accounted for as finance lease in accordance with HK(IFRIC)-Int 4 and HKAS 17, relate to the 20-year power purchase agreement under which CLP India sells all of its electricity output of Paguthan to its off-taker, Gujarat Urja Vikas Nigam Limited (GUVNL). The effective interest rate implicit in the finance lease is approximately 13.4% for both 2013 and 2012. The carrying amounts of the finance lease receivables approximate to their fair values.

Owing to shortage in long-term gas supply, Paguthan's dispatches continue to be very low. As a result, GUVNL has requested to revise certain terms of the PPA during the year and a supplementary agreement was subsequently signed in February 2014. In addition, Paguthan's residual value at the end of the PPA in 2018 has been reassessed. Taking into account the anticipated reduction in future cash flows, an impairment provision of HK$519 million (after tax: HK$293 million) (2012: nil) was recognised.

18. Derivative Financial Instruments

Accounting Policy No. 5

	2013 Assets HK$M	2013 Liabilities HK$M	2012 Assets HK$M	2012 Liabilities HK$M
Cash flow hedges (note)				
Forward foreign exchange contracts	1,339	32	1,414	73
Foreign exchange options	89	–	73	–
Cross currency interest rate swaps	1,399	649	1,455	534
Interest rate swaps	194	638	–	1,564
Energy contracts	176	263	404	633
Fair value hedges				
Cross currency interest rate swaps	250	940	258	73
Interest rate swaps	18	192	86	76
Held for trading or not qualifying as accounting hedges				
Forward foreign exchange contracts	104	18	70	30
Interest rate swaps	77	74	–	–
Energy contracts	477	1,913	1,284	2,863
	4,123	4,719	5,044	5,846
Analysed as:				
Current	1,005	1,279	1,759	1,762
Non-current	3,118	3,440	3,285	4,084
	4,123	4,719	5,044	5,846

Recall our accounting "mini-series" on derivatives and hedging? Please visit our website.

Although termed "held for trading or not qualifying as accounting hedges" above, these derivatives are used as "economic hedges" or for the purpose of understanding price movements.

Note: Derivative financial instruments qualifying as cash flow hedges at 31 December 2013 have a maturity of up to 15 years (2012: 15 years) from the end of the reporting period.

The maturities of the derivative financial instruments used for hedging will correlate to the timing of the cash flows associated with the corresponding hedged items. As for the energy contracts that are hedges of anticipated future purchases and sales of electricity (cash flow hedge), any unrealised gains or losses on the contracts recognised are deferred in the hedging reserve (through other comprehensive income) and reclassified to profit or loss, as an adjustment to purchased electricity expense or the billed electricity revenue, when the hedged purchase or sale is recognised.

The notional principal amounts of the outstanding derivative financial instruments are as follows:

	2013 HK$M	2012 HK$M
Forward foreign exchange contracts	105,081	105,551
Foreign exchange options	752	939
Interest rate swaps / cross currency interest rate swaps	49,289	44,790
Energy contracts	18,003	23,092

The maximum exposure to credit risk at the reporting date is the carrying value of the financial instruments.

19. Available-for-sale Investments

Accounting Policy

Available-for-sale investments are non-derivative financial assets that are either designated in that category or not classified in any of the other categories of financial instruments including financial assets at fair value through profit or loss, loans and receivables, and held-to-maturity financial assets. Purchases and sales of financial assets are recognised on their trade date – the date on which the Group commits to purchase or sell the asset. They are initially recognised at fair value plus transaction costs and are subsequently carried at fair value.

Changes in the fair value of monetary investments denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the investment and other changes in the carrying amount of the investment. The translation differences on monetary investments are recognised in profit or loss; translation differences on non-monetary investments are recognised in other comprehensive income. Changes in the fair value of monetary and non-monetary investments classified as available-for-sale are recognised in other comprehensive income.

When an investment classified as available-for-sale is sold or impaired, the accumulated fair value adjustments recognised in equity are included in profit or loss.

Dividends on available-for-sale equity investments are recognised in profit or loss when the Group's right to receive payments is established.

The Group assesses at the end of each reporting period whether there is objective evidence that an available-for-sale investment is impaired. A significant or prolonged decline in the fair value of an equity investment below its cost is evidence that the asset is impaired. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity investments are not reversed through profit or loss.

Available-for-sale investments are classified as non-current assets unless management intend to dispose of the investment within 12 months of the end of the reporting period.

The Group's available-for-sale investments are analysed as follows:

	2013 HK$M	2012 HK$M
CGN Wind Power Company Limited (CGN Wind)	1,190	1,190
Others	73	99
	1,263	1,289

In accordance with the Group's accounting policy, the unquoted investment in CGN Wind, which is denominated in Renminbi, is treated for accounting purpose as an available-for-sale investment.

Although termed "available-for-sale" by the accounting standard, investments in this category are generally held for the long-term.

20. Trade and Other Receivables

Accounting Policy

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtors, probability that the debtor will enter into bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are recognised in profit or loss.

	Group		Company	
	2013 HK$M	2012 HK$M	2013 HK$M	2012 HK$M
Trade receivables [(a)]	13,864	15,536	–	–
Deposits, prepayments and other receivables	3,187	2,768	29	27
Dividend receivables from [(b)]				
Joint ventures	760	124	–	–
An associate	–	10	–	–
An available-for-sale investment	82	43	–	–
Current accounts with [(b)]				
Subsidiaries	–	–	26	18
Joint ventures	58	71	–	–
An associate	2	–	–	–
	17,953	18,552	55	45

Trade and other receivables attributed to overseas subsidiaries amounted to HK$14,906 million (2012: HK$16,036 million). At 31 December 2013, CLP India has obtained payment for some of its receivables from GUVNL through bill discounting with recourse amounted to HK$88 million (2012: HK$213 million) and the transactions have been accounted for as collateralised borrowings (Note 23).

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable.

Notes:

(a) Trade receivables

15% (2012: 13%) and 69% (2012: 73%) of the gross trade receivables relate to sales of electricity in Hong Kong and sales of electricity and gas in Australia respectively. There is no significant concentration of credit risk with respect to these trade receivables as the customer bases are widely dispersed in different sectors and industries. The trade receivables in currencies other than Hong Kong dollar are denominated in the functional currencies of the respective overseas entities.

The Group has established credit policies for customers in each of its retail businesses. CLP Power Hong Kong's credit policy in respect of receivables arising from its principal electricity business is to allow customers to settle their electricity bills within two weeks after issue. Customers' receivable balances are generally secured by cash deposits or bank guarantees from customers for an amount not exceeding the highest expected charge for 60 days of consumption. At 31 December 2013, such cash deposits amounted to HK$4,503 million (2012: HK$4,318 million) and the bank guarantees stood at HK$867 million (2012: HK$903 million). The customer deposits are repayable on demand, bear interest at the HSBC bank savings rate and their carrying value approximates to their fair value. Impairment provisions on trade receivables are recognised on an individual basis once a receivable is more than 90 days overdue and are calculated by reference to the historical past due recovery pattern together with any customer deposits held. For subsidiaries outside Hong Kong, the credit terms for trade receivables range from about 14 to 60 days.

20. Trade and Other Receivables (continued)

Notes (continued):

(a) Trade receivables (continued)

EnergyAustralia determines its doubtful debt provisioning by grouping together trade receivables with similar credit risk characteristics and collectively assessing them for likelihood of recovery, taking into account prevailing economic conditions. Future cash flows for each group of trade receivables are estimated on the basis of historical loss experience, adjusted to reflect the effects of current conditions. As a result of this credit risk assessment, virtually all of the credit risk groupings have been subject to some level of impairment. Receivable balances relating to known insolvencies are individually impaired. At 31 December 2013, EnergyAustralia held cash deposits of HK$3 million (2012: HK$102 million) and no bank guarantees (2012: HK$14 million) in relation to outstanding receivable balances.

The ageing analysis of trade receivables at 31 December based on due date is as follows:

	2013				2012			
	Not impaired HK$M	Subject to impairment testing HK$M	Provision for impairment HK$M	Total HK$M	Not impaired HK$M	Subject to impairment testing HK$M	Provision for impairment HK$M	Total HK$M
Not yet due	9,412	1,665	(88)	10,989	10,971	1,824	(76)	12,719
Overdue								
1 – 30 days	181	905	(67)	1,019	82	1,000	(53)	1,029
31 – 90 days	196	782	(167)	811	89	742	(157)	674
Over 90 days	626	1,481	(1,062)	1,045	770	1,175	(831)	1,114
	10,415	4,833	(1,384)	13,864	11,912	4,741	(1,117)	15,536

At 31 December 2013, trade receivables of HK$1,003 million (2012: HK$941 million) were past due but not considered impaired. These related to:

- a number of customers for whom there had been no recent history of default;
- an amount deducted by GUVNL from the past invoices of CLP India netted with refund totalled HK$415 million (Rs.3,306 million) (2012: HK$469 million (Rs.3,306 million)) (Note 33(A)) which is included in the amount aged over 90 days; and
- disputed charges between Jhajjar and its off-takers. Total disputed amounts were HK$180 million (Rs.1,433 million) at 31 December 2013 (2012: nil), of which HK$101 million (Rs.803 million) (2012: nil) aged over 90 days (Note 33(C)).

According to the accounting standard requirement, when certain receivables are individually impaired, they are written off directly from the books or through the use of an allowance account. If no objective evidence of impairment exists for individual receivables, they are included in a group of receivables with similar credit risk characteristics and collectively assessed for impairment. The amounts under the caption "Subject to impairment testing" mainly relate to EnergyAustralia and are assessed for impairment under this collective approach.

The ageing analysis of trade receivables at 31 December based on invoice date is as follows:

	2013 HK$M	2012 HK$M
30 days or below	11,366	13,226
31 – 90 days	1,292	949
Over 90 days	1,206	1,361
	13,864	15,536

20. Trade and Other Receivables (continued)

Notes (continued):

(a) Trade receivables (continued)

Movements in the provision for impairment are as follows:

	2013 HK$M	2012 HK$M
Balance at 1 January	1,117	693
Provision for impairment	1,098	804
Receivables written off during the year as uncollectable	(698)	(387)
Amounts reversed	(1)	(1)
Exchange differences	(132)	8
Balance at 31 December	1,384	1,117

"Ageing analysis based on invoice date" is presented to meet the reporting requirements under the Listing Rules of the Hong Kong Stock Exchange, whereas "ageing analysis based on due date" is disclosed in accordance with the requirements of HKFRS.

Invoice date = Date of issue of an invoice

Due date = Invoice date + credit period granted to customers

(b) The amounts receivable from subsidiaries, joint ventures and an associate are unsecured, interest-free and have no fixed repayment terms.

21. Bank Balances, Cash and Other Liquid Funds

Accounting Policy

Cash and cash equivalents comprise cash at banks and on hand, demand deposits with banks and other financial institutions, short-term highly liquid investments that are readily convertible to cash, subjected to insignificant risk of change in value and with a maturity of three months or less from date of investment, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

	2013 HK$M	2012 HK$M
Trust accounts restricted under TRAA (note)	449	1,136
Bank deposits	3,068	10,884
Bank balances and cash	1,716	1,006
	5,233	13,026

Note: Pursuant to Trust and Retention Account Agreements (TRAA) of CLP India and its subsidiaries with their corresponding lenders, various trust accounts are set up for designated purposes.

The Group's bank balances, cash and other liquid funds denominated in the currencies other than the functional currency of the respective entities amounted to HK$1,869 million (2012: HK$1,515 million) which was mostly denominated in Renminbi (2012: Renminbi).

22. Trade and Other Payables

Accounting Policy

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

	Group		Company	
	2013 HK$M	2012 HK$M	2013 HK$M	2012 HK$M
Trade payables [a]	11,336	11,186	–	–
Other payables and accruals	5,436	7,771	190	237
Current accounts with [b]				
Subsidiaries	–	–	31	35
Joint ventures	1,474	1,447	2	1
An associate	55	103	–	–
Deferred revenue [c]	1,024	1,225	–	–
	19,325	21,732	223	273

Notes:

(a) The ageing analysis of trade payables at 31 December based on invoice date is as follows:

	2013 HK$M	2012 HK$M
30 days or below	10,641	10,921
31 – 90 days	472	137
Over 90 days	223	128
	11,336	11,186

At 31 December 2013, trade payables denominated in a currency other than the functional currency of the corresponding Group entities amounted to HK$238 million (2012: HK$236 million), which were mostly denominated in US dollar of HK$143 million (2012: HK$115 million), Japanese yen of HK$12 million (2012: HK$82 million) and Euro of HK$40 million (2012: HK$31 million).

(b) The amounts payable to subsidiaries, joint ventures and an associate are unsecured, interest-free and have no fixed repayment terms. Of these, HK$1,441 million (2012: HK$1,406 million) is due to CAPCO.

(c) The balance primarily represented carbon compensation received by EnergyAustralia under the ESF with respect to Yallourn Power Station. The ESF was established under the Australian Government's Clean Energy Legislation, effected 1 July 2012, which provides transitional assistance over five years to promote the transformation of the electricity generation sector from high to low emissions generation, while addressing risks to energy security that may arise from the introduction of the carbon price. Under the ESF, the carbon compensation is provided as cash compensation for the first year (paid in June 2012) and as free carbon units available annually for four years. The compensation received was amortised to profit or loss over the relevant period (Note 3).

23. Bank Loans and Other Borrowings

Accounting Policy

Borrowings are recognised initially at fair value of proceeds received, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition or issue of a financial liability. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is amortised to profit or loss or capitalised as cost of the qualifying assets over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

	Group		Company	
	2013 HK$M	2012 HK$M	2013 HK$M	2012 HK$M
Current				
Short-term bank loans	1,296	835	816	–
Long-term bank loans	4,442	4,760	–	–
Other long-term borrowings				
Medium Term Note (MTN) programme (HKD) due 2014/2013	1,380	1,300	–	–
	7,118	6,895	816	–
Non-current				
Long-term bank loans	19,471	26,988	600	2,900
Other long-term borrowings				
MTN programme (USD) due 2020 to 2027	10,295	11,020	–	–
MTN programme (HKD) due 2015 to 2041	8,895	10,440	–	–
MTN programme (JPY) due 2021 to 2026	2,289	2,789	–	–
MTN programme (AUD) due 2021 to 2023	759	725	–	–
Electronic Promissory Notes (EPN) and MTN programme (AUD) due 2015	345	402	–	–
US private placement notes (USD) due 2017 to 2027	6,879	6,939	–	–
	48,933	59,303	600	2,900
Total borrowings	56,051	66,198	1,416	2,900

Total borrowings included secured liabilities (bank loans and collateralised borrowings) of HK$11,782 million (2012: HK$12,918 million), analysed as follows:

	2013 HK$M	2012 HK$M
CLP India and its subsidiaries [(a)]	8,325	9,551
Subsidiaries in Chinese mainland [(b)]	3,457	3,367
	11,782	12,918

23. Bank Loans and Other Borrowings (continued)

Notes:

(a) Bank loans for CLP India and its subsidiaries are secured by fixed and floating charges over their immovable and moveable properties with total carrying amounts of HK$14,089 million (2012: HK$15,193 million). Collateralised borrowings for CLP India were secured by trade receivables, the carrying amounts of which were HK$88 million (2012: HK$213 million).

(b) Bank loans for subsidiaries in Chinese mainland are secured by rights of receipt of tariff, fixed assets and land use rights, with the carrying amounts of these fixed assets and land use rights of HK$5,434 million (2012: HK$5,016 million).

Bank loans and other borrowings totalling HK$26,342 million (2012: HK$29,863 million) were attributed to overseas subsidiaries and are non-recourse to the Company.

At 31 December 2013, the Group's bank loans and other borrowings were repayable as follows:

	Bank Loans		Other Borrowings		Total	
	2013 HK$M	2012 HK$M	**2013 HK$M**	2012 HK$M	**2013 HK$M**	2012 HK$M
Within one year	**5,738**	5,595	**1,380**	1,300	**7,118**	6,895
Between one and two years	**5,271**	5,454	**1,686**	1,380	**6,957**	6,834
Between two to five years	**7,477**	13,775	**2,721**	4,464	**10,198**	18,239
Over five years	**6,723**	7,759	**25,055**	26,471	**31,778**	34,230
	25,209	32,583	**30,842**	33,615	**56,051**	66,198

Of the Company's borrowings, HK$816 million (2012: nil) is repayable within one year, HK$600 million (2012: nil) is repayable between one and two years and nil (2012: HK$2,900 million) is repayable between two to five years.

Another presentation of the Group's liquidity risk is set out on page 247.

At 31 December 2013 and 2012, all of the Group's borrowings are either in the functional currencies of the corresponding Group entities or hedged into those currencies.

The bank loans and other borrowings of the Group are predominantly issued in or swapped into Hong Kong dollar or Australian dollar. The effective interest rates at the end of the reporting period were as follows:

	2013		2012	
	HK$	A$	HK$	A$
Fixed rate loans and loans swapped from variable rates	1.8% – 4.9%	3.5% – 9.1%	2.5% – 5.0%	5.1% – 9.1%
Variable rate loans and loans swapped from fixed rates	0.6% – 2.1%	4.2% – 4.8%	0.7% – 2.2%	3.9% – 5.3%

The fair values of bank loans and other borrowings approximate to their carrying amounts. The fair values of long-term borrowings are determined using the expected future payments discounted at market interest rates prevailing at the year end.

At 31 December 2013, the Group had undrawn bank loans and overdraft facilities of HK$33,218 million (2012: HK$33,073 million). The Group has also secured from HSBC an irrevocable written commitment to enter into loan facility agreements in agreed form for HK$10 billion to fund the proposed acquisitions of CAPCO and PSDC (Note 34). The HK$10 billion facilities will be available for drawdown at completion of the acquisitions and comprise a HK$5 billion facility with a maturity of one year from completion and a HK$5 billion facility with a maturity of two years from completion.

24. Obligations under Finance Leases

Accounting Policy No. 11

The Group's obligations under finance leases arise predominantly from the power purchase arrangement with CAPCO in respect of the operational generating plant and associated fixed assets of the Hong Kong electricity business. CAPCO's power purchase arrangement is accounted for as a finance lease in accordance with HK(IFRIC)-Int 4 and HKAS 17.

	Minimum Lease Payments	
	2013 HK$M	2012 HK$M
Amounts payable under finance leases		
Within one year	**2,763**	2,406
After one year but within two years	**2,752**	2,404
After two years but within five years	**7,906**	7,093
Over five years	**14,555**	15,152
	27,976	27,055
Analysed as:		
Amount due for settlement within 12 months	**2,763**	2,406
Amount due for settlement after 12 months	**25,213**	24,649
	27,976	27,055

The effective interest rate of the finance lease obligations is a variable rate which moves with reference to the return allowed under the SoC and accordingly, the finance charge has been treated as contingent rent. For 2013, the interest rate was 9.99% (2012: 9.99%). The finance charges associated with the finance leases were charged to profit or loss in the period in which they were actually incurred.

Recall our accounting "mini-series" on lease accounting? Please visit our website.

25. Deferred Tax

Accounting Policy No. 8

Deferred tax assets and liabilities are netted off when the taxes relate to the same tax authority and where offsetting is legally enforceable. The following amounts, determined after appropriate offsetting, are shown separately on the consolidated statement of financial position:

	2013 HK$M	2012 HK$M
Deferred tax assets	**3,084**	1,025
Deferred tax liabilities	**(8,548)**	(8,370)
	(5,464)	(7,345)

25. Deferred Tax (continued)

Deferred tax asset = income tax recoverable in the future
Deferred tax liability = income tax payable in the future

An elaboration of the accounting concepts on deferred tax can be found on our website as part of our accounting "mini-series".

Most of the deferred tax balances are to be recovered or settled after more than 12 months.

The gross movement on the deferred tax account is as follows:

	2013 HK$M	2012 HK$M
At 1 January	(7,345)	(6,703)
Credited / (charged) to profit or loss (Note 8)	1,071	(810)
(Charged) / credited to other comprehensive income	(135)	120
Acquisition of business (Note 2)	916	–
Acquisition of subsidiaries	–	(1)
Sale of a subsidiary (Note 6(e))	56	–
Withholding tax	40	9
Exchange differences	(67)	40
At 31 December	(5,464)	(7,345)

The movement in the deferred tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction) during the year is as follows:

Deferred tax assets (prior to offset)

	Tax Losses [a]		Accruals and Provisions		Others [b]		Total	
	2013 HK$M	2012 HK$M	2013 HK$M	2012 HK$M	2013 HK$M	2012 HK$M	2013 HK$M	2012 HK$M
At 1 January	3,797	5,018	1,093	1,027	1,880	1,564	6,770	7,609
(Charged) / credited to profit or loss	(791)	(1,318)	242	48	12	272	(537)	(998)
(Charged) / credited to other comprehensive income	–	–	(106)	–	(1)	13	(107)	13
Acquisition of business	–	–	(203)	–	24	–	(179)	–
Acquisition of subsidiaries	–	–	–	1	–	–	–	1
Sale of a subsidiary	–	–	–	–	(14)	–	(14)	–
Exchange differences	(464)	97	(4)	17	(487)	31	(955)	145
At 31 December	2,542	3,797	1,022	1,093	1,414	1,880	4,978	6,770

25. Deferred Tax (continued)

Deferred tax liabilities (prior to offset)

	Accelerated Tax Depreciation		Withholding / Dividend Distribution Tax		Unbilled Revenue		Intangibles		Others (b)		Total	
	2013 HK$M	2012 HK$M	2013 HK$M	2012 HK$M	2013 HK$M	2012 HK$M	2013 HK$M	2012 HK$M	2013 HK$M	2012 HK$M	2013 HK$M	2012 HK$M
At 1 January	(9,440)	(9,106)	(368)	(378)	(1,545)	(1,717)	(1,334)	(1,250)	(1,428)	(1,861)	(14,115)	(14,312)
(Charged) / credited to profit or loss	801	(294)	(27)	(6)	355	206	199	(59)	280	341	1,608	188
(Charged) / credited to other comprehensive income	–	–	–	–	–	–	–	–	(28)	107	(28)	107
Acquisition of business	1,119	–	–	–	–	–	–	–	(24)	–	1,095	–
Acquisition of subsidiaries	–	(2)	–	–	–	–	–	–	–	–	–	(2)
Sale of a subsidiary	57	–	–	–	–	–	5	–	8	–	70	–
Withholding tax	–	–	40	9	–	–	–	–	–	–	40	9
Exchange differences	379	(38)	28	7	192	(34)	4	(25)	285	(15)	888	(105)
At 31 December	(7,084)	(9,440)	(327)	(368)	(998)	(1,545)	(1,126)	(1,334)	(907)	(1,428)	(10,442)	(14,115)

Notes:

(a) The deferred tax asset arising from tax losses mainly related to the electricity business in Australia. There is no expiry on the tax losses recognised. Apart from unrecognised tax losses arising from various capital transactions in Australia of HK$1,743 million (2012: nil), there are no significant unused tax losses not recognised.

(b) Others mainly relate to temporary differences arising from derivative financial instruments and lease accounting adjustments.

26. Fuel Clause Account

Cost of fuel consumed by CLP Power Hong Kong is passed on to the customers. The variations between the actual cost of fuel and the fuel cost billed are captured in the fuel clause account. The balance of the account (inclusive of interest) represents amounts over-recovered or under-recovered and is treated as an amount due to or from customers. Interest charged to customers on the amount under-recovered is based on the actual borrowing cost of CLP Power Hong Kong, whilst interest is credited to customers at prime rate on the amount over-recovered. The carrying amount of fuel clause account approximates to its fair value.

27. SoC Reserve Accounts

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

	2013 HK$M	2012 HK$M
Tariff Stabilisation Fund (A)	19	712
Rate Reduction Reserve (B)	9	8
Rent and Rates Interim Refunds (C)	–	525
	28	1,245

The carrying amounts of the SoC reserve accounts approximate to their fair values.

The movements in SoC reserve accounts during the year are shown as follows:

(A) Tariff Stabilisation Fund

	2013 HK$M	2012 HK$M
At 1 January	712	637
Transfer under the SoC [(a)]		
– transfer for SoC (to)/from revenue (Note 3)	(641)	304
– charge for asset decommissioning [(b)]	(52)	(229)
At 31 December	19	712

Notes:

(a) Under the SoC, if the gross tariff revenue in Hong Kong in a period is less than or exceeds the total of the SoC operating costs, permitted return and taxation charges, such deficiency shall be deducted from, or such excess shall be added to, the Tariff Stabilisation Fund under the SoC. In any period, the amount of deduction from or addition to the Tariff Stabilisation Fund is recognised as revenue adjustment to the extent that the return and charges under the SoC are recognised in profit or loss (Note 3).

(b) Under the SoC, a periodic charge for asset decommissioning is made with corresponding deferred liabilities recognised in the statement of financial position of the SoC Companies. For CLP Power Hong Kong, the balance of the asset decommissioning liabilities account of HK$539 million (2012: HK$539 million) recognised under the SoC represents a liability of the Group and is classified in "Other non-current liabilities". The carrying amount of the asset decommissioning liabilities approximates to its fair value.

(B) Rate Reduction Reserve

	2013 HK$M	2012 HK$M
At 1 January	8	6
Interest expense charged to profit or loss (Note 7)	1	2
At 31 December	9	8

27. SoC Reserve Accounts (continued)

(C) Rent and Rates Interim Refunds

CLP Power Hong Kong is challenging the amount of Government rent and rates levied dating back to the year of assessment 1999/2000. While the original Lands Tribunal judgment and the subsequent judgment on the review of valuation matters were received in CLP Power Hong Kong's favour, final resolution of this case will be subject to the outcome of appeals to the Court of Appeal against the Lands Tribunal judgment on points of law.

In 2012, CLP Power Hong Kong received interim refunds of HK$1,601 million from the Hong Kong Government and in 2013, a further interim refund of HK$40 million was received. These interim refunds totalling HK$1,641 million were made by the Hong Kong Government without prejudice to the final outcome of the appeals which means that these amounts will be adjusted by reference to the decision of the Lands Tribunal and subsequent appeals.

Based on the latest development of the case, CLP Power Hong Kong maintains that it would recover no less than interim refunds received to date in the final outcome of these appeals. The interim refunds continued to be classified within the SoC reserve accounts.

While the final resolution of the appeals is pending, CLP Power Hong Kong provided customers with a Rent and Rates Special Rebate of HK$1,076 million in 2012 and HK$565 million in 2013 on the assumption of a favourable outcome of its appeals. The Rent and Rates Special Rebate was ceased in October 2013 with the total amount of interim refunds received fully expended.

The amount of the Government Rent and Rates Special Rebate made to customers has been offset against the interim refunds received:

	2013 HK$M	2012 HK$M
At 1 January	525	–
Interim Refunds received	40	1,601
Rent and Rates Special Rebate	(565)	(1,076)
At 31 December	–	525

In the event that the final amount recovered on conclusion of these appeals is less than the total amount rebated to customers, CLP Power Hong Kong will seek to recover any shortfall in the amounts of Rent and Rates Special Rebate already paid to customers. Similarly, consistent with the commitment to pass on to customers any refunds of rent and rates awarded through these appeals, if the final amount recovered exceeds the special rebates paid out, these additional amounts will be rebated to customers.

28. Share Capital

	2013 Number of Ordinary Shares of HK$5 Each	Amount HK$M	2012 Number of Ordinary Shares of HK$5 Each	Amount HK$M
Authorised, at 31 December	3,000,000,000	15,000	3,000,000,000	15,000
Issued and fully-paid				
At 1 January	2,526,450,570	12,632	2,406,143,400	12,031
Issue of shares	–	–	120,307,170	601
At 31 December	2,526,450,570	12,632	2,526,450,570	12,632

29. Reserves

Group

	Capital Redemption Reserve [(a)] HK$M	Translation Reserves HK$M	Hedging Reserves HK$M	Other Reserves HK$M	Retained Profits HK$M	Total HK$M
Balance at 1 January 2012	2,492	6,016	1,533	458	57,565	68,064
Earnings attributable to shareholders	–	–	–	–	8,312	8,312
Other comprehensive income						
Exchange differences on translation of						
Subsidiaries	–	517	–	–	–	517
Joint ventures	–	111	–	–	–	111
An associate	–	(3)	–	–	–	(3)
Cash flow hedges						
Net fair value losses	–	–	(598)	–	–	(598)
Reclassification to profit or loss	–	–	(23)	–	–	(23)
Tax on the above items	–	–	120	–	–	120
Available-for-sale investments						
Fair value gains	–	–	–	4	–	4
Share of other comprehensive income of joint ventures	–	–	6	1	–	7
Total comprehensive income attributable to shareholders	–	625	(495)	5	8,312	8,447
Revaluation reserve realised due to depreciation of fixed assets	–	–	–	(2)	2	–
Appropriation of reserves						
Subsidiaries	–	–	–	4	(4)	–
Joint ventures	–	–	–	20	(20)	–
Dividends paid						
2011 fourth interim	–	–	–	–	(2,310)	(2,310)
2012 first to third interim	–	–	–	–	(3,825)	(3,825)
Balance at 31 December 2012	2,492	6,641	1,038	485	59,720 [(c)]	70,376

29. Reserves (continued)

Group

	Capital Redemption Reserve [a] HK$M	Translation Reserves HK$M	Hedging Reserves HK$M	Other Reserves HK$M	Retained Profits HK$M	Total HK$M
Balance at 1 January 2013	2,492	6,641	1,038	485	59,720	70,376
Earnings attributable to shareholders	–	–	–	–	6,060	6,060
Other comprehensive income						
Exchange differences on translation of						
Subsidiaries	–	(5,929)	–	–	–	(5,929)
Joint ventures	–	151	–	–	–	151
An associate	–	1	–	–	–	1
Cash flow hedges						
Net fair value losses	–	–	(104)	–	–	(104)
Reclassification to profit or loss	–	–	257	–	–	257
Tax on the above items	–	–	(25)	–	–	(25)
Available-for-sale investments						
Reclassification adjustment for amount included in profit or loss upon sale	–	–	–	10	–	10
Fair value gain on revaluation upon transfer from fixed asset to investment property	–	–	–	2,055	–	2,055
Reclassification adjustment upon sale of a subsidiary	–	(8)	–	–	–	(8)
Share of other comprehensive income of joint ventures	–	–	9	250	–	259
Total comprehensive income attributable to shareholders	–	(5,785)	137	2,315	6,060	2,727
Revaluation reserve realised due to depreciation of fixed assets	–	–	–	(2)	2	–
Appropriation of reserves						
Subsidiaries	–	–	–	12	(12)	–
Joint ventures	–	–	–	52	(52)	–
Dividends paid						
2012 fourth interim	–	–	–	–	(2,476)	(2,476)
2013 first to third interim	–	–	–	–	(4,017)	(4,017)
Balance at 31 December 2013	2,492	856	1,175	2,862 [b]	59,225 [c]	66,610

29. Reserves (continued)

Company

	Capital Redemption Reserve [(a)] HK$M	Retained Profits HK$M	Total HK$M
Balance at 1 January 2012	2,492	27,707	30,199
Profit and total comprehensive income for the year	–	5,288	5,288
Dividends paid			
2011 fourth interim	–	(2,310)	(2,310)
2012 first to third interim	–	(3,825)	(3,825)
Balance at 31 December 2012	2,492	26,860 [(c)]	29,352
Balance at 1 January 2013	2,492	26,860	29,352
Profit and total comprehensive income for the year	–	7,384	7,384
Dividends paid			
2012 fourth interim	–	(2,476)	(2,476)
2013 first to third interim	–	(4,017)	(4,017)
Balance at 31 December 2013	**2,492**	**27,751 [(c)]**	**30,243**

Notes:

(a) Capital redemption reserve represents the nominal value of shares repurchased which was paid out of the distributable reserves of the Company.

(b) Including fixed assets revaluation reserve of HK$2,055 million (2012: nil) arising from the revaluation of the Argyle Street site upon transfer from fixed asset to investment property (Note 12(A)(b)).

(c) The fourth interim dividend declared for the year ended 31 December 2013 was HK$2,476 million (2012: HK$2,476 million). The balance of retained profits after the fourth interim dividend of the Group was HK$56,749 million (2012: HK$57,244 million) and of the Company was HK$25,275 million (2012: HK$24,384 million).

At 31 December 2013, distributable reserves of the Company amounted to HK$27,751 million (2012: HK$26,860 million).

Distributable reserves of the Company do not equal to the Group's retained profits because distributable reserves refer to the amount that a company can distribute to its shareholders as a legal entity. Consolidated retained profits of the Group are irrelevant in determining the amount of distributable reserves of the Company itself.

30. Note to the Consolidated Statement of Cash Flows

Reconciliation of profit before income tax to net cash inflow from operations:

	2013 HK$M	2012 HK$M
Profit before income tax	5,840	9,984
Adjustments for:		
Finance costs	6,522	6,423
Finance income	(173)	(322)
Dividend income from available-for-sale investments	(61)	(104)
Share of results of joint ventures and an associate, net of income tax	(3,283)	(2,984)
Depreciation and amortisation	7,592	7,021
Impairment charge	6,289	1,402
Net loss on disposal of fixed assets	173	151
Gain on bargain purchase of Mount Piper and Wallerawang	(751)	–
Loss on disposal of Boxing Biomass	23	–
Gain on sale of interest in Waterloo	(24)	–
Fair value (gain) / loss under fair value hedges and net exchange difference	(284)	568
SoC items		
Increase in customers' deposits	185	166
Decrease / (increase) in fuel clause account	1,770	(122)
(Decrease) / increase in Rent and Rates Interim Refunds	(525)	525
Decrease in Tariff Stabilisation Fund for asset decommissioning charge for a joint venture	(52)	(135)
Transfer for SoC	(641)	304
	737	738
Increase in trade and other receivables	(1,175)	(1,929)
Decrease in finance lease receivables	90	114
Decrease / (increase) in cash restricted for specific purposes	687	(374)
Decrease in derivative financial instruments net liabilities	(564)	(917)
Increase in trade and other payables	171	4,883
Decrease in current accounts due to joint ventures and an associate	(11)	(216)
Net cash inflow from operations	21,798	24,438

31. Commitments and Operating Lease Arrangements

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

	Group		Company	
	2013 HK$M	2012 HK$M	2013 HK$M	2012 HK$M
Contracted but not provided for	5,812	10,458	6	2
Authorised but not contracted for	9,834	11,347	61	45
	15,646	21,805	67	47

(B) The Group has entered into a number of joint venture arrangements to develop power projects. Equity contributions required and made by the Group under each project are summarised below:

Project Name	Total Equity Contributions Required	Amount Contributed at 31 December 2013	Remaining Balance to be Contributed	Expected Year for Last Contribution
Haifang wind power project	RMB92 million	RMB18 million (HK$24 million)	RMB74 million (HK$95 million)	2014
CGN CLP Energy Services (Shenzhen)	RMB29 million	RMB14 million (HK$17 million)	RMB15 million (HK$19 million)	2014
Hong Kong Branch Line project (Note)	RMB491 million	–	RMB491 million (HK$628 million)	2014

Note: CLP Energy Infrastructure Limited, an indirect wholly-owned subsidiary of the Company, has entered into a joint venture contract with PetroChina Company Limited to form a Sino-Foreign Joint Venture to own and operate the Second West-East Natural Gas Pipeline Hong Kong Branch Line (the "Hong Kong Branch Line project") for transportation of natural gas from Shenzhen to Hong Kong. In addition to the equity contribution, the Group also committed to contribute RMB981 million (HK$1,257 million) in the form of shareholders' loans.

(C) On 19 November 2013, CLP Power Hong Kong entered into agreements to acquire EMEL's 30% interest in CAPCO and 51% interest in PSDC for a total consideration of HK$14 billion (Note 34).

31. Commitments and Operating Lease Arrangements (continued)

(D) The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Group		Company	
	2013 HK$M	2012 HK$M	2013 HK$M	2012 HK$M
Within one year	843	871	27	30
Later than one year but not later than five years	2,993	3,335	89	95
Over five years	6,148	7,102	65	94
	9,984	11,308	181	219

Of the above amount of the Group, HK$7,433 million (2012: HK$7,798 million) relates to the operating lease element of the Electricity Supply Contract between CLP Power Hong Kong and CAPCO, and HK$1,589 million (2012: HK$2,118 million) relates to the 20-year MHA between EnergyAustralia and Ecogen. Under the latter Agreement, EnergyAustralia has the right to call upon electricity from the power stations at predetermined charging rates over the life of the Agreement. Other non-cancellable operating leases are for leases of various offices and equipment.

The operating lease commitments of the Company primarily relate to a 10-year lease of the office at Laguna Verde at Hung Hom entered with CLP Property Investment Limited (formerly "Kar Ho Development Company Limited"), a wholly-owned subsidiary of the Company.

(E) The 25-year power purchase arrangements between Jhajjar and its off-takers are accounted for as operating leases. Under the agreements, the off-takers are obliged to purchase the output of Jhajjar power plant at predetermined prices. The future aggregate minimum lease receipts under non-cancellable operating leases are as follows:

	2013 HK$M	2012 HK$M
Within one year	886	1,023
Later than one year but not later than five years	3,315	3,782
Over five years	9,140	11,269
	13,341	16,074

32. Related Party Transactions

Accounting Policy

Related parties are individuals and companies, including subsidiaries, fellow subsidiaries, joint ventures, associates and key management personnel, where the individual or company has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and operating decisions. A close family member of any such individual is considered to be a related party.

Related Parties ≠ Connected Parties

They sometimes overlap but should not be confused. Accounting standards define related parties, while the Listing Rules of the Hong Kong Stock Exchange define connected parties.

Below are the more significant transactions with related parties for the year ended 31 December:

(A) Purchases of electricity from joint ventures and an associate

Details of electricity supply contracts relating to the electricity business in Hong Kong with joint ventures and an associate are shown below:

	2013 HK$M	2012 HK$M
Lease and lease service payment to CAPCO (a)	17,324	17,067
Purchases of nuclear electricity from GNPS (b)	4,619	4,636
Pumped storage service fee to PSDC (c)	540	528
	22,483	22,231

(a) Under the Electricity Supply Contract between CLP Power Hong Kong and CAPCO, CLP Power Hong Kong is obliged to purchase all of CAPCO's generating capacity. The Electricity Supply Contract provides that the price paid by CLP Power Hong Kong to CAPCO is sufficient to cover all of CAPCO's operating expenses under the SoC, including fuel cost, depreciation, interest expenses and current and deferred taxes, as well as CAPCO's share of the return permitted under the SoC.

Pursuant to the requirements of HK(IFRIC)-Int 4 and HKAS 17, the electricity supply arrangement was assessed to contain leases and service elements. The payment made to CAPCO pursuant to the contract has been allocated to the different leases and service elements according to the requirements of the standards.

(b) Under the off-take and resale contracts, CLP Power Hong Kong is obliged to purchase the Group's 25% equity share of the output from Guangdong Daya Bay Nuclear Power Station (GNPS) and an additional 45% of GNPS's output from Guangdong Nuclear Investment Company, Limited. The price paid by CLP Power Hong Kong for electricity generated by GNPS throughout the terms of the power purchase agreements is determined by a formula based on GNPS's operating costs and a calculation of profits by reference to shareholders' funds and the capacity factor for that year.

(c) Under a capacity purchase contract, PSDC has the right to use 50% of the 1,200MW capacity of Phase 1 of the Guangzhou Pumped Storage Power Station. CLP Power Hong Kong has entered into a contract with PSDC to make use of this capacity. The price paid by CLP Power Hong Kong to PSDC is sufficient to cover all of PSDC's operating expenses and net return. PSDC's net return is based on a percentage of its net fixed assets in a manner analogous to the SoC, subject to a minimum return level.

Amounts due to the related parties at 31 December 2013 are disclosed in Note 22.

32. Related Party Transactions (continued)

(B) Rendering of services to joint ventures

In accordance with the CAPCO Operating Service Agreement between CLP Power Hong Kong and CAPCO, CLP Power Hong Kong is responsible to CAPCO for the efficient and proper construction, commissioning, operation and maintenance of the electricity generating facilities of CAPCO. In return, CAPCO reimburses CLP Power Hong Kong for all costs incurred in performance of the agreement. The charges from CLP Power Hong Kong to CAPCO during the year amounted to HK$1,037 million (2012: HK$1,358 million) and a portion of the charges which is accounted for as operating expenses by CAPCO is covered under the Electricity Supply Contract referred to in (A)(a) above.

Amounts due from the related parties at 31 December 2013 are disclosed in Note 20.

No provision has been made for the amounts owed by the related parties.

(C) The advances made to joint ventures totalled HK$9,592 million (2012: HK$9,521 million) (Note 15). Of these, HK$9,178 million (2012: HK$9,059 million) was in the form of interest-free advances from CLP Power Hong Kong to CAPCO.

At 31 December 2013, the Group did not have any guarantees which were of a significant amount given to or received from these parties (2012: nil).

(D) The Company provides necessary funding to support its subsidiaries' operations. Of the total advances of HK$28,815 million (2012: HK$29,558 million) made to its subsidiaries (Note 14), HK$20,141 million (2012: HK$20,143 million) and HK$4,932 million (2012: HK$5,256 million) were made to CLP Power Asia Limited and CLP Asia Finance Limited respectively to fund investments in overseas power projects. Another advance of HK$1,623 million (2012: HK$3,891 million) was made to CLP Treasury Services Limited for treasury operations purpose.

The Company has also made advances to CLP Properties Limited of HK$2,040 million for property development purpose (2012: advances from CLP Properties Limited of HK$99 million).

These advances are unsecured, interest free and have no fixed repayment terms.

(E) Emoluments of key management personnel

Under HKAS 24 "Related Party Disclosures", key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any directors (whether executive or otherwise) of the Group. The total remuneration of the key management personnel shown below comprises the Non-executive Directors and the Senior Management Group. Members of the Senior Management Group include the Executive Directors and ten (2012: six) senior management personnel.

	2013 HK$M	2012 HK$M
Fees	10	9
Base compensation, allowances and benefits in kind	44	44
Tax equalisation, allowances and benefits in kind for secondment to overseas offices	2	6
Performance bonus		
Annual incentive	29	45
Long-term incentive	38	20
Provident fund contributions	4	5
	127	129

32. Related Party Transactions (continued)

(E) Emoluments of key management personnel (continued)

At 31 December 2013, the CLP Holdings' Board was composed of fifteen Non-executive Directors and two Executive Directors. Remuneration of all Directors for the year totalled HK$63 million (2012: HK$54 million). With respect to the emoluments of the highest paid employees, the five highest paid individuals in the Group during the year included three Directors (2012: three Directors), one member of Senior Management (2012: one member) and one former senior executive (2012: one senior executive) of the Group. The total remuneration of these five highest paid individuals amounted to HK$88 million (2012: HK$83 million). Further details of the remuneration of the Directors and Senior Management, on a named basis, and remuneration paid to the five highest paid individuals by bands are disclosed in sections 6, 7, 8 and 10 (as highlighted) of the Human Resources & Remuneration Committee Report on pages 153 to 155 and 158 to 159 respectively. These sections form the "auditable" part of the Human Resources & Remuneration Committee Report and are part of the financial statements.

33. Contingent Liabilities

Accounting Policy

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

Contingent liabilities are possible obligations that arise from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events not wholly within the control of the Group. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote.

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

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

In September 2005, GUVNL filed a petition before the Gujarat Electricity Regulatory Commission (GERC) claiming that the "deemed generation incentive" payment should not be paid for the periods when Paguthan is declared with availability to generate on "naphtha" as fuel rather than on "gas". GUVNL's contention is based on a 1995 Government of India notification which disallowed "deemed generation incentive" for naphtha-based power plants. The total amount of the claim plus interest calculated up to June 2005 amounts to about Rs.7,260 million (HK$912 million). CLP India's position, amongst other arguments, is that Paguthan is not naphtha-based and therefore the Government of India notification does not apply to disallow the payments of the "deemed generation incentive".

GUVNL also claimed that CLP India has wrongly received interest on "deemed loans" under the existing power purchase agreement. GUVNL's claim rests on two main grounds: (i) CLP India had agreed that interest paid by GUVNL for the period from December 1997 to 1 July 2003 was to be refunded; and (ii) interest was to be calculated on a reducing balance rather than on the basis of a bullet repayment on expiry of the loan term. The total amount of the claim plus interest for the "deemed loans" amounts to a further Rs.830 million (HK$104 million) (2012: Rs.830 million (HK$118 million)).

33. Contingent Liabilities (continued)

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

On 18 February 2009, the GERC made an adjudication on GUVNL's claims. On the issue related to the payment to CLP India of "deemed generation incentive", the GERC decided that the "deemed generation incentive" was not payable when Paguthan was declared with availability to generate on naphtha. However, the GERC also decided that GUVNL's claim against CLP India in respect of deemed generation incentive up to 14 September 2002 was time-barred under the Limitations Act of India. Hence, the total amount of the claim allowed by the GERC was reduced to Rs.2,523 million (HK$317 million). The GERC also dismissed GUVNL's claim to recover interest on the "deemed loans".

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

Following the issue of the ATE's judgment, GUVNL deducted Rs.3,731 million (HK$469 million) from January to March 2010 invoices after adjustment for a previous deposit of Rs.500 million (HK$63 million), which included tax on incentive relating to deemed generation on naphtha, and delayed payment charges on associated incentive calculated up to March 2010.

Subsequent to the above deduction, CLP India represented to GUVNL that, during April 2004 to March 2006, gas was available for generation and therefore should not be considered as availability (deemed generation) on naphtha. GUVNL accepted the representation and refunded the base amount of Rs.292 million (HK$37 million) and interest of Rs.150 million (HK$19 million) in March 2011. However, during the first and last quarter of 2011, with the spot gas availability being constrained, Paguthan was forced to declare availability on naphtha for certain periods, which resulted in deduction of incentive revenue by GUVNL under deemed generation of Rs.17 million (HK$2 million). At 31 December 2013, the total amount of the claim plus interest and tax with respect to the "deemed generation incentive" amounted to Rs.8,543 million (HK$1,073 million) (2012: Rs.8,543 million (HK$1,211 million)).

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

The application of the accounting concepts on provision and contingent liabilities to the "deemed generation incentive" lawsuit can be found on our website as part of our accounting "mini-series".

33. Contingent Liabilities (continued)

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

CLP Wind Farms (India) Private Limited, CLP India and its subsidiaries (CLP India group) have invested (or are committed to invest) in around 681 MW of wind power projects to be developed with Wind World India Limited (WWIL). WWIL's major shareholder, Enercon GmbH, has commenced litigation against WWIL claiming infringement of intellectual property rights. CLP India group, as a customer of WWIL, has been named as a defendant. Enercon GmbH is also seeking an injunction restraining CLP India group's use of certain rotor blades acquired from WWIL. As at 31 December 2013, the Group considered that CLP India group has good prospects of defending these claims and the legal proceedings are unlikely to result in any material outflow of economic benefits from the Group.

(C) Jhajjar – Disputed Charges with Off-takers

Jhajjar had disputes with its off-takers over applicable tariff of capacity charges, energy charges relating to transit loss, coal-handling agent charges and Unscheduled Interchange charges payable as per the Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2009. Total disputed amounts were Rs.1,433 million (HK$180 million) at 31 December 2013 (2012: nil). Jhajjar has filed a petition against its off-takers in March 2013. The Group considered that Jhajjar has a strong case and hence, no provision has been made.

(D) Land Premium of a Property in Hong Kong

The Group has received a demand note from the relevant authorities in the Hong Kong Government in an amount of HK$280 million (2012: HK$237 million) as land premium relating to the Group's new office at Laguna Verde at Hung Hom. The Group considered, including on the basis of legal and other professional advice, that no payment is due. Exchanges are continuing regarding both the principle and quantum of any such premium.

34. Event after the End of the Reporting Period

On 19 November 2013, CLP Power Hong Kong entered into: (a) an agreement whereby each of CLP Power Hong Kong and China Southern Power Grid International (HK) Co., Limited (CSG HK), a wholly-owned subsidiary of China Southern Power Grid Co., Limited (CSG), will acquire half of EMEL's 60% equity interest in, and associated shareholder's advances to, CAPCO; and (b) an agreement, whereby CLP Power Hong Kong agreed to acquire all of EMEL's 51% equity interest in, and associated shareholder's advances to, PSDC. Subject to the consideration adjustment mechanism set out in each of the agreements, the aggregate unadjusted consideration payable by CLP Power Hong Kong in respect of the acquisitions is HK$14 billion (HK$12 billion for the CAPCO acquisition and HK$2 billion for the PSDC acquisition), which will be payable to EMEL fully in cash at completion. After completion, CAPCO will be 70% and 30% owned by CLP Power Hong Kong and CSG HK respectively and PSDC will be 100% owned by CLP Power Hong Kong.

The acquisitions were approved by the shareholders of the Company at the Extraordinary General Meeting held on 22 January 2014. Completion of the acquisitions is still subject to CSG obtaining approvals from regulatory bodies in the PRC. The acquisitions are expected to be completed in the middle of 2014.

FINANCIAL RISK MANAGEMENT

1. Financial Risk Factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, fair value and cash flow interest rate risks, and energy price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise the impact of exchange rate, interest rate and wholesale market energy price fluctuations on the Group's financial performance. The Group uses different derivative financial instruments to manage its exposure in these areas. Other than limited energy trading activities for the purpose of understanding price movements engaged by EnergyAustralia, all derivative financial instruments are employed solely for hedging purposes.

Risk management for Hong Kong operations, predominantly the Company and its major subsidiary CLP Power Hong Kong, is carried out by the Company's central treasury department (Group Treasury) under policies approved by the Board of Directors or the Finance and General Committee of those companies. Overseas subsidiaries conduct their risk management activities in accordance with policies approved by their respective Boards. Group Treasury identifies, evaluates and monitors financial risks in close co-operation with the Group's operating units. The Group has written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and cash management.

Foreign currency risk

The Group operates in the Asia-Pacific region and is exposed to foreign exchange risk arising from future commercial transactions, and from recognised assets and liabilities and net investments in foreign operations. This is primarily with respect to Australian dollars and Indian rupees. Additionally, CLP Power Hong Kong has significant foreign currency obligations relating to its foreign currency denominated debts, US dollar denominated nuclear power purchase off-take commitments and other fuel-related payments. The Group uses forward contracts and currency swaps to manage its foreign exchange risk arising from future commercial transactions, and from recognised assets and liabilities which are denominated in a currency that is not the functional currency of the respective Group entity. Hedging is only considered for firm commitments and highly probable forecast transactions.

CLP Power Hong Kong

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

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

	2013 HK$M	2012 HK$M
Increase / (decrease) in the hedging reserve		
Hong Kong dollar against US dollar		
If Hong Kong dollar weakened by 0.6% (2012: 0.6%)	364	445
If Hong Kong dollar strengthened by 0.6% (2012: 0.6%)	(364)	(446)
Hong Kong dollar against Japanese yen		
If Hong Kong dollar weakened by 5% (2012: 5%)	45	51
If Hong Kong dollar strengthened by 5% (2012: 5%)	(41)	(46)

Foreign currency risk (continued)

This fluctuation in equity is a timing difference as when the exchange gain or loss is realised in profit or loss, the amount is recoverable under the SoC.

The Group's Asia-Pacific Investments

With respect to the power project investments in the Asia-Pacific region, the Group is exposed to both foreign currency translation and transaction risks.

The Group closely monitors translation risk using a Value-at-Risk (VaR) approach but does not hedge foreign currency translation risk because translation gains or losses do not affect the project company's cash flow or the Group's annual profit until an investment is sold. At 31 December 2013, the Group's net investment subject to translation exposure was HK$51,995 million (2012: HK$59,083 million), arising mainly from our investments in Australia, the Chinese mainland, India, and Southeast Asia and Taiwan. This means that, for each 1% (2012: 1%) average foreign currency movement, our translation exposure will vary by about HK$520 million (2012: HK$591 million). All the translation exposures are recognised in other comprehensive income and therefore have no impact on our profit or loss.

We consider that the non-functional currency transaction exposures at the individual project company level, if not managed properly, can lead to significant financial distress. Our primary risk mitigation is therefore to ensure that project-level debt financings are implemented on a local currency basis to the maximum extent possible. Each overseas subsidiary and project company has developed its own hedging programme into local currency taking into consideration any indexing provision in project agreements, tariff reset mechanisms, lender requirements and tax and accounting implications.

Most foreign currency exposures of the Company and other Group entities are hedged and / or their transactions are predominantly conducted through the functional currency of the respective entity. The following analysis presents the Group's (apart from CLP Power Hong Kong) sensitivity to a reasonably possible change in the functional currencies of the Group entities against the US dollar and Renminbi, with all other variables held constant. The sensitivity rates in US dollar and Renminbi used are considered reasonable given the current level of exchange rates and the volatility observed in the different functional currencies of the Group entities. These are both on an historical basis and market expectations for future movement at the end of the reporting period and under the economic environments in which the Group operates. The extent of the impact to post-tax profit or equity due to exchange rate movements of US dollar and Renminbi against different functional currencies of Group entities, with all other variables held constant, is as follows:

	2013 HK$M	2012 HK$M
US dollar		
If US dollar strengthened by 5% / 10% (2012: 5% / 10%) (note)		
Post-tax profit for the year	(92)	(42)
Equity – hedging reserve	(135)	24
If US dollar weakened by 5% / 10% (2012: 5% / 10%) (note)		
Post-tax profit for the year	92	42
Equity – hedging reserve	26	(121)
Renminbi		
If Renminbi strengthened by 2% (2012: 3%)		
Post-tax profit for the year	53	43
Equity – hedging reserve	–	–
If Renminbi weakened by 2% (2012: 3%)		
Post-tax profit for the year	(53)	(43)
Equity – hedging reserve	–	–

Note: 5% against Indian rupee and 10% against Australian dollar.

Energy price risk

EnergyAustralia sells and purchases electricity to / from the Australian National Electricity Market. Although EnergyAustralia has a vertically-integrated business structure, generation loads and retail customer demands do not exactly offset each other and therefore, hedging contracts (forward contracts and energy price swaps) are entered into to cover the differences between forecast generation loads and retail customer demands. These contracts fix the price of electricity within a certain range for the purpose of hedging or protecting against fluctuations in the spot market price.

In addition to hedging the physical market position through accounting hedge contracts, EnergyAustralia enters into financial transactions and other contractual commitments that are classified as held for trading or economic hedges. Held for trading transactions represent energy derivatives entered into to support market liquidity or for the purpose of understanding price movements. The overall net exposure of these derivatives is small and closely monitored. Transactions classified as economic hedges are derivative contracts entered into for risk management purposes of future retail or generation activities but which do not meet the requirements for hedge accounting.

EnergyAustralia manages energy price risk exposures through an established risk management framework consisting of policies which place appropriate limits on overall energy market exposures, delegations of authority on trading, pre-defined product lists, regular reporting of exposures, and segregation of duties. The corporate governance process also includes the oversight by an Audit & Risk Committee which acts on behalf of EnergyAustralia's Board.

EnergyAustralia measures the risk of the fluctuation of the spot market price using VaR analysis and stress testing analysis. VaR is a risk measurement technique that uses probability analyses to calculate the market risk of a portfolio using historical volatility and correlation over a defined holding period. As the VaR calculation is based on historical data, there is no guarantee that it will accurately predict the future. EnergyAustralia's VaR is determined using a variance-covariance methodology including all long (generation and bought contract) and short (retail and sold contract) positions measured over a four-year horizon. The distribution of value of these positions will vary according to the variability of market prices. This is measured by using historical price distribution and correlations over a holding period of four weeks at a 95% confidence level.

The VaR for EnergyAustralia's energy contract portfolio at 31 December 2013 was HK$101 million (2012: HK$474 million). The change reflects a reduction of holding volatile positions and an update of the volatility assumption in the calculation. During 2013, the VaR ranged between a low of HK$82 million (2012: HK$374 million) and a high of HK$422 million (2012: HK$772 million).

Analyses below show the effect on post-tax profit and equity if market prices were 15% (2012: 15%) higher or lower with all other variables held constant. Concurrent movements in market prices and parallel shifts in the yield curves are assumed. A sensitivity of 15% (2012: 15%) has been selected based on historical data relating to the level of volatility in the electricity commodity prices. The sensitivity assumed does not reflect the Group's expectations as to the future movement in commodity prices. The extent of impact to post-tax profit or equity due to market price movements on derivatives, with all other variables held constant, is as follows:

	2013 HK$M	2012 HK$M
If market prices were 15% (2012: 15%) higher		
Post-tax profit for the year	199	427
Equity – hedging reserve	65	(229)
If market prices were 15% (2012: 15%) lower		
Post-tax profit for the year	(147)	(453)
Equity – hedging reserve	(64)	229

Energy price risk (continued)

The potential movement in post-tax profit is mainly attributable to an increase / decrease in the fair value of certain energy derivative instruments which are economic hedges but do not satisfy the requirements for hedge accounting. The potential movement in equity is due to an increase / decrease in the fair value of energy hedging instruments designated as cash flow hedges.

In addition to VaR analysis, EnergyAustralia also uses Volumetric Limits. The Volumetric Limits are measures of the net physical energy and capacity exposure to spot and forward markets over time in the portfolio. They are used to provide guidance on portfolio hedging against the maximum long and short volumes allowable in megawatt (MW) terms on an energy and capacity basis for the net spot and forward market exposures.

The Group enters into trading and non-trading forward electricity contracts in accordance with the Group's risk management policies. These policies enable the Group to enter into contracts that are considered to be economic hedges against future retail and generation activities. It should be noted that while mark-to-market gains and losses on economic hedges are recognised in earnings in the period in which they occur, they will offset the impact of price movements on future profits relating to retail and generation activities occurring at the time of settlement.

Interest rate risk

The Group's interest rate risk arises from debt borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk, whilst borrowings issued at fixed rates expose the Group to fair value interest rate risk. The risks are managed by monitoring an appropriate mix between fixed and floating rate borrowings, and by the use of interest rate swaps.

The appropriate level of the fixed / floating mix is determined for each operating company subject to a regular review. For instance, CLP Power Hong Kong conducts an annual review to determine a preferred fixed / floating interest rate mix appropriate for its business profile. Each overseas subsidiary and project company has developed its own hedging programme taking into consideration project debt service sensitivities to interest rate movements, lender requirements, tax and accounting implications. At 31 December 2013, 67% (2012: 57%) of the Group's borrowings was at fixed rates.

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

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

Interest rate risk (continued)

	2013 HK$M	2012 HK$M
Hong Kong dollar		
If interest rates were 0.2% (2012: 0.1%) higher		
Post-tax profit for the year	(17)	(15)
Equity – hedging reserve	2	(51)
If interest rates were 0.2% (2012: 0.1%) lower		
Post-tax profit for the year	17	15
Equity – hedging reserve	(2)	51
US dollar		
If interest rates were 0.2% (2012: 0.1%) higher		
Post-tax profit for the year	–	–
Equity – hedging reserve	31	51
If interest rates were 0.2% (2012: 0.1%) lower		
Post-tax profit for the year	–	–
Equity – hedging reserve	(32)	(51)
Indian rupee		
If interest rates were 1% (2012: 1%) higher		
Post-tax profit for the year	(27)	(33)
Equity – hedging reserve	–	–
If interest rates were 1% (2012: 1%) lower		
Post-tax profit for the year	27	33
Equity – hedging reserve	–	–
Australian dollar		
If interest rates were 0.5% (2012: 0.5%) higher		
Post-tax profit for the year	(26)	(33)
Equity – hedging reserve	23	64
If interest rates were 0.5% (2012: 0.5%) lower		
Post-tax profit for the year	25	34
Equity – hedging reserve	(24)	(63)

The Company's sensitivity to interest rates was not significant and therefore is not presented at 31 December 2013 and 2012.

Credit risk

The Group has no significant concentrations of credit risk with respect to the sales of electricity and / or gas in Hong Kong and Australia as their customer bases are widely dispersed in different sectors and industries. The Group has policies in place to monitor the financial viability of counterparties. CLP Power Hong Kong has established a credit policy to allow electricity customers to settle their bills within two weeks after issue. To limit the credit risk exposure, CLP Power Hong Kong also has a policy to require cash deposits or bank guarantees from customers for an amount not exceeding the highest expected charge for 60 days determined from time to time by reference to the usage of the customers. EnergyAustralia has policies in place to ensure that sales of products and services are made to major retail customers of an appropriate credit quality. For EnergyAustralia, receivables are due for settlement no more than 14 to 30 days after issue and collectability is reviewed on an ongoing basis.

CLP India sell a majority of its electricity output to various state electricity boards in India through power purchase agreements for 13 to 25 years. Receivables are due for settlement in 15 to 60 days after billing and the management closely monitor the credit quality and collectability of receivables from those off-takers.

On the treasury side, all finance-related hedging transactions and deposits of the Company and its principal subsidiaries are made with counterparties with good credit quality in conformance to the Group treasury policies to minimise credit exposure. Good credit ratings from reputable credit rating agencies and scrutiny of the financial position of non-rated counterparties are two important criteria in the selection of counterparties. The credit quality of counterparties will be closely monitored over the life of the transaction. The Group further assigns mark-to-market limits to its financial counterparties to reduce credit risk concentrations relative to the underlying size and credit strength of each counterparty. In an attempt to forestall adverse market movement, the Group also monitors potential exposures to each financial institution counterparty, using VaR methodology. All derivatives transactions are entered into at the sole credit of the respective subsidiaries, joint ventures and associates without recourse to the Company.

The Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of each financial asset, including trade and other receivables and derivative financial instruments, as reported in the statement of financial position.

Liquidity risk

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

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

Liquidity risk (continued)

	Within 1 year HK$M	Between 1 and 2 years HK$M	Between 2 to 5 years HK$M	Over 5 years HK$M	Total HK$M
At 31 December 2013					
Non-derivative financial liabilities					
Bank loans	6,873	6,226	9,599	8,822	31,520
Other borrowings	2,602	2,828	5,811	29,891	41,132
Obligations under finance leases	5,409	5,124	13,412	22,710	46,655
Customers' deposits	4,506	–	–	–	4,506
Trade and other payables	19,325	–	–	–	19,325
Fuel clause account	–	–	1,464	–	1,464
SoC reserve accounts	–	–	28	–	28
	38,715	14,178	30,314	61,423	144,630
Derivative financial liabilities					
Net settled					
Interest rate swaps	283	218	294	263	1,058
Energy contracts	799	338	1,179	–	2,316
Gross settled					
Forward foreign exchange contracts	28,142	31,668	43,189	1,092	104,091
Cross currency interest rate swaps	853	888	4,238	24,605	30,584
	30,077	33,112	48,900	25,960	138,049
At 31 December 2012					
Non-derivative financial liabilities					
Bank loans	7,458	6,854	16,340	10,218	40,870
Other borrowings	2,595	2,606	7,650	30,771	43,622
Obligations under finance leases	4,988	4,744	12,683	23,647	46,062
Customers' deposits	4,420	–	–	–	4,420
Trade and other payables	21,732	–	–	–	21,732
SoC reserve accounts	–	–	–	1,245	1,245
	41,193	14,204	36,673	65,881	157,951
Derivative financial liabilities					
Net settled					
Interest rate swaps	364	353	560	387	1,664
Energy contracts	1,168	743	1,638	–	3,549
Gross settled					
Forward foreign exchange contracts	17,136	23,883	61,708	1,760	104,487
Cross currency interest rate swaps	1,580	922	2,888	25,178	30,568
	20,248	25,901	66,794	27,325	140,268

At 31 December 2013, the maturity profile of the Company's bank loans (with current tenor less than one year under revolving facility with maturity falling beyond one year), included in the Group amounts shown above, was HK$837 million (2012: HK$29 million) repayable within one year, HK$612 million (2012: HK$29 million) between one and two years and nil (2012: HK$2,927 million) between two to five years.

2. Fair Value Estimation for Financial Instruments

The fair value of financial instruments traded in active markets (such as publicly traded derivatives) is based on quoted market prices at the end of the reporting period.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using appropriate valuation techniques and making assumptions that are based on market conditions existing at the end of each reporting period. A discounted cash flow method is used to determine the fair value of long-term borrowings. The fair value of forward foreign exchange contracts is calculated as the present value of expected future cash flows relating to the difference between the contract rates and the market forward rates at the end of the reporting period. In measuring the swap transactions, the fair value is the net present value of the estimated future cash flows discounted at the market quoted swap rates.

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

3. Fair Value Hierarchy of Financial Instruments

HKFRS 7 requires disclosure for financial instruments that are measured at fair value by level of the following fair value measurement hierarchy:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the Group's financial instruments that are measured at fair value at 31 December:

	Level 1 HK$M	Level 2 [(a)] HK$M	Level 3 [(a), (b)] HK$M	Total HK$M
At 31 December 2013				
Financial assets				
Available-for-sale investments	–	–	1,263	1,263
Forward foreign exchange contracts	–	1,443	–	1,443
Foreign exchange options	–	89	–	89
Cross currency interest rate swaps	–	1,649	–	1,649
Interest rate swaps	–	289	–	289
Energy contracts	–	65	588	653
	–	3,535	1,851	5,386
Financial liabilities				
Forward foreign exchange contracts	–	50	–	50
Cross currency interest rate swaps	–	1,589	–	1,589
Interest rate swaps	–	904	–	904
Energy contracts	–	280	1,896	2,176
	–	2,823	1,896	4,719

3. Fair Value Hierarchy of Financial Instruments (continued)

	Level 1 HK$M	Level 2 [(a)] HK$M	Level 3 [(a), (b)] HK$M	Total HK$M
At 31 December 2012				
Financial assets				
Available-for-sale investments	26	–	1,263	1,289
Forward foreign exchange contracts	–	1,484	–	1,484
Foreign exchange options	–	73	–	73
Cross currency interest rate swaps	–	1,713	–	1,713
Interest rate swaps	–	86	–	86
Energy contracts	–	266	1,422	1,688
	26	3,622	2,685	6,333
Financial liabilities				
Forward foreign exchange contracts	–	103	–	103
Cross currency interest rate swaps	–	607	–	607
Interest rate swaps	–	1,640	–	1,640
Energy contracts	–	40	3,456	3,496
	–	2,390	3,456	5,846

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 2013 and 2012, there were no transfers between Level 1 and Level 2, or into or out of Level 3.

Notes:

(a) The valuation technique and inputs used in the fair value measurements within Level 2 and Level 3 are as follows:

	Valuation technique	Significant inputs
Available-for-sale investments	Discounted cash flow	Discount rate
Forward foreign exchange contracts	Discounted cash flow	Observable exchange rates
Foreign exchange options	Garman Kohlhagen Model	Observable exchange rates and volatility levels
Cross currency interest rate swaps	Discounted cash flow	Observable exchange rates and swap rates of respective currency
Interest rate swaps	Discounted cash flow	Observable swap rates of respective currency
Energy contracts	Discounted cash flow	Brokers' quotes and observable exchange traded swap and cap rates

(b) Additional information about fair value measurements using significant unobservable inputs (Level 3):

	Significant unobservable inputs
Available-for-sale investments [(i)]	Discount rate
Energy contracts [(ii)]	Discount rate and forward curves

(i) The valuations are performed and reported twice each year, in line with the Group's reporting dates, to Group management.

(ii) The finance department of EnergyAustralia includes a team that performs the valuations of non-property assets required for financial reporting purposes, including Level 3 fair values. This team reports directly to EnergyAustralia's chief financial officer (CFO – EA) and Audit & Risk Committee (ARC – EA). Discussions of valuation processes and results are held between the CFO – EA, ARC – EA and the valuation team at least once every six months, in line with the Group's half-yearly reporting dates. Parameter calibrations are delegated to the team with back-testing and review of parameters to be performed annually. Fair value changes analysis are performed on a monthly basis for reasonableness.

3. Fair Value Hierarchy of Financial Instruments (continued)

The movements of Level 3 financial instruments for the years ended 31 December are as follows:

	2013			2012		
	Available-for-sale Investments HK$M	Energy Contracts HK$M	Total HK$M	Available-for-sale Investments HK$M	Energy Contracts HK$M	Total HK$M
Opening balance	1,263	(2,034)	(771)	1,263	(2,716)	(1,453)
Total (losses) / gains recognised in						
Profit or loss	–	(971)	(971)	–	(838)	(838)
Other comprehensive income	–	450	450	–	831	831
Purchases	–	681	681	–	774	774
Settlements	–	566	566	–	(85)	(85)
Closing balance	1,263	(1,308)	(45)	1,263	(2,034)	(771)
Total losses for the year included in profit or loss and presented in fuel and other operating expenses	–	(971)	(971)	–	(838)	(838)
In respect of the assets and liabilities held at the end of the reporting period, the unrealised gains / (losses) for the year and presented in fuel and other operating expenses	–	237	237	–	(391)	(391)

Changing unobservable inputs used in the Level 3 valuation to reasonable alternative assumptions would not change significantly the fair values recognised.

4. Offsetting Financial Assets and Financial Liabilities

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

	Gross amounts of recognised financial assets / liabilities HK$M	Gross amounts of recognised financial liabilities / assets set off in the consolidated statement of financial position HK$M	Net amounts of financial assets / liabilities included in the respective line of the consolidated statement of financial position HK$M	Related amounts not set off in the consolidated statement of financial position: Financial instruments HK$M	Related amounts not set off in the consolidated statement of financial position: Financial collateral received / pledged HK$M	Net amount HK$M
At 31 December 2013						
Financial assets						
Bank balances, cash and other liquid funds	449	–	449	(449)	–	–
Trade and other receivables	7,164	–	7,164	(1,924)	(2,043)	3,197
Derivative financial instruments	2,021	(196)	1,825	(955)	–	870
	9,634	(196)	9,438	(3,328)	(2,043)	4,067
Financial liabilities						
Customers' deposits	4,506	–	4,506	(2,043)	–	2,463
Bank loans and other borrowings	11,272	–	11,272	–	(2,373)	8,899
Derivative financial instruments	3,948	(196)	3,752	(955)	–	2,797
	19,726	(196)	19,530	(2,998)	(2,373)	14,159
At 31 December 2012						
Financial assets						
Bank balances, cash and other liquid funds	1,136	–	1,136	(1,136)	–	–
Trade and other receivables	7,893	–	7,893	(1,886)	(2,092)	3,915
Derivative financial instruments	1,884	–	1,884	(711)	–	1,173
	10,913	–	10,913	(3,733)	(2,092)	5,088
Financial liabilities						
Customers' deposits	4,420	–	4,420	(2,092)	–	2,328
Bank loans and other borrowings	12,485	–	12,485	–	(3,022)	9,463
Derivative financial instruments	719	–	719	(711)	–	8
	17,624	–	17,624	(2,803)	(3,022)	11,799

4. Offsetting Financial Assets and Financial Liabilities (continued)

Note: For derivative financial instruments, the Group enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master agreements in which there is a set-off provision. Under certain circumstances, for example, when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, a termination value is then assessed and only a single net amount is payable in settlement of all transactions. The ISDA agreements do not meet the criteria for offsetting in the consolidated statement of financial position since the Group does not have any currently legally enforceable right to offset recognised amounts. The right to offset is enforceable only on the occurrence of future events such as a default on the bank transactions or other credit events. For other financial instruments, the rights to offset are enforceable in the event of default of payments.

5. Capital Management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and business strategies. To maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders, issue new shares or raise and repay debts. The Group's capital management objectives, policies or processes were unchanged during 2013 and 2012.

The Group monitors capital using "total debt to total capital" and "net debt to total capital" ratios. These ratios are as follows:

	2013 HK$M	2012 HK$M
Total debt [(a)]	56,051	66,198
Net debt [(b)]	50,818	53,172
Total equity	87,481	91,201
Total capital (based on total debt) [(c)]	143,532	157,399
Total capital (based on net debt) [(d)]	138,299	144,373
Total debt to total capital (based on total debt) ratio (%)	39.1	42.1
Net debt to total capital (based on net debt) ratio (%)	36.7	36.8

Decrease in total debt to total capital was mainly due to part of the proceeds from the Company's 5% share placement in December 2012 was utilised to repay debts in 2013. Net debt to total capital remained at a similar level as 2012.

Certain entities of the Group are subject to certain loan covenants. For both 2013 and 2012, there is no material non-compliance with those loan covenants.

Notes:

(a) Total debt equals to bank loans and other borrowings.

(b) Net debt equals to total debt less bank balances, cash and other liquid funds.

(c) Total capital (based on total debt) equals to total debt plus total equity.

(d) Total capital (based on net debt) equals to net debt plus total equity.

SCHEME OF CONTROL STATEMENT

CLP Power Hong Kong Limited and Castle Peak Power Company Limited

Overview

In Hong Kong, CLP Power Hong Kong Limited (CLP Power Hong Kong) operates a vertically-integrated electricity generation, transmission and distribution business. The generating plants in Hong Kong are owned by Castle Peak Power Company Limited (CAPCO), which is 40% owned by CLP Power Hong Kong and 60% owned by ExxonMobil Energy Limited. CLP Power Hong Kong builds and operates CAPCO's power stations under contract and is the sole customer for CAPCO's electricity which CLP Power Hong Kong transmits and distributes to its customers in Kowloon and the New Territories. CLP Power Hong Kong owns the transmission and distribution network.

Since financial year 1964, the electricity-related operations of CLP Power Hong Kong and CAPCO (the SoC Companies) have been governed by a Scheme of Control Agreement (SoC) with the Hong Kong Government. The SoC specifies the SoC Companies' obligations to supply adequate and reliable electricity supplies to customers at the lowest reasonable cost and the mechanism for Hong Kong Government to monitor their financial affairs and operating performance. In return, CLP Power Hong Kong is allowed to charge tariffs designed to recover the operating costs (including tax) and allowed net return of the SoC Companies.

The current SoC took effect from 1 October 2008. The SoC covers a period of 10 years to 30 September 2018, with the Hong Kong Government having the right to extend by 5 years on the same terms to 30 September 2023 by giving notice before 1 January 2016. In the event that the 5 years extension option is not exercised by the Hong Kong Government, the SoC Companies will continue to earn the permitted return until 30 September 2023 on all approved investments.

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

Tariff Setting Mechanism

For each year, CLP Power Hong Kong designs the net tariff it charges to cover the SoC Companies' operating costs and allowed net return. The net tariff consists of the following three components:

(i) basic tariff rate which is derived by taking into account the annual forecast of (a), (b) and (c) below, using the formula "(a-b) / c":

- (a) the allowed net return and operating costs including the standard cost of fuel; generation, transmission, distribution and administration expenses; depreciation; interest expenses; and taxes;
- (b) 80% of the profit on electricity sale to the Chinese mainland; and
- (c) local unit sales as determined by the load forecast.

(ii) fuel clause charge or rebate 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; and

(iii) SoC rebate from the Rate Reduction Reserve.

Any difference between the actual profit for SoC operations and the permitted return for the year is transferred to or from a Tariff Stabilisation Fund. The Tariff Stabilisation Fund does not form part of distributable shareholders' funds and represents a liability in the accounts of CLP Power Hong Kong. A charge on the average balance of the Tariff Stabilisation Fund is credited to the Rate Reduction Reserve in the accounts of CLP Power Hong Kong and is applied as SoC rebates to customers as shown above.

Permitted and Net Return

The permitted and net return that the SoC Companies are allowed under the SoC are calculated as follows:

- The annual permitted return under the SoC is 9.99% of the SoC Companies' average net fixed assets other than renewable energy investments; and 11% for renewable energy investments.
- The net return is the permitted return after the deduction or adjustment of the following items:
  (a) interest up to a maximum of 8% per annum on borrowed capital arranged for financing fixed assets;
  (b) a charge of the average one-month Hong Kong interbank offered rate on the average balance of the Tariff Stabilisation Fund under the SoC, which is credited to the Rate Reduction Reserve;
  (c) an excess capacity adjustment of 9.99% under the SoC on the average excess capacity expenditure less an allowed interest charge up to 8% per annum on the average excess capacity expenditure;
  (d) interest up to 8% per annum on the increase in average balance of the customers' deposits in excess of the balance as at 30 September 1998; and
  (e) incentives / penalties adjustments linked with emission performance, customer performance, energy efficiency and renewables performance. These performance related adjustments are only applicable to each full calendar year of the SoC, and are in the range of -0.43% to +0.2% on the average net fixed assets.
- The rate of return on average net fixed assets of the SoC Companies for the year ended 31 December 2013 was 9.11% (2012: 9.12%).

The net return is divided between the SoC Companies in accordance with the provisions of the agreements between the SoC Companies and ExxonMobil International Holdings Inc. These provisions state that each company will receive that proportion of the total net return represented by the net return that company would receive if it were the only company under the SoC and the net return were calculated solely on the basis of its own financial statements. In year 2013, 65% (2012: 64%) of the net return was allocated to CLP Power Hong Kong and 35% (2012: 36%) to CAPCO. If the actual profit for the SoC, when added to the amount available for transfer from the Tariff Stabilisation Fund is less than the permitted return, the share of any such deficit to be borne by CAPCO is limited to 20%.

The calculations shown on page 255 are in accordance with the SoC and the agreements between the SoC Companies.

For the year ended 31 December

	2013 HK$M	2012 HK$M
SoC revenue	33,184	33,944
Expenses		
Operating costs	3,711	3,698
Fuel	9,645	10,061
Purchases of nuclear electricity	4,619	4,636
Provision for asset decommissioning	52	229
Depreciation	4,475	4,146
Operating interest	863	783
Taxation	1,649	1,772
	25,014	25,325
Profit after taxation	8,170	8,619
Interest on borrowed capital	887	859
Adjustment for performance (incentives) / penalties	(48)	(47)
Adjustments required under the SoC (being share of profit on sale of electricity to the Chinese mainland attributable to the SoC Companies)	(64)	(43)
Profit for SoC	8,945	9,388
Transfer from / (to) Tariff Stabilisation Fund	693	(75)
Permitted return	9,638	9,313
Deduct interest on / Adjustment for		
Borrowed capital as above	887	859
Performance (incentives) / penalties as above	(48)	(47)
Tariff Stabilisation Fund to Rate Reduction Reserve	1	2
	840	814
Net return	8,798	8,499
Divisible as follows:		
CLP Power Hong Kong	5,744	5,425
CAPCO	3,054	3,074
	8,798	8,499
CLP Power Hong Kong's share of net return		
CLP Power Hong Kong	5,744	5,425
Interest in CAPCO	1,222	1,229
	6,966	6,654

FIVE-YEAR SUMMARY: CLP GROUP STATISTICS

Economic

	2013	2012	2011	2010	2009
Consolidated Operating Results, HK$M					
Revenue					
Electricity business in Hong Kong (HK)	**33,840**	33,643	31,518	29,944	28,297
Energy business in Australia	**64,976**	66,843	56,325	25,182	19,166
Others	**5,714**	4,375	3,791	3,284	3,205
Total	**104,530**	104,861	91,634	58,410	50,668
Operating profit	**8,906**	13,101	13,188	12,397	10,847
Earnings					
Electricity business in HK	**6,966**	6,654	6,339	6,129	5,964
Energy business in Australia	**126**	1,685	2,911	1,303	736
Other investments / operations	**2,664**	1,631	1,581	2,173	2,271
(Losses) / gains on sales of investments	**(75)**	–	876	356	153
Provisions for fixed assets, joint ventures and other assets	**(3,696)**	(409)	(1,933)	(258)	(477)
Valuation gain on Hok Un redevelopment	**–**	–	225	–	–
Tax consolidation benefit from Australia	**–**	105	–	989	–
Other one-off items from Australia	**524**	(790)	(192)	97	(17)
Unallocated net finance costs	**(26)**	(74)	(48)	(18)	(21)
Unallocated Group expenses	**(423)**	(490)	(471)	(439)	(413)
Total	**6,060**	8,312	9,288	10,332	8,196
Dividends	**6,493**	6,301	6,063	5,967	5,967
Capital expenditure, owned and leased assets	**12,052**	11,230	15,798	20,032	9,713
Depreciation & amortisation, owned and leased assets	**7,592**	7,021	6,353	5,065	4,332
Consolidated Statement of Cash Flows, HK$M					
Net cash inflow from operating activities	**21,021**	23,915	18,062	16,085	14,529
Consolidated Statement of Financial Position, HK$M					
SoC fixed assets	**67,057**	63,599	60,142	57,247	54,712
Other fixed assets	**63,846**	70,730	70,240	60,213	44,146
Goodwill and other intangible assets	**23,847**	28,479	27,369	9,150	8,105
Interests in joint ventures	**19,940**	19,197	18,226	20,476	18,838
Interests in associates	**1,675**	1,856	1,465	2,378	1,813
Other non-current assets	**8,601**	7,742	9,791	11,177	9,588
Current assets	**26,719**	37,153	27,055	18,714	19,329
Total assets	**211,685**	228,756	214,288	179,355	156,531
Shareholders' funds	**87,361**	91,127	81,259	79,661	70,761
Non-controlling interests	**120**	74	93	97	107
Equity	**87,481**	91,201	81,352	79,758	70,868
Bank loans and other borrowings	**56,051**	66,198	65,521	44,623	39,431
Obligations under finance leases	**27,976**	27,055	27,396	27,100	21,855
SoC reserve accounts	**28**	1,245	643	1,509	1,654
Other current liabilities	**25,251**	28,147	23,642	16,420	14,023
Other non-current liabilities	**14,898**	14,910	15,734	9,945	8,700
Total liabilities	**124,204**	137,555	132,936	99,597	85,663
Equity and total liabilities	**211,685**	228,756	214,288	179,355	156,531
Per Share Data, HK$					
Shareholders' funds per share	**34.58**	36.07	33.77	33.11	29.41
Earnings per share	**2.40**	3.45	3.86	4.29	3.41
Dividends per share	**2.57**	2.57	2.52	2.48	2.48

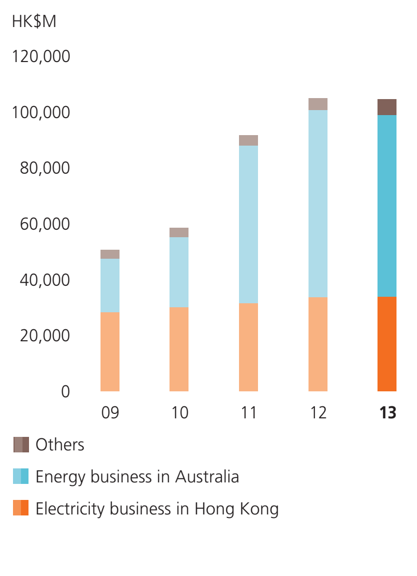
A ten-year summary is on our website

	2013	2012	2011	2010	2009
Per Share Data, HK$ (continued)					
Closing share price					
Highest	**69.85**	68.95	74.95	64.65	57.55
Lowest	**60.35**	62.30	59.95	52.15	51.15
As at year-end	**61.30**	64.85	66.05	63.10	52.45
Ratios					
Return on equity, %	**6.8**	10.1 #	11.5	13.7	12.3
Total debt to total capital, %	**39.1**	42.1	44.6	35.9	35.7
Net debt to total capital, %	**36.7**	36.8	43.1	33.3	30.7
Interest cover, times	**3**	4	4	7	8
Price / Earnings, times	**26**	19	17	15	15
Dividend yield, %	**4.2**	4.0	3.8	3.9	4.7
Dividend pay-out (total earnings), %	**107.1**	74.5	65.3	57.8	72.8
Dividend pay-out (operating earnings), %	**69.8**	65.9	58.8	65.2	69.9
Group Generating Capacity					
(owned / operated / under construction) *, MW					
– by region					
Hong Kong	**6,908**	6,908	6,908	6,908	6,908
Australia	**5,533**	5,616	5,616	3,211	3,188
Chinese mainland	**5,760**	5,911	5,957	5,899	5,578
India	**3,026**	2,947	2,594	2,461	2,420
Southeast Asia & Taiwan	**285**	285	282	868	832
	21,512	21,667	21,357	19,347	18,926
– by status					
Operational	**20,974**	21,175	19,707	17,145	16,473
Construction	**538**	492	1,650	2,202	2,453
	21,512	21,667	21,357	19,347	18,926

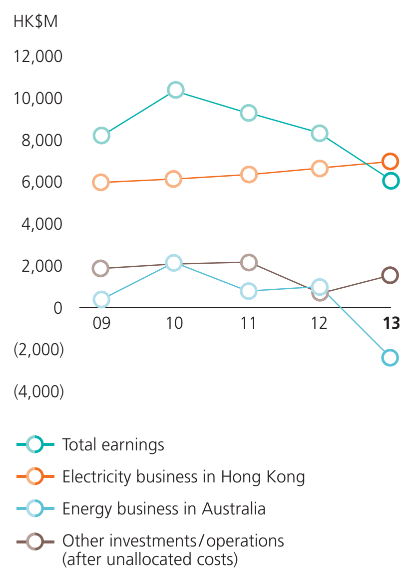
The 2012 figure excluded the effect of the 5% share placement on 20 December 2012 to give a more accurate average shareholders' funds in 2012.

* Group generating capacity (in MW) is incorporated on the following basis: (a) CAPCO on 100% capacity as stations operated by CLP Power Hong Kong; (b) PSDC and Ecogen on 100% as having right to use; and (c) other stations on the proportion of the Group's equity interests.

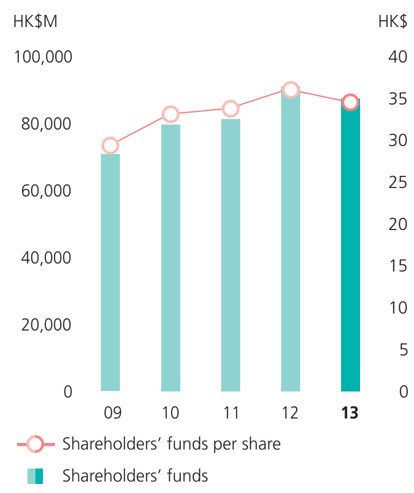
Revenue



Earnings



Shareholders' Funds



Environmental

Performance Indicators	Units	2013	2012	2011	2010	2009	Global Reporting Initiative (GRI) G3.1 Reference	HKEx ESG Reporting Guide Reference
Resource Use & Emissions[1]								
Coal consumed (for power generation)	TJ	433,763	361,819	419,357	370,427	469,509	EN3	B2.1
Gas consumed (for power generation)	TJ	73,510	86,200	101,166	135,556	102,160	EN3	B2.1
Oil consumed (for power generation)	TJ	1,973	8,200	1,508	1,272	7,185	EN3	B2.1
CO_2e emissions from power generation (Scopes 1 & 2)	kT	44,258	38,464	44,450	41,908	49,761	EN16	B1.2
CO_2 emissions from power generation (Scopes 1 & 2)[2]	kT	44,076	38,319	44,298	41,784	49,631	EN16	B1.2
Nitrogen oxides emissions (NO_x)	kT	50.2	42.9	48.1	39.3	43.8	EN20	B1.1
Sulphur dioxide emissions (SO_2)	kT	50.5	35.1	35.8	37.4	53.0	EN20	B1.1
Total particulates emissions	kT	5.5	4.7	6.2	6.4	6.8	EN20	B1.1
Water withdrawal							EN8	B2.2
from marine water resources	Mm^3	4,987.9	4,648.6	4,688.6	4,670.7	3,163.9		
from freshwater resources	Mm^3	24.2	35.4	37.9	41.7	42.0		
from municipal sources	Mm^3	19.2	5.8	5.5	4.3	4.1		
Total	Mm^3	5,031.0	4,689.6	4,732.0	4,716.6	3,210.0		
Water discharged							EN21	
cooling water to marine water bodies	Mm^3	4,987.9	4,648.6	4,688.6	4,670.7	3,163.9		
treated wastewater to marine water bodies	Mm^3	1.2	1.1	0.8	0.8	1.0		
treated wastewater to freshwater bodies	Mm^3	10.1	14.0	18.1	18.4	15.5		
wastewater to sewerage	Mm^3	1.5	1.7	1.8	1.6	1.7		
wastewater to other destinations	Mm^3	0.1	0.3	0.6	0.7	0.7		
Total	Mm^3	5,000.8	4,665.7	4,710.0	4,692.1	3,182.9		
Hazardous waste produced[3]	T (solid) / kl (liquid)	337 / 1,228	262 / 1,500	799 / 912	803 / 1,167	771 / 1,011	EN22	B1.3
Hazardous waste recycled[3]	T (solid) / kl (liquid)	34 / 981	25 / 1,023	36 / 831	39 / 844	57 / 636	EN22	
Non-hazardous waste produced[3]	T (solid) / kl (liquid)	7,700 / 0	10,830 / 21	6,301 / 0	8,029 / 2	5,160 / 0	EN22	B1.4
Non-hazardous waste recycled[3]	T (solid) / kl (liquid)	1,853 / 0	2,719 / 4	3,699 / 0	3,199 / 0	2,369 / 0	EN22	
Environmental regulatory non-compliances resulting in fines or prosecutions	number	0	0	0	0	0	EN28	
Environmental licence limit exceedances & other non-compliances	number	4	1	5	3	1	EN28	
Climate Vision 2050 Target Performance (Equity Basis)[4]								
Total renewable energy generation capacity	% (MW)	16.3 (2,579)	20.2 (2,734)	18.3 (2,424)	16.8 (2,286)	11.3 (1,494)	EN6	
Non-carbon emitting generation capacity	% (MW)	19.4 (3,071)	23.8 (3,226)	22.0 (2,916)	20.4 (2,778)	15.0 (1,986)	EN6	
Carbon dioxide emissions intensity of CLP Group's generation portfolio	kg CO_2 / kWh	0.82[5]	0.77	0.80	0.80	0.83	EN16	B1.2

Notes:
1 Covered operating facilities where CLP has operational control for the full calendar reporting year.
2 Includes Yallourn and Hallett facilities' CO_2e emissions as CO_2 emissions data were not available.
3 Waste categorised in accordance with local regulations.
4 "Equity basis" includes all majority and minority share facilities in the CLP Group portfolio.
5 CGN Wind not included as per the Greenhouse Gas Protocol due to its accounting categorisation.

All 2013 environmental data on this page have been independently verified by ERM-Hong Kong, Limited.

Social

Performance Indicators	Units	2013	2012	2011	2010	2009	Global Reporting Initiative (GRI) G3.1 Reference	HKEx ESG Reporting Guide Reference
Employees [1]								
Employees based on geographical location							LA1	A1.1
Hong Kong	number	4,394	4,345	4,259	4,228	4,164		
Chinese Mainland	number	469	539	552	574	546		
Australia	number	1,745	1,302	1,111	939	841		
India	number	360	391	374	309	207		
Other locations (Southeast Asia & Macau)	number	0	4	20	25	19		
Total	number	6,968	6,581	6,316	6,075	5,777		
Employees eligible to retire within the next five years [2, 3]							EU15	
Hong Kong	%	15.2%	14.0%	13.4%	12.5%	11.4%		
Chinese Mainland	%	12.2%	11.9%	9.6%	11.3%	7.3%		
Australia	%	10.9%	11.9%	9.6%	9.5%	10.1%		
India	%	0.8%	0.8%	1.1%	1.3%	1.5%		
Other locations (Southeast Asia & Macau)	%	n/a	n/a	0%	0%	0%		
Total	%	13.0%	12.6%	11.6%	11.3%	10.3%		
Voluntary staff turnover rate [3]	%						LA2	A1.2
Hong Kong	%	1.9%	–	–	–	–		
Australia	%	9.4%	–	–	–	–		
Chinese Mainland	%	2.6%	–	–	–	–		
India	%	10.1%	–	–	–	–		
Other locations (Southeast Asia & Macau)	%	n/a	–	–	–	–		
Total [4]	%	n/a	5.2%	4.9%	5.3%	2.7%		
Training per employee [3]	average man days	5.5	5.6	5.4	5.5	4.9	LA10	A3.2
Safety [5]								
Fatalities (employees only) [6]	number	0	0	0	1	0	LA7	A2.1
Fatalities (contractors only) [6]	number	1	n/a	n/a	n/a	n/a	LA7	A2.1
Fatality Rate (employees only) [7]	rate	0.00	n/a	n/a	n/a	n/a	LA7	A2.1
Fatality Rate (contractors only) [7]	rate	0.01	n/a	n/a	n/a	n/a	LA7	A2.1
Cases of disabling injuries (employees only)	number	n/a	5	9	2	3	LA7	
Lost Time Injury (employees only) [8]	number	5	n/a	n/a	n/a	n/a	LA7	
Lost Time Injury (contractors only) [8]	number	28	n/a	n/a	n/a	n/a	LA7	
Lost Time Injury Rate (employees only) [7]	rate	0.06	n/a	n/a	n/a	n/a	LA7	
Lost Time Injury Rate (contractors only) [7]	rate	0.22	n/a	n/a	n/a	n/a	LA7	
Total Recordable Injury Rate (employees only) [7, 9]	rate	0.23	n/a	n/a	n/a	n/a	LA7	
Total Recordable Injury Rate (contractors only) [7, 9]	rate	0.5	n/a	n/a	n/a	n/a	LA7	
Days lost/charged (employees only) [10]	number	29	240	674	6,010	45	LA7	A2.2
Governance								
Convicted cases of corruption	cases	0	0	0	0	0	SO4	C3.1
Breaches of Code of Conduct	cases	12	14	6	4	8		

Notes:

1 For details of the Employee KPI reporting scope, please refer to the Reporting Methodology chapter of the 2013 Online Sustainability Report.

2 The percentages given refer to the full-time permanent staff (based on the location of their employing Group entity) within each location, and to the Group as a whole, who are eligible to retire within the next five years.

3 The Australia figures exclude Mount Piper and Wallerawang which were acquired in Q4 2013. There were no permanent staff in "other locations (Southeast Asia & Macau)" in 2012 and 2013.

4 The reporting approach has been updated to reflect employee turnover rates by country, which are more meaningful than a total turnover rate given the potential differences between countries.

5 For details of the Safety KPI reporting scope, please refer to the Reporting Methodology chapter of the 2013 Online Sustainability Report.

6 Fatality is the death of an employee or contractor personnel as a result of an occupational injury incident in the course of employment.

7 All Rates are normalised to 200,000 worked hours, which is approximately equal to the number of hours worked by 100 people in one year.

8 Lost Time Injury is an occupational injury sustained by an employee for which the employee misses one or more scheduled workdays after the day of the injury.

9 Total Recordable Injury is the sum of all injuries other than first aid cases, which includes all Fatalities, Lost Time Injury Incidents, Restricted Work Injury Cases, and Medical Treatment Cases.

10 Days lost/charged excludes one lost time injury which occurred at the Boxing Biomass plant in China due to the inability to verify because of plant divestment.

– Data not captured.

n/a Data not available for reporting or not verified by facility level verification.

All 2013 social data on this page have been independently verified by ERM-Hong Kong, Limited.

FIVE-YEAR SUMMARY: SCHEME OF CONTROL FINANCIAL & OPERATING STATISTICS

CLP Power Hong Kong Limited and Castle Peak Power Company Limited

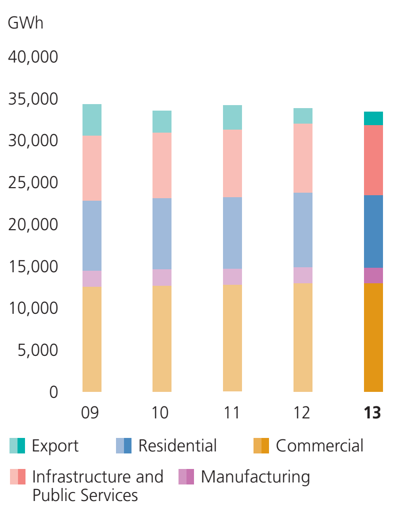
	2013	2012	2011	2010	2009
SoC Financial Statistics, HK$M					
Combined Profit & Loss Statement					
Profit for SoC	**8,945**	9,388	8,068	8,420	8,052
Transfer from / (to) Tariff Stabilisation Fund	**693**	(75)	868	148	103
Permitted return	**9,638**	9,313	8,936	8,568	8,155
Less: Interest on / Adjustment for					
Borrowed capital	**887**	859	841	763	625
Performance (incentives) / penalties	**(48)**	(47)	(45)	(43)	(41)
Tariff Stabilisation Fund	**1**	2	2	3	3
Net return	**8,798**	8,499	8,138	7,845	7,568
Combined Balance Sheet					
Net assets employed					
Fixed assets	**97,918**	95,243	91,187	87,713	83,811
Non-current assets	**1,091**	1,904	2,310	1,698	774
Current assets	**6,778**	11,530	4,913	4,367	3,929
	105,787	108,677	98,410	93,778	88,514
Less: current liabilities	**17,142**	22,248	17,439	15,194	17,658
Net assets	**88,645**	86,429	80,971	78,584	70,856
Exchange fluctuation account	**(939)**	(907)	(1,428)	(962)	(346)
	87,706	85,522	79,543	77,622	70,510
Represented by					
Shareholders' funds	**45,067**	43,070	41,845	39,960	37,197
Long-term loans and other borrowings	**26,873**	28,254	25,283	25,248	21,598
Deferred liabilities	**15,747**	13,486	11,778	10,909	10,062
Tariff Stabilisation Fund	**19**	712	637	1,505	1,653
	87,706	85,522	79,543	77,622	70,510
Other SoC Information					
Total electricity sales	**33,064**	33,842	30,824	29,917	28,349
Capital expenditure	**7,479**	8,621	7,774	7,748	7,798
Depreciation	**4,475**	4,146	3,863	3,427	3,149
SoC Operating Statistics					
Customers and Sales					
Number of customers (thousand)	**2,429**	2,400	2,378	2,347	2,321
Sales analysis, millions of kWh					
Commercial	**12,935**	12,917	12,670	12,642	12,488
Manufacturing	**1,832**	1,890	1,886	1,952	1,938
Residential	**8,658**	8,900	8,594	8,457	8,331
Infrastructure and Public Services	**8,358**	8,288	8,018	7,878	7,813
Local	**31,783**	31,995	31,168	30,929	30,570
Export	**1,650**	1,838	2,957	2,609	3,731
Total Electricity Sales	**33,433**	33,833	34,125	33,538	34,301
Annual change, %	**(1.2)**	(0.9)	1.8	(2.2)	2.0
Local consumption, kWh per person	**5,379**	5,466	5,373	5,365	5,353
Local sales, HK¢ per kWh (average)					
Basic tariff	**84.0**	84.2	80.1	80.1	77.5
Fuel clause charge	**22.4**	17.8	14.1	11.5	11.8
SoC rebate	**–**	–	–	–	(0.2)
Total tariff	**106.4**	102.0	94.2	91.6	89.1
Rent & Rates Special Rebate *	**(1.7)**	(3.3)	–	–	–
Net tariff	**104.7**	98.7	94.2	91.6	89.1
Annual basic tariff change, %	**(0.2)**	5.1	–	3.4	(9.5)
Annual total tariff change, %	**4.3**	8.3	2.8	2.8	(1.5)
Annual net tariff change, %	**6.1**	4.8	2.8	2.8	(1.5)

A ten-year summary is on our website

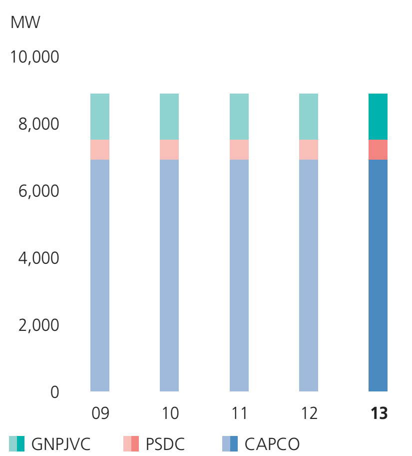
	2013	2012	2011	2010	2009
Generation (Including Affiliated Generating Companies)					
Installed capacity, MW	**8,888**	8,888	8,888	8,888	8,888
System maximum demand					
Local, MW	**6,699**	6,769	6,702	6,766	6,389
Annual change, %	**(1.0)**	1.0	(0.9)	5.9	(5.3)
Local and the Chinese mainland, MW	**7,615**	7,431	7,798	7,349	7,616
Annual change, %	**2.5**	(4.7)	6.1	(3.5)	(7.1)
System load factor, %	**55.7**	57.5	55.3	57.2	56.4
Generation by CAPCO stations, millions of kWh	**26,994**	25,894	26,800	26,019	26,410
Sent out, millions of kWh –					
From own generation	**25,084**	24,102	24,955	24,552	24,920
Net transfer from					
Landfill gas generation	**4**	3	5	5	5
GNPS / GPSPS / Others	**9,757**	11,172	10,558	10,350	10,773
Total	**34,845**	35,277	35,518	34,907	35,698
Fuel consumed, terajoules –					
Oil	**1,491**	7,900	1,044	844	895
Coal	**205,198**	182,651	188,407	148,229	169,753
Gas	**47,545**	50,420	57,665	83,007	70,393
Total	**254,234**	240,971	247,116	232,080	241,041
Cost of fuel, HK$ per gigajoule – Overall	**38.02**	40.56	35.33	34.13	29.14
Thermal efficiency, % based on units sent out	**35.5**	36.0	36.4	38.1	37.2
Plant availability, %	**85.2**	82.1	85.4	79.2	83.0
Transmission and Distribution					
Network, circuit kilometres					
400kV	**555**	555	555	554	555
132kV	**1,587**	1,581	1,531	1,528	1,488
33kV	**27**	27	27	27	60
11kV	**12,328**	12,074	11,809	11,658	11,444
Transformers, MVA	**60,430**	60,136	59,454	58,929	57,700
Substations –					
Primary	**218**	216	213	213	214
Secondary	**13,692**	13,536	13,361	13,208	13,074
Employees and Productivity					
No. of SoC employees	**3,819**	3,791	3,734	3,709	3,708
Productivity, thousands of kWh per employee	**8,353**	8,504	8,375	8,340	8,189

* While the rent and rates appeals are still progressing, CLP Power Hong Kong provided customers with a Rent and Rates Special Rebate of 3.3 cents and 2.1 cents per unit in 2012 and January to mid October 2013 respectively, rebating to customers all interim refunds received from the Government to date for overcharged rent and rates.

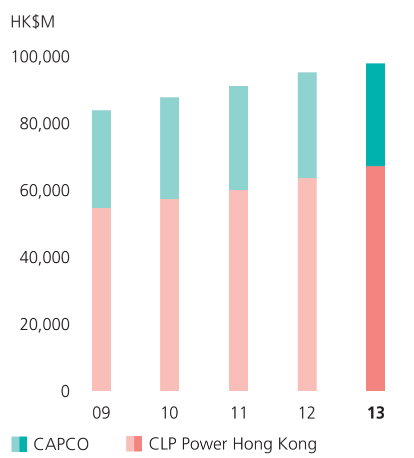
Electricity Sales by Sector



Installed Capacity



SoC Net Fixed Asset



HOW CAN YOU CONTACT US?

Annual Report

Printed in English and Chinese languages, available on our website at www.clpgroup.com on 13 March 2014 and posted to Shareholders on 28 March 2014.

Those Shareholders who (a) received our 2013 Annual Report electronically and would like to receive a printed copy or vice versa; or (b) received our 2013 Annual Report in either English or Chinese language only and would like to receive a printed copy of the other language version or to receive printed copies of both language versions in the future, are requested to write to the Company Secretary or the Company's Registrars.

Shareholders may at any time change their choice of the language or means of receipt of the Company's corporate communications free of charge by notice in writing to the Company Secretary or the Company's Registrars.

Information for American Depositary Receipts Holders

The Group's financial statements are prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS). HKFRS differ in certain respects from United States Generally Accepted Accounting Principles. The Company's duty to file or submit reports under Sections 13(a) or 15(d) of the United States Securities Exchange Act of 1934, as amended (the Exchange Act) was terminated on 30 January 2008 after the Company filed a Form 15F with the United States Securities and Exchange Commission on 31 October 2007. The information contemplated in Rule 12g3-2(b)(1)(iii) under the Exchange Act is and will be published on the Company's website.

Annual General Meeting (AGM)

To be held on 8 May 2014. Details of the AGM including shareholders' right to demand a poll are set out in the Notice of AGM sent to Shareholders together with a proxy form on 28 March 2014.

Register of Shareholders

To be closed on 14 March 2014 for the 2013 fourth interim dividend and closed from 7 May 2014 to 8 May 2014, both days inclusive, for the 2014 AGM.

Company's Registrars

Computershare Hong Kong Investor Services Limited

Address:	17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong
Telephone:	(852) 2862 8628
Facsimile:	(852) 2865 0990
E-mail:	hkinfo@computershare.com.hk

Share Listing

CLP Holdings shares are listed on the Stock Exchange of Hong Kong and are traded over the counter in the United States in the form of American Depositary Receipts.

Our Stock Code

The Stock Exchange of Hong Kong:	00002
Bloomberg:	2 HK
Reuters:	0002.HK
Ticker Symbol for ADR Code:	CLPHY
CUSIP Reference Number:	18946Q101

Contact Us

Address:	8 Laguna Verde Avenue, Hung Hom, Kowloon, Hong Kong	
Telephone:	(852) 2678 8228 (Shareholders' hotline)	
Facsimile:	(852) 2678 8390 (Company Secretary)	
E-mail:	cosec@clp.com.hk (Company Secretary)	ir@clp.com.hk (Director – Investor Relations)

April Chan
Company Secretary

Gloria Kwan
Director - Investor Relations

HELPING OUR COMMUNITY

Every year since 2003, with the generous support of our shareholders and other stakeholders, CLP has used our Annual Report and Sustainability Report as an opportunity to support deserving community initiatives. We do this by donating HK$60 to charity for each shareholder who elects to receive our corporate communications electronically, and for each feedback that we receive on this Report, our online Sustainability Report as well as the new online Annual Report snapshot. The maximum donation amount is set at HK$350,000.

Shareholders who do not yet receive their corporate communications electronically can help support this community initiative by electing for electronic communication through returning to us the notification form which accompanies this Annual Report, using the provided pre-paid mailing label or via email to cosec@clp.com.hk or clp.ecom@computershare.com.hk, on or before 30 June 2014.

2013 Beneficiaries: KELY Support Group & Society for the Welfare of the Autistic Persons

The two beneficiaries of the 2013 donation programme were selected after assessing community needs as well as the governance of the recipients. As with past years, preference is given to self-help groups or small NGOs that serve the underserved in Hong Kong.

The KELY Support Group, a bilingual NGO dedicated to helping young people in Hong Kong develop life skills to address drug and alcohol addictions, will be using CLP's support to expand its "Growing Up with KELY" programme. This research-based programme focuses on identifying the potential of young people through a three-pronged approach: to identify youth deemed to be "at risk" using psychometric assessment tools; to decrease the likelihood of high-risk behaviour with preventive modules; and to build competence and confidence in youth in order to face developmental challenges.

啟勵扶青會 KELY SUPPORT GROUP

The Society for the Welfare of the Autistic Persons, a self-help organisation that addresses Autistic Spectrum Disorder (ASD), will apply CLP's donation towards the production of booklets designed for children with ASD to help raise their self-awareness and self-acceptance. Educational talks will be organised around the publication so that the children and their families could better understand and tackle ASD. The Society will also be running a 5-week summer camp for children with severe ASD so that they will have care and learning opportunities over the summer holidays when their schools are closed.

SWAP

2012 Beneficiary: Hong Kong Association for Cleft Lip and Palate

Last year, our donation programme supported the Hong Kong Association for Cleft Lip and Palate (HKACLP), which launched a two-year speech therapy programme for 2 to 6 years old affected by cleft lip and cleft palate in July 2013. As of the end of 2013, 188 speech therapy sessions have been offered to 52 children by two professional speech therapists. The Association also held a workshop for its volunteers to train parents with speech and sound development and oral-motor exercises. Two school seminars were held to help raise acceptance of cleft lip and palate patients among students. We are confident that the HKACLP will continue to run the programme smoothly to reach more patients and their families in 2014.

香港兔唇裂顎協會 Hong Kong Association for Cleft Lip and Palate

This year, as every year, we thank you for your support.

CLP welcomes your views...

CLP 中電

Section A – Feedback on 2013 Annual Report

The Annual Report is a key document in the communication between us and our shareholders and other stakeholders.

1. To enhance the quality of our annual reporting, please let us have your views, by circling the appropriate number below.

		Easy to understand?				Did this provide helpful information?			
		strongly disagree			strongly agree	strongly disagree			strongly agree
2	A Snapshot of CLP in 2013	1	2	3	4	1	2	3	4
8	Chairman's Statement	1	2	3	4	1	2	3	4
12	CEO's Strategic Review	1	2	3	4	1	2	3	4
20	Our Assets and Investments	1	2	3	4	1	2	3	4
24	Shareholder Value and Engagement	1	2	3	4	1	2	3	4
31	Financial Review	1	2	3	4	1	2	3	4
Performance and Business Outlook									
46	Hong Kong	1	2	3	4	1	2	3	4
56	Australia	1	2	3	4	1	2	3	4
64	Chinese Mainland	1	2	3	4	1	2	3	4
72	India	1	2	3	4	1	2	3	4
79	Southeast Asia and Taiwan	1	2	3	4	1	2	3	4
Capitals									
84	Financial Capital – our funding resources and capability	1	2	3	4	1	2	3	4
93	Natural Capital – our respect for the environment	1	2	3	4	1	2	3	4
96	Human Capital – our people and safety performance	1	2	3	4	1	2	3	4
100	Social and Relationship Capital – our values, reputation and community initiatives	1	2	3	4	1	2	3	4
104	Intellectual Capital – our expertise	1	2	3	4	1	2	3	4
Governance									
114	Corporate Governance Report	1	2	3	4	1	2	3	4
135	Risk Management Report	1	2	3	4	1	2	3	4
144	Audit Committee Report	1	2	3	4	1	2	3	4
147	Sustainability Committee Report	1	2	3	4	1	2	3	4
150	Human Resources & Remuneration Committee Report	1	2	3	4	1	2	3	4
160	Directors' Report	1	2	3	4	1	2	3	4
Financials									
168	How Can You Approach Our Financial Statements?	1	2	3	4	1	2	3	4
170	Accounting Mini-series	1	2	3	4	1	2	3	4
174	Financial Statements	1	2	3	4	1	2	3	4
Questions and Answers with CLP Management		1	2	3	4	1	2	3	4
A Snapshot of 2013 Annual Report (Online Version)		1	2	3	4	1	2	3	4

2. Your overall rating of this Annual Report is:
(Please " ✔ " appropriate box)

Poor ☐ Fair ☐ Good ☐ Very Good ☐ Excellent ☐

.../cont'd

3. Was there any additional information you expected to receive in the Annual Report? Please specify.

4. Do you have any question to be addressed in next year's Annual Report or answered on the "Frequently Asked Questions" section of the Company's website? If so, please ask.

5. Any other comments / suggestions?

Section B – Request for Additional Information

Our Annual Report identifies those areas where additional information, beyond that set out in the Report itself, is available through our website (www.clpgroup.com) or in other printed publications.

You can get hard copies of that web information (if you do not have ready access to the Internet) and / or printed copies of other publications by indicating as appropriate below:

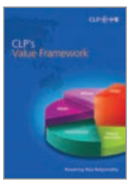
Name of Shareholder(s)

Address

(Please " ✔ " appropriate box)

☐ Web Information Required
(Please specify which)

☐ CLP's Value Framework (2013 update)



☐ CLP Code on Corporate Governance (2012 update)

Please send your feedback or requests for additional information to CLP Holdings Limited by:

i) cutting and sticking the mailing label below on an envelope to
CLP Holdings' Registrars, Computershare Hong Kong Investor Services Limited

ii) fax: (852) 2678 8390

iii) e-mail: cosec@clp.com.hk

PERSONAL INFORMATION COLLECTION STATEMENT

"Personal Data" in this statement has the same meaning as "personal data" in the Personal Data (Privacy) Ordinance, Cap 486 (PDPO), which will include your name, mailing address and your opinion.

Your Personal Data provided in this form may be used in connection with our management of your request, inquiry, comments and suggestions or conducting and publishing statistical and data analysis. Your supply of Personal Data is on a voluntary basis. However, we may not be able to follow up your request or inquiry unless you provide us with your Personal Data.

Your Personal Data will not be transferred to any third party.

Your Personal Data will be retained for such period as may be necessary for the above purposes and its directly related purpose(s) and will be destroyed within two years after the date of receipt of your Personal Data.

You have the right to request access to and/or correction of your Personal Data in accordance with the provisions of the PDPO. Any such request for access to and/or correction of your Personal Data should be in writing by either of the following means:

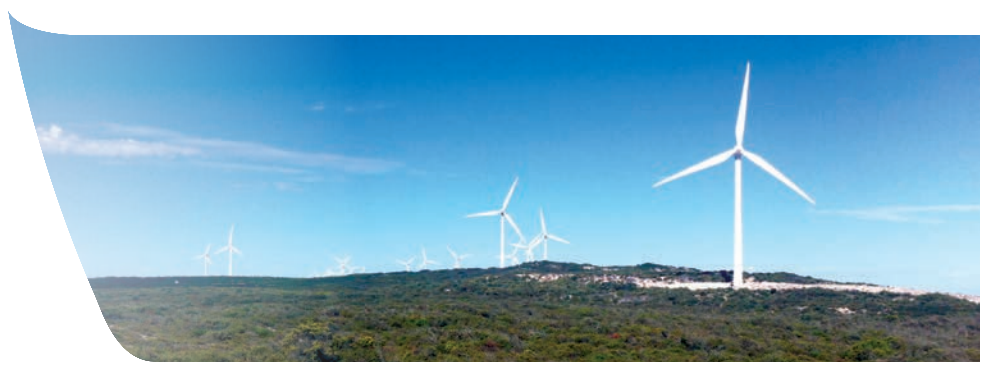
By mail to: Personal Data Privacy Officer
Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

By e-mail to: hkinfo@computershare.com.hk

MAILING LABEL

Please cut the mailing label and stick it on an envelope to return your feedback to us. No postage is necessary if posted in Hong Kong.

Computershare Hong Kong Investor Services Limited
Freepost No. 37
Hong Kong



CLP Holdings Limited

8 Laguna Verde Avenue
Hung Hom, Kowloon, Hong Kong
T (852) 2678 8111
F (852) 2760 4448
www.clpgroup.com

Stock Code: 00002

This Annual Report is printed on environmentally friendly paper.