CLP 中電

2016 | ANNUAL REPORT

Energy for Brighter Tomorrows

The world will remember 2016 as a year of uncertainty and change. But for CLP – with a history of over 115 years – such changes are not unique to 2016. Over the years, we have faced periods of tremendous upheaval and transformation together with the communities in which we operate. Our business continues to thrive largely because we are able to adapt and keep pace with changing times. Standing still simply has no place in our strategy.

As with other sectors, the energy industry is being reshaped by mega forces such as climate change and digital innovation. Our goal is to harness these changes in the way we conduct business – how we play different roles across the electricity value chain and serve over 5 million customers in the Asia-Pacific region with safe and reliable electricity services at a reasonable cost. Transforming ourselves into a utility of the future so that we can provide energy services for brighter tomorrows is a central theme of this Annual Report.

This is our sixth integrated annual report and continuous improvement is our motto. While we have streamlined the chapters and adopted new design elements to make the report more accessible, an equal weight has been given to ensuring our high standards of disclosure and transparency have not been compromised. Sections that have been displaced are made available in our Sustainability Report or as supplementary information published on our website under the 2016 Annual Report section.

CLP is an early adopter of the Stock Exchange of Hong Kong's Environmental, Social and Governance (ESG) Reporting Guide. This year, we not only disclose ESG information that falls under the "comply or explain" provisions, but also include items under the recommended category. Moreover, we have added a new Manufactured Capital chapter to report how we make use of physical manufactured capital to generate electricity and provide services to our customers. The safety and environmental data in this report, unless otherwise stated, cover companies, assets and projects in which CLP has operational control or full authority to implement its operating policies.

As in previous years, an online Snapshot has been included to offer a concise yet informative overview of our business. For stakeholders who are interested in CLP's social and environmental performance, our online Sustainability Report provides a fuller picture of our sustainability principles, strategies and efforts. In this report, we use the symbols SR and to guide you to the relevant sections of the Sustainability Report or our website.

We invite you to give us feedback through our feedback form or online channel. We also make use of the opportunity to support worthy causes in markets where we operate. More details can be found on the inside back cover.

A Snapshot of
2016 Annual Report

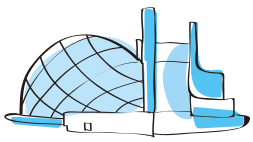
Contents

A Snapshot of CLP in 2016

Hong Kong | Mainland China | India
Southeast Asia and Taiwan | Australia

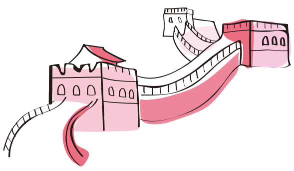
About CLP Group

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



CLP has a vertically-integrated regulated business in Hong Kong, which is the core of our operations. We generate, distribute and provide a world-class electricity supply with a reliability rate of over 99.999% to 2.52 million customers.

MAINLAND CHINA



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

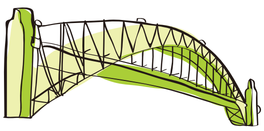
INDIA

CLP has a broad portfolio of power generation that includes coal, gas and renewable energy in India. We are one of the largest foreign players in the Indian power industry and a leading wind project developer.

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.

AUSTRALIA



EnergyAustralia operates a customer-focused energy business serving 2.63 million accounts across southeast Australia, supported by competitively-priced energy from its generation portfolio.

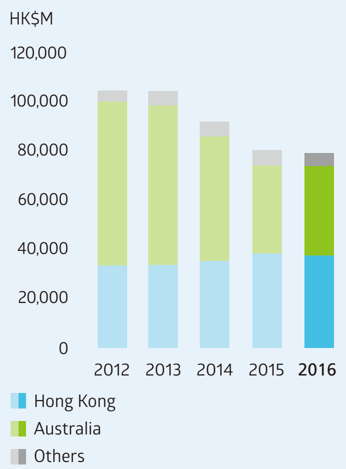
Financial Highlights

Operating earnings rose 7.1% to HK$12.3 billion; total earnings decreased by 18.8% to HK$12.7 billion mainly due to a significant contribution from the sale of the Iona Gas Plant in Australia in 2015.

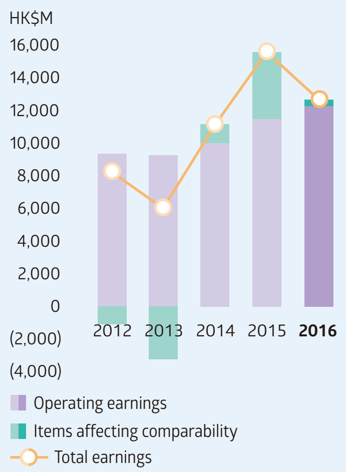
	2016	2015 [1]	Increase / (Decrease) %
For the year *(in HK$ million)*			
Revenue			
Electricity business in Hong Kong	**37,615**	38,488	(2.3)
Energy businesses outside Hong Kong	**41,459**	41,757	(0.7)
Others	**360**	455	
Total	**79,434**	80,700	(1.6)
Earnings			
Hong Kong	**8,640**	8,260	4.6
Hong Kong related [2]	**203**	206	
Mainland China	**1,521**	1,977	(23.1)
India	**469**	614	(23.6)
Southeast Asia (SEA) and Taiwan	**274**	312	(12.2)
Australia	**1,849**	836	121.2
Other earnings	**62**	(60)	
Unallocated net finance income	**33**	17	
Unallocated Group expenses	**(717)**	(643)	
Operating earnings	**12,334**	11,519	7.1
Items affecting comparability			
Property revaluation and transaction	**497**	99	
Impairment and provision reversal	**(203)**	(1,723)	
Reversal of over-provision of capital gain tax	**83**	–	
Sale of Iona Gas Plant and early termination of debt	**–**	5,761	
Total earnings	**12,711**	15,656	(18.8)
Net cash inflow from operating activities	**23,676**	19,168	23.5
At 31 December *(in HK$ million)*			
Total assets	**205,978**	203,964	1.0
Total borrowings	**51,646**	55,483	(6.9)
Shareholders' funds	**98,010**	93,118	5.3
Per share *(in HK$)*			
Earnings per share	**5.03**	6.20	(18.8)
Dividends per share	**2.80**	2.70	3.7
Shareholders' funds per share	**38.79**	36.86	5.3
Ratios			
Return on equity [3] (%)	**13.3**	17.3	
Net debt to total capital [4] (%)	**29.5**	32.4	
EBIT interest cover [5] (times)	**10**	10	
Price / Earnings [6] (times)	**14**	11	
Dividend yield [7] (%)	**3.9**	4.1	

Notes:
1 Comparative figures have been restated in accordance with the transitional provisions of HKFRS 9 (2014) Financial Instruments about certain requirements of hedge accounting.
2 Hong Kong related includes PSDC, Hong Kong Branch Line and sales to Guangdong from Hong Kong
3 Return on equity = Total earnings / Average shareholders' funds
4 Net debt to total capital = Net debt / (Equity + advances from non-controlling interests + net debt). Debt = Bank loans and other borrowings. Net debt = Debt – bank balances, cash and other liquid funds.
5 Earnings before interest and taxes (EBIT) interest cover = Profit before income tax and interest / (Interest charges + capitalised interest)
6 Price / Earnings = Closing share price on the last trading day of the year / Earnings per share
7 Dividend yield = Dividends per share / Closing share price on the last trading day of the year

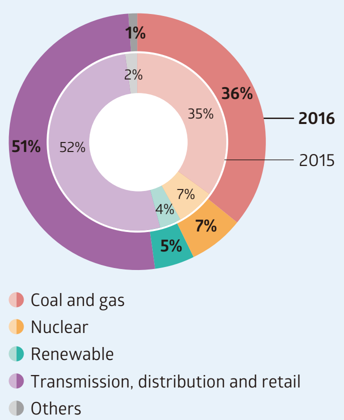
Revenue



Total Earnings



Operating Earnings (Before Unallocated Expenses) by Asset Type

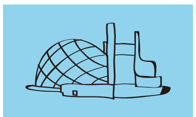


Our Investments

CLP operates a diversified portfolio of generating assets across our five markets in Asia Pacific, harnessing a wide range of fuels including coal, gas, nuclear, wind, hydro and solar. As at 31 December 2016, our portfolio comprised ***18,622MW*** of equity generating capacity and ***5,159MW*** of capacity purchase, among which ***3,090MW*** and ***461MW*** were from renewable sources respectively. Our business also includes transmission and distribution, and electricity and gas retail activities.

CLP Holdings

HONG KONG



Transmission, Distribution and Customer Service

CLP **100%**	CLP Power Hong Kong

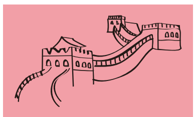
Generation – CAPCO

CLP **70%**	**30%**[1]

Gas Pipeline – SNGPC

CLP **40%**	PetroChina Company Limited **60%**

MAINLAND CHINA



Wholly-owned

Wind

CLP **100%**	CLP Laizhou Wind
CLP **100%**	Laiwu Wind
CLP **100%**	Penglai Wind
CLP **100%**	Qian'an Wind
CLP **100%**	Sandu Wind
CLP **100%**	Xundian Wind

Hydro

CLP **100%**	Jiangbian Hydro
CLP **100%**	Dali Yang_er Hydro
CLP **100%**	PSDC

Solar

CLP **100%**	Xicun Solar
CLP **100%**	Sihong Solar
CLP **100%**	Huai'an Solar

Majority / Equally-owned

Coal – Fangchenggang

CLP **70%**	**30%**[2]

Hydro – Huaiji Hydro

CLP **84.9%**	**15.1%**[3]

Solar – Jinchang Solar

CLP **51%**	**49%**[4]

Wind – CLP-CWP Wind

CLP **50%**	**50%**[5]

Minority-owned

Coal – Shandong Zhonghua

CLP **29.4%**	China Guodian Corporation & EDF International S.A.S. **70.6%**

Coal – CSEC Guohua

CLP **30%**	China Shenhua Energy Company Limited **70%**

Coal – Shenmu

CLP **49%**	China Shenhua Energy Company Limited **51%**

Nuclear – GNPJVC

CLP **25%**	Guangdong Nuclear Investment Company, Limited **75%**

Wind

CLP **15.75%**	CGN Wind Energy Ltd. **84.25%**
CLP **25%-49%**	Various Minority-owned Wind Joint Ventures[6]

INDIA

Coal

CLP **100%**	Jhajjar Power Limited

Gas, Wind

CLP **100%**	CLP India

Wind

CLP **100%**	CLP Wind Farms India
CLP **100%**	Khandke Wind
CLP **100%**	Theni Project II

Solar – Veltoor Solar

CLP **49%**	Suzlon Energy Limited **51%**

SOUTHEAST ASIA AND TAIWAN

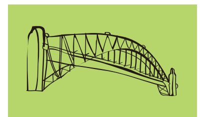
Coal – Ho-Ping

CLP **20%**	Mitsubishi Corporation and Taiwan Cement Corporation **80%**

Solar – Natural Energy Development

CLP **33.3%**	Electricity Generating Public Company Limited **66.7%**

AUSTRALIA



Generation, Electricity and Gas Retail

CLP **100%**	EnergyAustralia

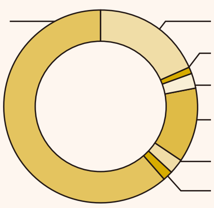
Notes:
1 China Southern Power Grid International (HK) Co., Limited
2 Guangxi Water & Power Engineering (Group) Co., Ltd. (Transferred to China Energy Engineering Corporation Limited in January 2017)
3 Huaiji County Huilian Hydro-electric (Group) Co., Ltd.
4 Jiangsu Zhenfa New Energy Science & Technology Development Co., Ltd.
5 China Wind Power Holdings Limited
6 Refer to our online supplementary information for details

Our Business Model and Value Creation Journey

CLP's core business is providing reliable and safe electricity to our customers at a reasonable price and with minimum impact to the environment. As the world moves into a smarter and greener era, we recognise that helping our customers to manage their electricity use more efficiently is of increasing importance. To achieve this, we draw on all of our resources, experience and talent at CLP, and apply the highest standard of governance to provide our customers with choice and quality service and create values for all of our stakeholders along the way. The following diagram demonstrates how CLP created value and benefits for our stakeholders in 2016.

Manufactured Capital

18,622 equity MW
of generating capacity



15,281 km
of transmission and high voltage distribution lines, and

14,484
primary and secondary substations in Hong Kong

CAPITALS

Natural Capital

Fuel Use

Coal **453,904** TJ

Gas **86,787** TJ

Oil **4,162** TJ

Human Capital

7,428 employees

Social and Relationship Capital

- Build Trust
- Share Knowledge

Financial Capital

Shareholders' Funds

HK$**98,010** million

Total Borrowings

HK$**51,646** million

Intellectual Capital

- Research and Development
- Improvement of Process and Platform
- Innovation and Technology

Operating Earnings HK$ 12,334 million

Total Earnings HK$ 12,711 million

CLP

Customer

- Smart Energy Use
- Customer Promise and Experience

Delivery

- Operate Transmission and Distribution Networks
- Design and Build Transmission and Distribution Networks

Generation

- Operate Power Plants
- Design and Build Power Stations

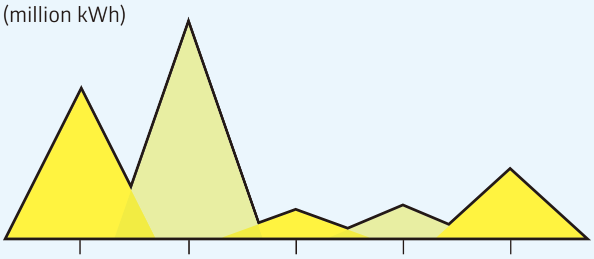
Corporate Governance

- Do-the-right-thing Culture
- High-integrity Governance Framework
- Effective Board Oversight
- Transparent Shareholder Communication

VALUE CREATED

Customers

Total Sent Out by Region
(million kWh)



Total Sent Out [1]
133,275
million kWh

Equity Sent Out [2]
79,583
million kWh

Over **99.999**%
supply reliability in Hong Kong

1.48
unplanned customer minutes lost in Hong Kong [3]

5.15 million customer accounts [4]

Economic Value Generated [5]

HK$
80,225
million

Economic Value Distributed

Suppliers and Contractors
Fuel and Other Operating Costs
HK$
51,474
million

Employees
Staff Expenses
HK$
3,892
million

Community
Donations
HK$
13
million

Environment

0.82 kg CO_2/kWh
carbon intensity
of CLP's electricity generation

Renewable Energy
3,090 MW
16.6% of CLP's
equity generating
capacity

Non-carbon Emitting Energy
3,582 MW
19.2% of CLP's
equity generating capacity

Community

574 programmes implemented

Staff volunteered
13,302 hours

Directly benefitted
over **359,000** people
and **373** organisations

Capital Providers

Total Dividends
HK$ **7,074** million

HK$ **2.80** per share

Finance Costs [6]
HK$ **2,371** million

Government and Regulators

Current Income Tax
HK$ **2,032** million

Economic Value Retained [7]

HK$ **13,369** million

Notes:

1 From power stations in which CLP has invested and capacity purchase arrangements
2 On equity basis and capacity purchase arrangements
3 Average of the past 36 months
4 Including 2.52 million in Hong Kong and 2.63 million in Australia
5 Economic value generated consists of revenue (HK$79,434 million) and share of profits (HK$791 million). Share of profits represents share of results (net of income tax) from joint ventures and associates netted with earnings attributable to other non-controlling interests
6 Netted with finance income and include payments made to perpetual capital securities holders
7 Represents earnings attributable to shareholders (before depreciation, amortisation and deferred tax) for the year retained

Gross Capacity and CLP Net Capacity by Market:

	Gross Capacity	CLP Net Capacity*
Hong Kong	7,483MW	7,483MW
Mainland China	20,974MW	8,069MW
India	3,029MW	2,978MW
Southeast Asia and Taiwan	1,383MW	285MW
Australia	5,087MW	4,966MW
Total	**37,956MW**	**23,781MW**

**Equity basis and capacity purchase arrangements*

A detailed list of CLP's investments

Chairman's Statement

"We have been a pioneer in embracing new technologies and changes not despite, but thanks to our 115 years of experience in all stages of the electricity supply chain. We are taking steps to address the challenges and opportunities they represent."

The Honourable Sir Michael Kadoorie
Chairman

Dear Shareholders,

I am pleased to say that 2016 was a year of steady progress across our portfolio. During the year, Group operating earnings increased 7.1% to HK$12,334 million from a year earlier. Total earnings were down 18.8% to HK$12,711 million after taking into account one-off items that affected comparability including a significant contribution from the sale of the Iona Gas Plant in Australia in 2015. The Board has recommended a fourth interim dividend for 2016 of HK$1.09 per share which, together with the three dividends already paid, brings 2016's total dividends to HK$2.80 per share, an increase from HK$2.70 in the previous year.

Among the significant global events in 2016 was the adoption and ratification of the Paris agreement on climate change in record time. This landmark event confirmed an unprecedented international commitment to addressing the issue of climate change and accelerating the pace of decarbonisation globally. It also emphasised the importance of all the actions we have taken at CLP to reduce our emissions over the years, even when the resolve of the international community wavered.

In this Statement, I would like to focus my discussion on one particular milestone that demonstrates our commitment to transitioning to a low carbon future – the signing of a conditional agreement with CGN Power to acquire a 17% holding in Yangjiang Nuclear Power Co., Ltd. We have much else to report, but this project stands out.

The Yangjiang project has a special resonance for CLP. In the late 1970s, under the leadership of my late father, Lord Kadoorie, the Company took a bold move to step into the nuclear age with the construction of the Daya Bay Nuclear Power Station – the first commercial nuclear power station in China. The success of Daya Bay underscores the important role that nuclear power has to play in the supply of clean energy, more so now than ever given our planet's urgent need to tackle the effects of global warming and air quality. Now, all these years later, I am particularly pleased with the Yangjiang acquisition. Not only does it acknowledge the legacy of my father and his vision, it also enables us to build on the very successful partnership with CGN established since Daya Bay. Furthermore, the investment puts us in a strong position to benefit from the growing prosperity of the Pearl River Delta, the largest urban area in the world in terms of size and population.

Chairman Sir Michael Kadoorie greets shareholders at the 2016 Annual General Meeting

The transaction represents a further step towards achieving the goals we have set out in our "Climate Vision 2050" – a commitment that I have underlined a number of times in the past to reduce our carbon intensity in 2050 by 75% compared with 2007. The levels of investment involved in Yangjiang of about HK$8 billion, and the long operational timeframe of the project, also underscore the point I have made so often about the energy business. An industry as complex as ours and with such long-term commitments needs certainty and predictability so that we can look forward and plan with confidence for the future.

Shareholders will be aware that we are currently in discussions with the Hong Kong Government in reviewing the Scheme of Control (SoC) which regulates the city's power industry. We have made it clear in many ways and on many occasions that the SoC has worked extremely well for over half a century and has been an effective tool to keep pace with changing times and to meet community aspirations. The SoC has provided regulatory and economic certainty, enabling us to meet the needs of our customers with reliable power at reasonable tariff levels that few, if any, cities in the world can match.

While we await the final outcome of the discussion with the Government, we remain committed to serving Hong Kong's long-term interests. During the year, we received approval from the Government to construct an additional gas-fired generation unit at Black Point Power Station in support of its target of increasing the percentage of local gas generation by 2020. A significant feature of the unit is its advanced design that lifts its efficiency by about a fifth allowing us to further reduce local air emissions while meeting the community needs for electricity. We will continue to work with the Government to achieve Hong Kong's long-term emissions reduction goals. This is what our community expects and deserves and we shall play our part in helping to bring this about.

Another important part of our transition to a lower carbon future is renewable energy. As part of our "Focus • Delivery • Growth" strategy, we have commissioned over 650MW of renewable projects in Mainland China and India since January 2014 and our first solar farm in India is on schedule for commissioning later this year. EnergyAustralia has recently made a pledge to underpin the development of new wind and solar projects of up to 500MW by committing to purchase the clean energy provided by the plants. Renewable energy now accounts for 16.6% of our generation portfolio across the Group.

Meanwhile, the accelerated pace of technological change is disrupting various businesses and the power industry is no exception. Smart grids, smart cities and the shared economy are triggering new business models. Competition in the energy industry is more intense than ever, not only from traditional players but also increasingly from a variety of new entrants.

These developments are very much at the forefront of our minds. We have been a pioneer in embracing new technologies and changes not despite, but thanks to our 115 years of experience in all stages of the electricity supply chain. We are taking steps to address the challenges and opportunities they represent. The new Smart Charge joint venture with HKT to bring a one-stop charging solution to Hong Kong's large fleet of electric vehicles shows that we stand ready to take on new ideas and seize opportunities in the digital space and in the age that emphasises customer centricity.

I would like to conclude on an unusual but happy note. As chairman of this great public company, I am accustomed to receiving all kinds of correspondence, some offering criticism, some comments, others advice and compliments. But I have rarely felt such pleasure from a beautifully written and well thought out letter I received recently from a 16-year-old boy in Gujarat, India. In it, Jigar S. Mahedu put forward his views on the advantages and limitations in the wind farm business having given considerable thought to the current technology and how it might be best used. I told Jigar that his ideas and suggestions were much appreciated. I also assured him that much of what he had to say has in one way or another been a focus of attention of CLP, where we value innovation, creativity and vision as we look forward to a future that not too long ago few people ever imagined.

The Honourable Sir Michael Kadoorie
Hong Kong, 27 February 2017

CEO's Strategic Review

Our business in the next five to ten years may be very different to what it is today. We will be part of the smart infrastructure in the city, and we need to be proactive in playing that role.

Richard Lancaster
Chief Executive Officer

With all the unpredictable events that occurred across the world in 2016, from the UK to the US to China, it will likely be remembered as a year of uncertainty. On top of this, we are seeing disruption in our industry as the world addresses the challenges posed by climate change and technological evolution. There were also incidents of major power blackout in different parts of the world and in Australia in particular which served as a reminder, if needed, of the importance of making the right investment to ensure supply reliability.

CLP is not immune from these global forces and yet despite these significant influences we have continued to operate our businesses steadily and reliably across the portfolio, thus delivering dependable growth. I would therefore like to make use of this Strategic Review to set out how each of our businesses fared across the five major markets last year, and how CLP is well-positioned to face the challenges and seize the opportunities in markets where we operate.

Hong Kong

Although our home base Hong Kong is seen by some as a mature market, we still see an increase in demand for electricity and its related delivery infrastructure. This is driven by a growing population and customer base as well as major infrastructure developments such as the expanding MTR network, the high-speed rail link and the Hong Kong-Zhuhai-Macao Bridge. We are always seeking better ways to serve our customers and are leveraging rapidly changing technology to provide them with more innovative solutions. As such, our business continued to grow steadily and we have consistently maintained a world-class reliability and safety record. Operating earnings from our local electricity business increased 4.6% to HK$8,640 million.

During the year, we made good progress in two new investment opportunities. Approval to construct a new gas-fired generation unit at Black Point was obtained and an environmental impact assessment study of an offshore liquefied natural gas (LNG) terminal in Hong Kong waters commenced. These projects will go a long way towards reducing carbon intensity in Hong Kong and strengthening the city's energy security in support of the Government's 2020 fuel mix objective and its new 2030 climate target.

We would be less able to make these investments if not for the stable operating environment in Hong Kong. Regulatory clarity and a reasonable return are our shareholders' most basic considerations when it comes to endorsing long-term investment plans. The SoC has been an effective framework that helps ensure the right investments are made to meet community aspirations and the steady, progressive development of Hong Kong. Discussions with the Government over a new SoC Agreement are underway and we look forward to a regime that will allow us to continue to serve Hong Kong and contribute to the Government's long-term energy objectives.

Mainland China

During the year, the slowing economic growth and electricity demand in Mainland China impacted our business, with our coal-fired projects being the most hard hit. By contrast, our renewables business held up well and performance at Daya Bay Nuclear Power Station was strong. Taking these factors into account, operating earnings in 2016 dropped from HK$1,977 million to HK$1,521 million.

The decline in our coal-fired generation business was driven by three major factors which included lower utilisation, higher coal costs and reduced tariffs. We have sought to mitigate the pressure on utilisation by participating in direct sales programmes at discounted tariffs and will continue to do so in the coming year.

Towards the end of the year, we announced our investment in Yangjiang Nuclear Power Station. The transaction is expected to be completed in a few months. Daya Bay's excellent operational and safety performance over the years has allowed us to develop nuclear power in China with great confidence. The Yangjiang investment is set to provide a stable and reliable stream of earnings in a sector that has strong policy support from the Central People's Government. This investment underscores our belief that nuclear power as a zero carbon technology will play a pivotal role in China's energy transition.

In 2016, we expanded our renewable capacity by 275MW. This lifted the size of our renewable portfolio in Mainland China to over 2,000MW. At the same time, we commissioned Phase II of Fangchenggang Power Station in Guangxi Zhuang Autonomous Region which utilises the cleanest and most advanced ultra-supercritical coal technology to ensure it meets the latest environmental regulations.

India

In 2016, our coal-fired Jhajjar plant and gas-fired Paguthan project reported steady operational performance. Jhajjar achieved a record availability of 93% and Paguthan 94%. However, we reported a drop in operating earnings to HK$469 million because we booked several one-off gains in 2015 that were not repeated in 2016.

During the year, we continued to develop our renewable energy portfolio and construction of our maiden solar project in southern India is progressing. The electricity produced by our wind farms in 2016 was 16% higher than in 2015 due to additional capacity added in the second half of 2015. The commissioning of these new projects has consolidated our position as one of the biggest renewable energy developers in India. Although India is still a coal-dependent country, it has been making clear moves to reduce dependency on fossil fuels. As a clean energy advocate, CLP will continue to support this policy by making further investments in the renewable energy sector. This is also where we see our long-term growth opportunities.

Southeast Asia and Taiwan

During the year, our operational performance in Southeast Asia and Taiwan continued to be strong. However, operating earnings decreased slightly to HK$274 million in line with Ho-Ping's tariff adjustment that reflected the lagging effect of lower coal prices in the prior year. I am also happy to report that development of our two coal-fired projects in Vietnam has progressed well.

Australia

While the operating environment in Australia's power industry remained challenging in 2016, EnergyAustralia's financial performance continued to improve. Our strategy that puts customers first, together with high availability and power production from our generation facilities in a tightening wholesale electricity market, has enabled us to deliver improved operating and financial results. During the year, operating earnings more than doubled to HK$1,849 million. The reduction in debt following the Iona sale has also had a positive impact reducing overall interest costs.

I am glad to report continuing progress in our retail business. The number of EnergyAustralia's customer accounts remained stable in an intensely competitive environment. Most importantly, our customers are staying longer, churn was lower and there were fewer complaints, reflecting improvements in service.

In ongoing support of our business, last December, EnergyAustralia announced it would sign agreements that underpin the development of around 500MW of new wind and solar energy projects across eastern Australia. This confirms our significant support of the country's renewable energy developments and EnergyAustralia's commitment to the Australian Government's Renewable Energy Target to

Q

Does CLP have any plans to make a complete shift to natural gas in its power generation in Hong Kong?

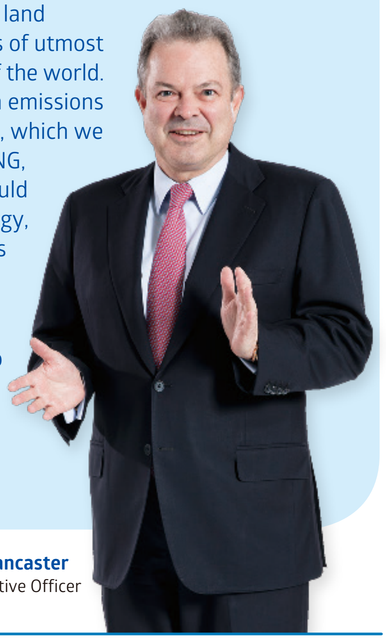
The way we produce electricity needs to transition over time to reduce carbon emissions. There are many low or zero carbon technologies in the market, but each economy will have different choices to make based on the available resources, land availability, affordability and so on. Another very important consideration is maintaining a reliable electricity supply which requires some diversity in the technologies used.

For Hong Kong where we have few natural resources, limited land availability and where the reliability of our electricity supply is of utmost importance, the choices are more limited than in other parts of the world. Shifting to using more natural gas as a fuel will reduce carbon emissions and if natural gas supplies can be secured at affordable levels, which we believe they can through a combination of pipeline gas and LNG, then this is a sensible option for Hong Kong. However we should never become overly reliant on a single fuel source or technology, so nuclear power, which already provides 25% of Hong Kong's electricity, should be kept as an option.

Outside Hong Kong, CLP will deploy a range of technologies including wind and solar power and clean coal technologies to support the transition to low carbon energy across Asia.

Mr Richard Lee Yau Bun
Shareholder

A



Richard Lancaster
Chief Executive Officer

achieve 23.5% of total energy in the national electricity market provided by renewable energy by 2020.

However, there are wider issues to be addressed in the Australian wholesale energy market. The blackout in South Australia last September is a painful reminder of the need for a holistic, stable and coordinated national energy policy. We would like to see a national plan to manage the switch from a coal-dominated energy supply system to a cleaner one that balances environmental issues with affordability and reliability.

Safety

Safety is our first priority and our goal is to have zero injuries at each of our sites. Although we continued to reduce our injury rates in 2016, sadly three of those injuries were fatal incidents at sites under our operating control. All involved contractors with two of the incidents relating to falls from height and the other an assault on a security guard at a remote location. Even one life lost is one too many, and I would like to take this opportunity to express my deepest sympathy to the families of the deceased. We have investigated all the incidents and devised a course of actions to improve our safety practices and enhance contractors' knowledge and competence to avoid similar events in future.

The Forces Behind

The power industry has seen a great deal of change over the decades and has been a key element in the support for the economic growth and community development seen around the world. Today, there are two driving forces that offer opportunities and risks to which the industry must respond: the energy sector's important role in tackling climate change, and the opportunity to harness the digital revolution and to put it to work for the energy industry.

Climate Change

We are glad to see that the Paris agreement on climate change has been ratified, and that a much faster rate of decarbonisation is taking place internationally. However, the power industry alone cannot meet the agreed climate change mitigation targets. Meeting the challenge will require collaboration by industry, government and civil society alike.

We need to have in place three key elements: a sustainable set of regulatory structures that facilitate the transition to a cleaner energy mix; financing mechanisms to support that change; and conventional and renewable energy sources that are reliable and affordable. While the power industry is ready to roll up its sleeves and do its part, we must also accept that different parts of the world will require different solutions. In developing economies, coal will inevitably remain a vital primary energy source for some time. For our part, CLP is committed to supporting the different choices made by the governments of the communities where we operate and to delivering the cleanest solutions based on the choices those countries make.

We look forward to continued and active involvement with governments to help formulate the regulations required

Smart Charge offers electric car owners one-stop charging solution as we continue to grow our business and support Hong Kong's smart city development to facilitate this energy transition. From a Hong Kong perspective, we welcome the vision the Government has shown us by setting a new target for carbon intensity reduction by 2030 and providing a well-defined roadmap for the city's transition towards a low carbon future.

Innovation

CLP is more than 115 years old. Over the years, we have gone through tremendous changes but we are still prospering. This is because we have been adaptable. The digital revolution is changing the face of our industry and offers many exciting opportunities. We no longer think of electricity as the only product we offer our customers. Our business is about the quality of our services, the variety of our products and the commitment we make to our customers. With technological advancement and increasing competition, we are faced with disruption in a way that is all too familiar in other industries.

Our business in the next five to ten years may be very different to what it is today. We will be part of the smart infrastructure in the city, and we need to be proactive in playing that role. We need to build our capability and develop a strategy to manage data on a very large scale. We also need a platform so that all of the smart devices can plug into our electricity system. All of that will need to happen on our grid and right across our business.

We have already set up an innovation team to work on these areas and good progress has already been made. Our focus is twofold. First, we aim to leverage all these technologies and information to get better at what we do. We are looking across all our assets and examining how digital technology platforms can help optimise the performance of our generation fleet. The other focus is developing new areas for our business. An example of this is the Smart Charge initiative with HKT. There are more than 7,000 electric vehicles in Hong Kong, more than many cities in the world. Our joint venture's one-stop charging service provides owners and drivers with the convenience and security they need. In a business sense, Smart Charge recognises the different ways we can grow our business while contributing to Hong Kong as a smart city.

We also made an exciting new investment in Australia in Redback Technologies which combines smart home technology with battery storage. EnergyAustralia continues to examine a wide range of opportunities for customers, so the business is capable of thriving as the energy sector evolves. After all, for any business to be successful, we must develop products and services that meet the ever increasing expectations of our customers.

Outlook

Our strategy that centres on "Focus • Delivery • Growth" has worked well for us in the past two years. Looking ahead, we will continue to invest in Hong Kong, our home. As in the past, we will work hard to provide the reliable and safe electricity supply that our customers deserve. Similarly, we will concentrate our resources on measures to lower emissions in order to support the Government's climate policy objectives through innovative solutions and create a greener Hong Kong for all.

We are confident that a new SoC will provide the clarity we need to meet the challenges of the coming years. We are equally confident that Hong Kong's infrastructure needs and developments will bring about new demand for our products and services.

Outside Hong Kong, we will continue to explore investment opportunities in Mainland China and India – our two major growth markets – primarily in non-carbon generation. In Vietnam, where the demographic and economic growth present a strong need for new low-cost generation capacity, we will look to conclude our Vung Ang II and Vinh Tan III projects. In Australia, we will continue our value restoration programme with a focus on our customers, new products and partnerships in innovative energy-efficient technology, and the orderly transition to a cleaner and lower-emission generation sector.

Our "Climate Vision 2050" is a solid foundation for CLP to support the objectives set out in the Paris Agreement. We will work assiduously with our stakeholders to forge ways to help bring the agreement to reality. And we are preparing with a careful and innovative approach for the opportunities and challenges we see presented by the digital revolution.

CLP has a long history of growth and financial stability and there is every reason to believe that this credible record will continue long into the future.

Richard Lancaster
Hong Kong, 27 February 2017

Shareholder Value

Our Goal:

- Create long-term and sustainable value for shareholders, the Company's ultimate owners.

How We Achieve This:

- Investing in businesses and projects which leverage our core capabilities and provide long-term returns.
- Maintaining a healthy balance sheet, upholding our values in managing our businesses, and communicating with our shareholders on important issues.
- Recognising that we are the stewards of our shareholders' investments in the Company and we value their trust and confidence.

Our Ultimate Aim:

- Provide a stable return with modest growth and a consistent dividend stream to shareholders.

Our Shareholders

At the end of 2016, CLP had over 20,000 registered shareholders. The actual number of investors in CLP shares is 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) which has a combined shareholding of 35.07%. However, CLP is not a family-controlled company with the remaining 64.93% of our shares being held by a wide range of institutional investors, including many based in North America, Europe and Asia, as well as a considerable number of retail investors, who are mostly residents in Hong Kong.

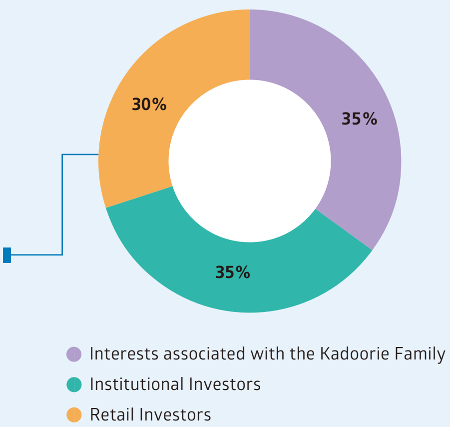
The table below shows details of CLP's shareholdings status.

Shareholdings as at 31 December 2016

Size of Registered Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares	% of Issued Share Capital
500 or below	2,409	11.90	742,779	0.03
501 – 1,000	3,658	18.08	2,912,671	0.11
1,001 – 10,000	9,470	46.79	40,595,109	1.61
10,001 – 100,000	4,190	20.70	121,185,542	4.80
100,001 – 500,000	422	2.09	87,263,939	3.45
Above 500,000	89[1]	0.44	2,273,750,530	90.00
Total	**20,238**	**100.00**	**2,526,450,570**[2]	**100.00**

Notes:
1 Information on the 10 largest registered shareholders in the Company is set out on our website.
2 51.86% of all our issued shares were held through CCASS.
3 The Listing Rules required sufficiency of public float was maintained throughout the year and up to 27 February 2017.

Shareholding by Category[3]



The scale of our shareholders' investment is reflected in the market capitalisation of CLP Holdings which stood at HK$180 billion as at 31 December 2016. Our shares represent 1.88% by weighting of the Hang Seng Index (HSI), Hong Kong's leading listed companies index.

Delivering Value to Shareholders

Through Share Price Performance

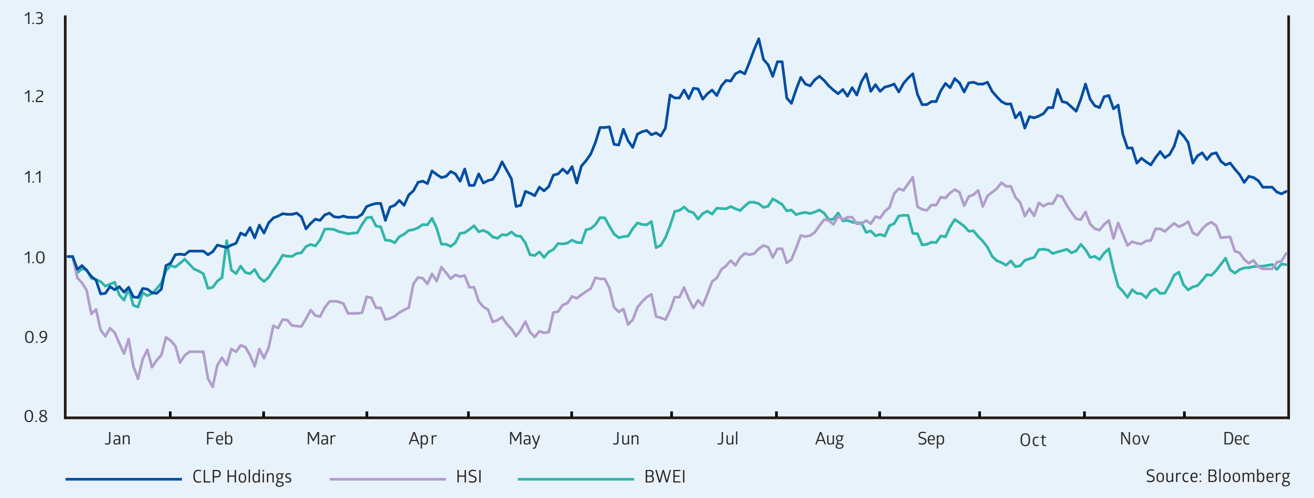
2016 marked an unusual year for the global stock market with the United Kingdom's European Union membership referendum and the Presidential Election in the United States.

CLP's share price appreciated significantly during the first half of the year and reached an all-time high in July of HK$83.90. After a period of relative flat trading in the third quarter, it subsequently declined in the fourth quarter to HK$71.25 in line with the HSI and in response to uncertainty associated with the US Presidential Election and interest rate pressures in the United States.

Compared to the starting position on 1 January 2016, CLP's share price gained 8.2% and significantly outperformed both the HSI and Bloomberg World Electric Index (BWEI) which finished the year up by 0.4% and down by 1.0% respectively.

This comparison is shown in the chart below.

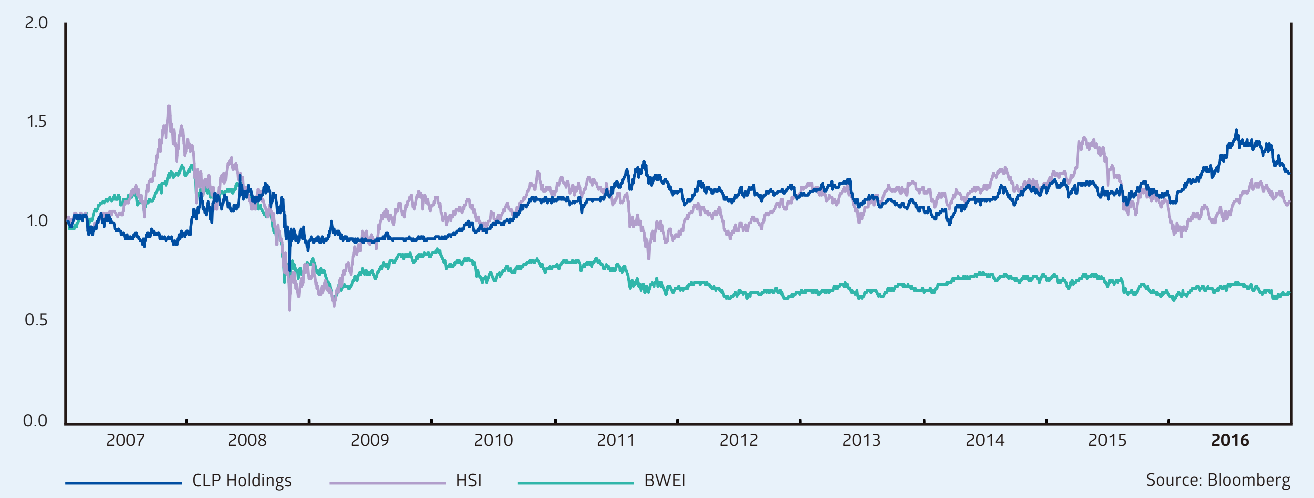
1-year Relative Performance – CLP vs HSI and BWEI (1 Jan 2016 – 31 Dec 2016) (Base: 31 December 2015 = 1.0)



In 2016, the average closing price of CLP's shares was HK$74.01, an increase of more than 11% when compared with the average of 2015. The stock recorded its highest closing price of HK$83.90 on 26 July and the lowest closing price of HK$62.45 on 21 January. It ended the year at HK$71.25.

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

10-year Relative Performance – CLP vs HSI and BWEI (1 Jan 2007 – 31 Dec 2016) (Base: 31 December 2006 = 1.0)

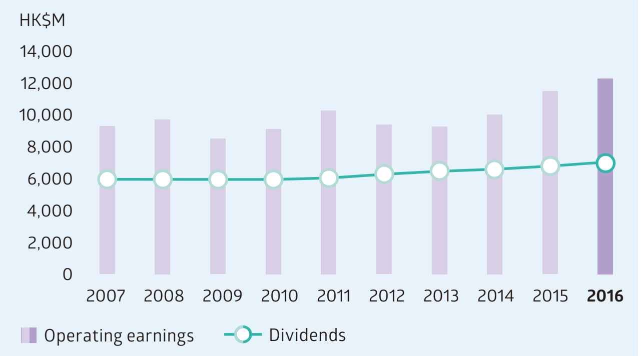


Through Dividend Payments

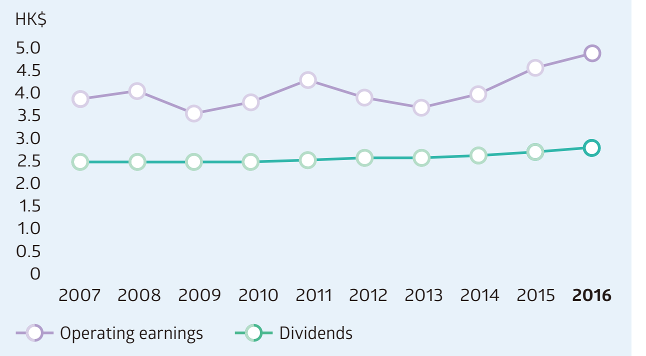
Our longstanding practice is to provide reliable and consistent ordinary dividends with gradual growth, linked to the underlying earnings performance of the business. Our shareholders, whether institutional or retail investors, have continued to emphasise the importance they attach to a consistent dividend stream with gradual growth from their investment in CLP shares. In fact, our annual dividends have not decreased since 1960 – a solid record maintained over the past 56 years.

The following charts demonstrate that we have maintained a stable dividend stream, despite fluctuations in earnings over the period.

Earnings and Dividends (2007 – 2016)



Earnings and Dividends Per Share (2007 – 2016)



Past 10 years (2007-2016)

From 2007 to 2016, CLP's ordinary dividend payments were between 57% and 66% of operating earnings, except for 2009 and 2013 when our payout ratio rose to 70% of operating earnings. This was due to a significant decline in earnings caused by the reduction in the permitted rate of return under the SoC in 2009 and the difficult market conditions in Australia in 2013.

The total dividends declared for 2016 was HK$2.80 per share representing an increase of 3.7% over the total dividends for 2015. The dividend payout ratio for 2016 was 57% 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 10-year period from 2007 to 2016, CLP provided an annualised rate of return of 6.42%, as compared with 4.44% for the HSI and a negative return of 0.30% for the BWEI.

Total Returns – CLP vs HSI and BWEI (2007 – 2016) (Base: 31 December 2006 = 0%)

Source: Bloomberg

CLP Shares – Investment Comparison

For reference only, we have set out below our share price performance and 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 2016, 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 dividends or interest reinvested) at the end of each of the three periods.

Investment Returns

	Total Investment Worth at 31 December 2016		
	1-Year Period HK$	5-Year Period HK$	10-Year Period HK$
CLP	1,123	6,174	15,048
Tracker Fund of Hong Kong	1,035	5,574	12,468
Hong Kong and China Gas	1,017	5,493	15,051
Power Assets Holdings	994	5,837	16,738
HK Electric Investments	1,041	n.a.	n.a.
HK$ 1-Year Fixed Deposits	1,008	5,114	10,548

Adapted from Bloomberg / Reuters

Shareholders' Dates 2017

The diagram below shows important dates in the shareholders' diary.

FEB
- 27 — 2016 Annual Results and Fourth Interim Dividend announced

MAR
- 13 — 2016 Annual Report uploaded on website
- 14 — 2016 Fourth Interim Dividend Book Close Day
- 23 — 2016 Fourth Interim Dividend payable

APR 28 → **MAY** 5 — Voting at AGM Book Close Days

MAY
- 5 — 2017 AGM
- 11 — 2017 First Interim Dividend announcement

JUN
- 6 — 2017 First Interim Dividend Book Close Day
- 15 — 2017 First Interim Dividend payable

AUG
- 7 — 2017 Interim Results and Second Interim Dividend announcement

SEP
- 6 — 2017 Second Interim Dividend Book Close Day
- 15 — 2017 Second Interim Dividend payable

OCT
- 16 — 2017 Third Interim Dividend announcement

DEC
- 6 — 2017 Third Interim Dividend Book Close Day
- 15 — 2017 Third Interim Dividend payable

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

Financial Review

Our financial figures in 2016 show how successfully we implemented our strategy, delivered economic values to our capital providers and generated the financial resources to drive future growth


Innovation
CLP
TECHNOLOGY
RENEWABLES

Financial Review

CLP Group's Financial Results and Position at a Glance

Strategy – "Focus • Delivery • Growth"

CLP's strategy is to focus on business activities and initiatives that best utilise our core competencies; deliver on the potential of our investments and generate growth for the shareholders. As such, Hong Kong remains our core market and strategic focus. Mainland China and India are our primary growth markets but will explore secondary growth opportunities in selective Southeast Asia countries. Our focus in Australia is to restore value.

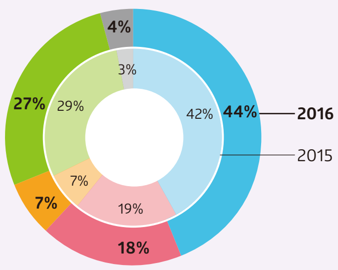
How Well We Achieve Our Strategy

Hong Kong as our core market contributed about 70% of Group operating earnings. It is encouraging that operating earnings from Australia more than doubled after our increased focus on customers, cost control and efficiency. Operating earnings from Mainland China dropped by 23.1% on challenging market conditions. Earnings of India after excluding certain one-off adjustments in 2015 improved. Pending any further investment opportunities in Southeast Asia, its earnings remained stable.

Last Year's Statement of Financial Position

	2015 HK$M
Working capital	
Receivables less payables	(5,211)
Cash and cash equivalents	3,565
Others	(1,177)
	(2,823)
Non-current assets	
Fixed assets, leasehold land and land use rights and investment properties	136,012
Others	45,677
	181,689
Debts and other non-current liabilities	
Bank loans and other borrowings [1]	(55,483)
Others	(22,451)
	(77,934)
Net assets	**100,932**
Equity	
Share capital, reserves and non-controlling interests, as restated [2]	28,049
Retained profits, as restated [2]	72,883
	100,932
Closing exchange rate	
A$ / HK$	5.6691
INR / HK$	0.1171
RMB / HK$	1.1935

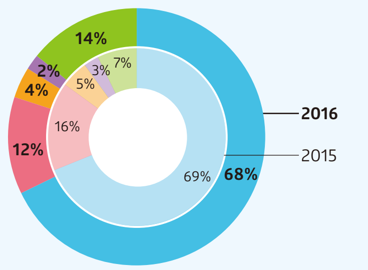
2-Year Net Assets by Region



Statement of Profit or Loss

	2016 HK$M	2015 [2] HK$M	Increase / (Decrease) %
Revenue	**79,434**	80,700	(1.6)
Operating expenses	**(62,288)**	(67,580)	(7.8)
Other gain	**–**	8,900	
Operating profit	**17,146**	22,020	
Share of results of joint ventures and associates, net of tax	**1,641**	2,245	
Net finance costs	**(2,124)**	(3,936)	(46.0)
Income tax expense	**(2,855)**	(3,580)	
Attributable to non-controlling interests	**(1,097)**	(1,093)	
Earnings attributable to shareholders	**12,711**	15,656	(18.8)
Excluding: Items affecting comparability	**(377)**	(4,137)	
Operating earnings	**12,334**	11,519	7.1

2-Year Operating Earnings (Before Group Expenses) by Region



Average exchange rate	
A$ / HK$	5.7615
INR / HK$	0.1152
RMB / HK$	1.1649

Retained profits (HK$M)	
Balance at 31.12.2015, as restated [2]	72,883
Earnings attributable to shareholders	12,711
Dividends paid	(6,973)
Other movements	(74)
Balance at 31.12.2016	78,547
Fourth interim dividend declared for 2016, HK$/share	1.09

Notes:
1. Including current and non-current portions
2. Comparative figures have been restated in accordance with the transitional provisions of HKFRS 9 about certain requirements of hedge accounting. Details are set out in Note 3 of Significant Accounting Policies of the Financial Statements.

Adequate Resources Generated to Support Our Strategy

Free cash flow (FCF) represents the cash which a company can generate without causing issues to its operations. FCF can be used for distribution to the debt holders and shareholders and to grow the business.

Our FCF remained strong on the back of steady growth in Hong Kong electricity business and improved operations for businesses outside Hong Kong. FCF for the last five years can be found in the Broader Perspective (page 33).

Where We Stand

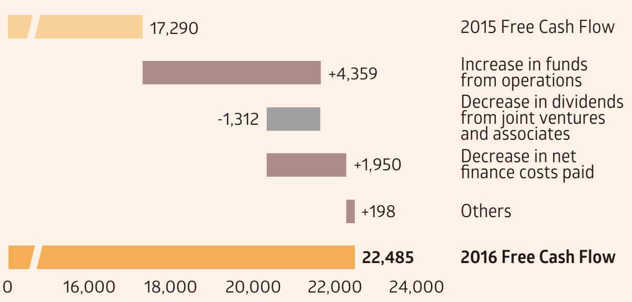
- Successful execution of strategy with continuous improvement in earnings and operations
- Invested HK$1.2 billion in renewables, which now represented 17% of our generation capacity and contributed HK$610 million to earnings
- Strong credit ratings with net debt to total capital reduced from 32.4% to 29.5%
- Delivered a total shareholders' return (share price appreciation and dividend payments) of 12.3% in 2016

Statement of Cash Flows

	2016 HK$M
Operating profit	17,146
Depreciation and amortisation	6,909
Impairment	397
Others	901
Funds from operations	25,353
Tax paid and interest received	(1,677)
Cash inflow from operating activities	23,676
Cash outflow from investing activities	(8,296)
Cash outflow from financing activities	(14,288)
Net increase in cash and cash equivalents	1,092
Cash and cash equivalents at 31.12.2015	3,565
Effect of exchange rate changes	(190)
Cash and cash equivalents at 31.12.2016	4,467
Free Cash Flow	
Funds from operations	25,353
Less: tax paid	(1,814)
Less: net finance costs paid *	(2,255)
Less: maintenance capital expenditure	(723)
Add: dividends from joint ventures and associates	1,924
	22,485

* Includes distributions paid to perpetual capital securities holders

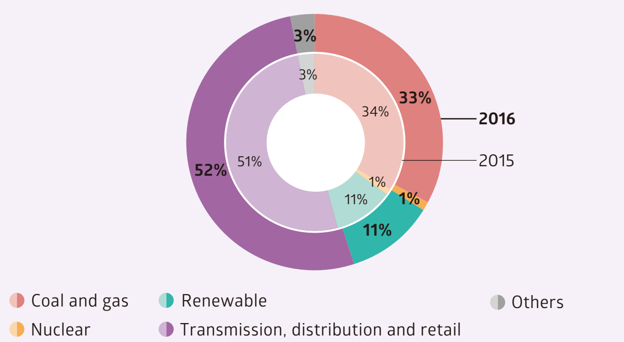
Movements in Free Cash Flow (HK$M)



This Year's Statement of Financial Position

	2016 HK$M
Working capital	
Receivables less payables	(6,122)
Cash and cash equivalents	4,467
Others	(1,836)
	(3,491)
Non-current assets	
Fixed assets, leasehold land and land use rights and investment properties	139,421
Others	43,359
	182,780
Debts and other non-current liabilities	
Bank loans and other borrowings [1]	(51,646)
Others	(21,870)
	(73,516)
Net assets	**105,773**
Equity	
Share capital, reserves and non-controlling interests	27,226
Retained profits	78,547
	105,773
Closing exchange rate	
A$ / HK$	5.5920
INR / HK$	0.1141
RMB / HK$	1.1121

Capital Assets # by Asset Type

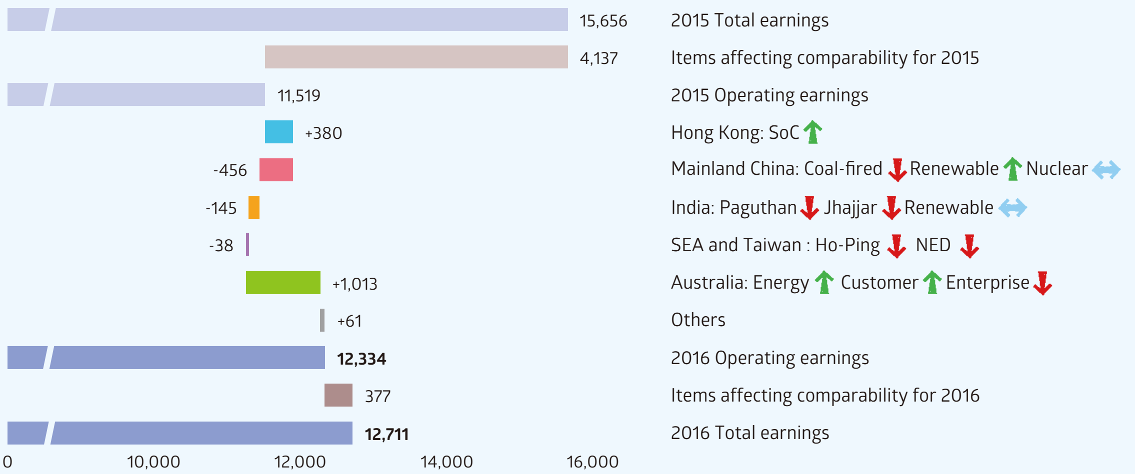


Capital assets represent the year end balances of fixed assets, leasehold land and land use rights, investment properties, goodwill and other intangible assets, and interests in joint ventures and associates

Analysis on Financial Results

Total Earnings (2016: HK$12,711 million; 2015: HK$15,656 million, as restated; ↓18.8%)
Operating Earnings (2016: HK$12,334 million; 2015: HK$11,519 million, as restated; ↑7.1%)

Earnings for the Year (HK$M)



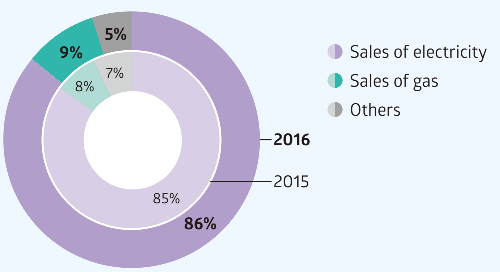
The performance of individual business is analysed on "Business Performance and Outlook" on pages 36 to 61.

Revenue (2016: HK$79,434 million; 2015: HK$80,700 million; ↓1.6%)
Operating Expenses (2016: HK$62,288 million; 2015: HK$67,580 million; ↓7.8%)

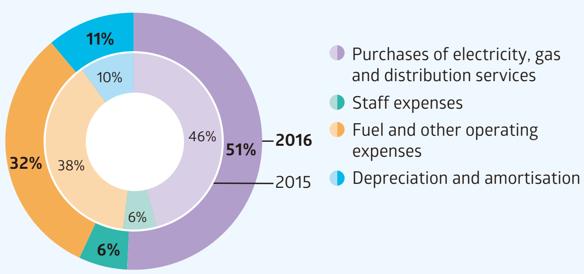
	Revenue				Operating Expenses			
	2016	2015	**Increase/(Decrease)**		**2016**	2015	**Increase/(Decrease)**	
	HK$M	HK$M	**HK$M**	**%**	**HK$M**	HK$M	**HK$M**	**%**
Hong Kong	**37,968**	38,937	(969)	(2.5)	**24,723**	26,586	(1,863)	(7.0)
Australia	**36,441**	35,707	734	2.1	**33,562**	35,981	(2,419)	(6.7)
India	**3,808**	5,104	(1,296)	(25.4)	**2,425**	3,675	(1,250)	(34.0)
Mainland China and others	**1,217**	952	265	27.8	**1,578**	1,338	240	17.9
	79,434	80,700	(1,266)		**62,288**	67,580	(5,292)	

- Hong Kong: Lower fuel cost recovery revenue in line with lower fuel cost incurred; basic tariff and other operating expenses remained stable
- Australia: Higher generation from Mount Piper and Yallourn; lower sales volume for retail despite higher margin; impairment and onerous provisions for generation assets of HK$2.1 billion in 2015
- India: Lower generation for Jhajjar on lower demand; more renewable projects commissioned; Paguthan remained stable
- Mainland China: Our investments are mainly through joint ventures and an associate, which under equity accounting method, there would be no proportionate shares of their revenues and expenses

Revenues by Nature



Operating Expenses by Nature



Analysis on Financial Position

Items Affecting Comparability (2016: HK$377 million; 2015: HK$4,137 million)

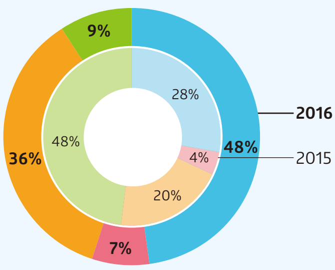
	2016 HK$M	2015 HK$M
Property revaluation and transaction		
Gain on sale of a property	**643**	–
Revaluation (losses) / gain on investment properties	**(146)**	99
Impairment and provision reversal		
Impairment provision for Fangchenggang	**(199)#**	–
Impairment provision for Beijing Yire Power Station	**(58)**	(243)
Reversal of onerous provision / (Impairment and onerous provisions) for generation assets	**54**	(1,480)
Reversal of over-provision of capital gain tax	**83**	–
Gain on sale of Iona Gas Plant	**–**	6,619
Costs associated with early termination of debt	**–**	(858)
	377	4,137

Due to the impact of several factors including the economic slowdown, discounted tariff of direct sale and oversupplied market in Guangxi Province, an impairment provision of HK$199 million was recognised by CLP.

Net Finance Costs (2016: HK$2,124 million; 2015: HK$3,936 million, as restated; ↓46.0%)

- Overall in 2016, we saw lower interest rates and lower average borrowings within the Group
- Hong Kong: Repayment of bridging loans for acquisition of CAPCO and lower interest rates
- India: Reduced finance costs by funding from internal operations
- Australia: Repayment of substantial debts in December 2015 and non-recurring costs (HK$1,226 million) associated with the close-out of debt and related financial derivatives in 2015

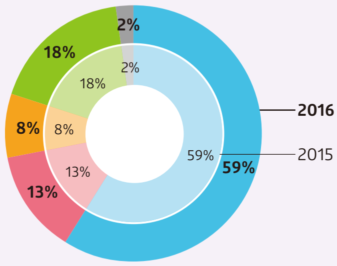
Net Finance Costs by Region



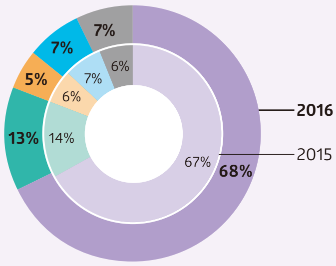
Total Assets (2016: HK$205,978 million; 2015: HK$203,964 million; ↑1.0%)

- Hong Kong still has the highest asset allocation among the Group because of its scale and scope of operation. 59% of total assets related to our business in Hong Kong. About two-third of it was transmission and distribution assets and one-third was generation assets.
- The assets employed by Australia accounted for 18% of total assets for its integrated business in Customer business (mainly goodwill and intangible assets) and Energy business (mainly Yallourn and Mount Piper).
- Substantial part of our operation in Mainland China is owned through our interests in joint ventures and an associate.

Total Assets by Region



Total Assets by Asset Type



Analysis on Financial Position

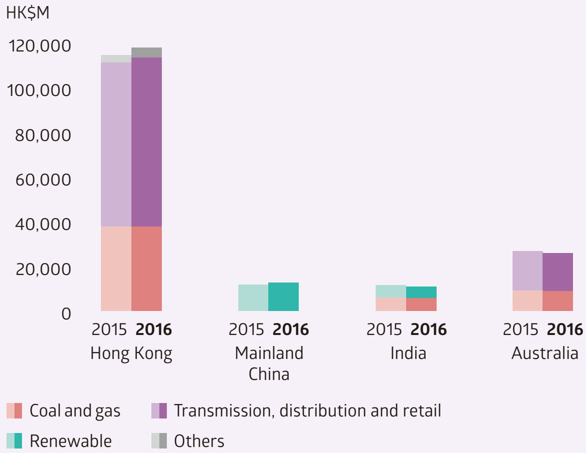
Fixed Assets, Leasehold Land and Land Use Rights and Investment Properties (2016: HK$139,421 million; 2015: HK$136,012 million; ↑2.5%)
Goodwill and Other Intangible Assets (2016: HK$27,653 million; 2015: HK$28,257 million; ↓2.1%)

- Major additions for the year including:
  - Hong Kong: SoC capital expenditure of HK$7.3 billion
  - Mainland China and India: Construction of wind and solar projects of HK$1,033 million
  - Australia: Enhancement of Yallourn, Mount Piper and customer service facilities
  - Corporate: Acquisition of remaining portion of Laguna Mall of HK$1,238 million for development of CLP headquarters
- Fixed assets of HK$1,027 million was brought in by acquisition of Sihong Solar as a subsidiary in July 2016
- The movements of balances as follows:

	Fixed Assets, Leasehold Land & Investment Properties HK$M	Goodwill and Other Intangible Assets HK$M
Opening balance at 1.1.2016	136,012	28,257
Additions	10,105	396
Acquisitions of Sihong and SE Solar	1,059	–
Depreciation and amortisation	(6,147)	(762)
Translation difference* and others	(1,608)	(238)
Closing balance at 31.12.2016	139,421	27,653

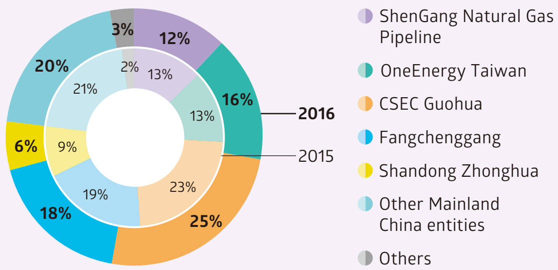
* Depreciation of Renminbi, Australian dollar and Indian rupee

- The above closing balances are analysed as follows:



Interests in Joint Ventures (2016: HK$9,971 million; 2015: HK$11,250 million; ↓11.4%)

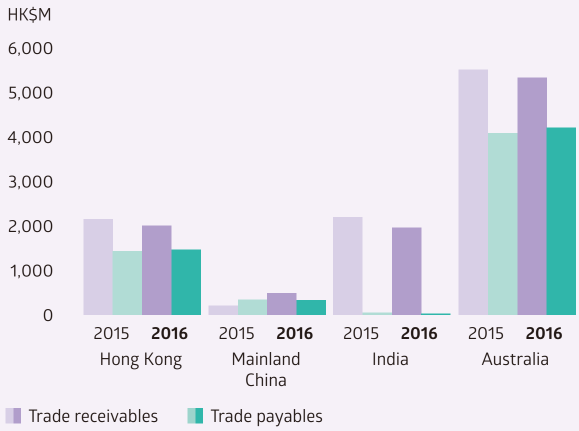
- Diversification of investments, e.g. investment in Smart Charge in Hong Kong with Hong Kong Telecom in 2016
- Reclassification of Sihong Solar from a joint venture to a subsidiary
- Overall lower earnings and dividends, coupled with Renminbi devaluation and impairment of Fangchenggang



Trade and Other Receivables (2016: HK$13,799 million; 2015: HK$13,812 million; ↓0.1%)
Trade and Other Payables (2016: HK$19,921 million; 2015: HK$19,023 million; ↑4.7%)

- Hong Kong: Stable receivables from SoC business; trade creditors mainly related to capital expenditure; inclusion of special fuel clause rebate payable of HK$785 million in 2016
- Mainland China: Higher receivables on more majority owned renewable projects; RMB500 million deposit paid for the acquisition of 17% interest in Yangjiang Nuclear
- India: Lower generation resulted in lower debtor balances
- Australia: Stablised operations with improvement in debt collection activities

Trade Receivables / Payables for 2-Year by Region



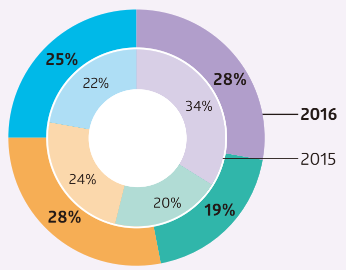
Derivative Financial Instruments
Assets: 2016: HK$2,211 million;
2015: HK$1,678 million; ↑31.8%;
Liabilities: 2016: HK$2,557 million;
2015: HK$3,397 million; ↓24.7%

CLP actively manages financial risks by using different derivative instruments with the objective of minimising the impact of foreign currency, interest rate and energy price fluctuations on Group's financial performance. As at 31 December 2016, the Group had gross outstanding derivative financial instruments which amounted to HK$86.9 billion. The fair value of these derivative instruments was a net deficit of HK$346 million, representing the net amount payable if these contracts were closed out at year end. However, changes in the fair value of derivatives have no impact on cash flows until settlement.

Decrease in net derivative liabilities was mainly due to the favourable mark-to-market movements on renewable offtake contracts in Australia and loan-related cross currency interest rate swaps in Hong Kong.

	Notional Amount		Fair Value Gain / (Loss)	
	2016	2015	**2016**	2015
	HK$M	HK$M	**HK$M**	HK$M
Forward foreign exchange contracts and foreign exchange options	**40,003**	73,255	**438**	488
Interest rate swaps and cross currency interest rate swaps	**35,452**	33,838	**(945)**	(1,565)
Energy contracts	**11,469**	10,289	**161**	(642)
	86,924	117,382	**(346)**	(1,719)

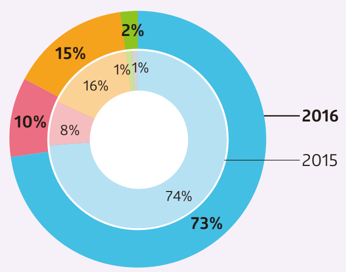
Maturity Profile



Bank Loans and Other Borrowings
(2016: HK$51,646 million; 2015: HK$55,483 million; ↓6.9%)

- The Group engaged in new financing activities during the year in support of the operation and business growth. On the other hand, we continue to solicit re-financing our debts at competitive terms.
- Major achievements in financing activities during the year including:
  - Hong Kong: Issued HK$500 million 15-year fixed rate Medium Term Note at attractive coupon rate;
  - India: Jhajjar issued the bonds of Rs.2.2 billion (HK$251 million) at fixed coupon rate in July 2016 with A+ credit rating from India rating agency; and
  - Australia: Reduction in bank loan facilities to economise finance costs.
- Strong operating cashflow and improvement in operating performance enabled the Group to reduce its debts and resulted in reduction in net debt to total capital ratio from 32.4% to 29.5%.

Bank Loans and Other Borrowings by Region



- Standard & Poor's revised the rating outlooks of CLP Holdings and CLP Power Hong Kong to positive from stable, and affirmed their credit ratings at A- and A respectively. It also upgraded the credit rating of EnergyAustralia from BBB- to BBB with outlook to positive. Moody's affirmed the A2 and A1 credit ratings of CLP Holdings and CLP Power Hong Kong respectively with stable outlooks.

More details on our financing and capital resources can be found on "Financial Capital".

Cash Flow Analysis

Free Cash Flow (2016: HK$22,485 million; 2015: HK$17,290 million; ↑ 30.0%)

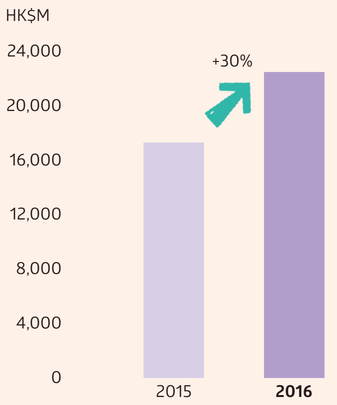
- Free cash flow increased by HK$5.2 billion primarily due to increase in cash inflows from SoC, improvement in working capital from Australia and lower finance costs paid offset by lower dividends from joint ventures (mainly Fangchenggang).
- Capital investments include fixed assets, leasehold land and land use rights, investment properties, intangible assets and investments in and advances to joint ventures and associates.

1 HK$7.1 billion SoC capital expenditure related to enhancing transmission and distribution networks, generation and customer services in Hong Kong

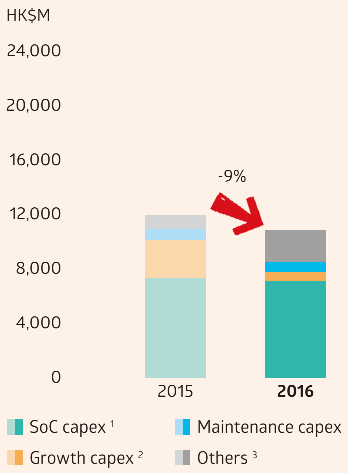
2 HK$635 million growth capital expenditure mainly related to our renewable projects in Mainland China

3 Others of HK$2.4 billion mainly included the acquisitions of remaining interest in Sihong Solar in Mainland China and SE Solar in India of a total of HK$236 million and deposit paid for acquistion of 17% interest in Yangjiang Nuclear of RMB500 million (HK$568 million)

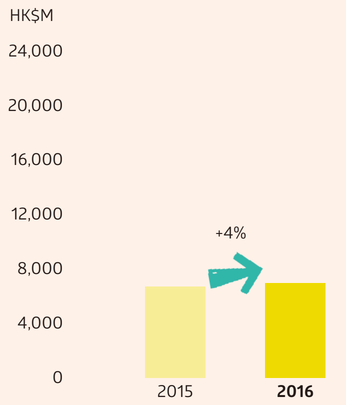
Free Cash Flow



Capital Investments



Dividends Paid



Financial Obligations at a Glance

The consolidated financial statements only show the financial obligations of CLP Holdings and its subsidiaries (category 1). In order to have a full picture of the financial risks of the Group associated with unconsolidated financial obligations, the borrowings of equity accounted entities (category 2) and off-balance sheet contingent liabilities (category 3) should also be included and assessed. The full financial obligations of the Group are presented below:

Category 1: Borrowings of subsidiaries are non-recourse to CLP Holdings.
Category 2: These debts are non-recourse to CLP Holdings and its subsidiaries. The share of debts is calculated by reference to the Group's shareholdings in the relevant joint ventures and associates.
Category 3: Details of the contingent liabilities are set out in Note 30 of the Financial Statements.

A Broader Perspective

	2016	2015[1]	2014	2013	2012
Performance Indicators					
EBITDAF[2], HK$M	**25,355**	31,267	23,442	19,689	23,602
ACOI[3], HK$M	**18,128**	17,929	17,232	16,935	18,179
Operating earnings, HK$M	**12,334**	11,519	10,062	9,307	9,406
Total earnings, HK$M	**12,711**	15,656	11,221	6,060	8,312
Return on equity, %	**13.3**	17.3	12.8	6.8	10.1
Operating return on equity[4], %	**12.9**	12.7	11.5	10.4	10.9
Financial Health Indicators					
Undrawn facilities, HK$M	**23,986**	29,685	32,533	33,218	33,073
Total borrowings, HK$M	**51,646**	55,483	67,435	56,051	66,198
Fixed rate borrowings to total borrowings, %	**57**	57	58	67	57
FFO interest cover[5], times	**14.0**	9.2	9.1	8.1	7.3
FFO to debt[6], %	**47.3**	34.2	37.9	35.7	37.1
Net debt to total capital, %	**29.5**	32.4	38.0	36.7	36.8
Debt / Capitalisation[7], %	**28.7**	33.3	39.7	36.2	40.4
Shareholders' Return Indicators					
Dividends per share, HK$	**2.80**	2.70	2.62	2.57	2.57
Dividend yield, %	**3.9**	4.1	3.9	4.2	4.0
Total returns to shareholders[8], %	**6.4**	8.4	8.8	9.9	12.6

Readers can refer to "Shareholder Value" on pages 20 to 23 for more analysis on shareholders' return.

Cash Flows and Capital Investments					
FFO[5], HK$M	**25,353**	20,994	23,431	21,798	24,438
Free cash flow[9], HK$M	**22,485**	17,290	19,027	16,664	18,215
Capital investments, HK$M	**10,866**	11,967	12,314	9,791	10,313

Notes:

1 Comparative figures have been restated for the adoption of HKFRS 9 on hedge accounting.

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

3 ACOI (Adjusted Current Operating Income) represents operating earnings before net finance costs, income tax, other non-controlling interests, distribution to perpetual capital securities holders and net fair value gain or loss on derivatives relating to transactions not qualified as hedges and ineffectiveness of cash flow hedges.

4 Operating return on equity = Operating earnings / Average shareholders' funds

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

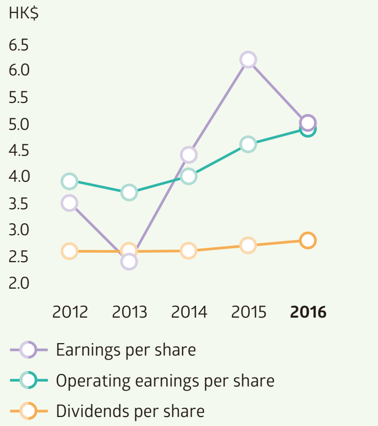
6 FFO to debt = FFO / Average debt. Debt = Bank loans and other borrowings.

7 Capitalisation = Closing share price on the last trading day of the year x number of issued shares at the end of the year

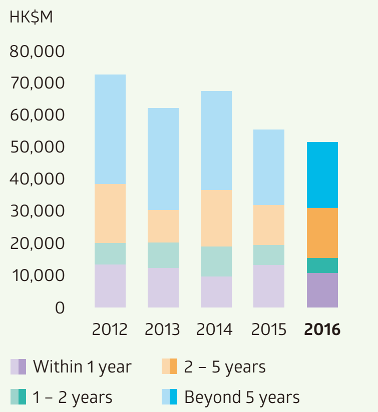
8 Total returns to shareholders represents the 10-year annualised rate of return from the combination of share price appreciation and dividend payments.

9 Free cash flow = FFO - income tax paid + interest received - interest and other finance costs paid - maintenance capital expenditure + dividends received from joint ventures and associates

Earnings and Dividends Per Share



Loan Balance[1] – Maturity[2]

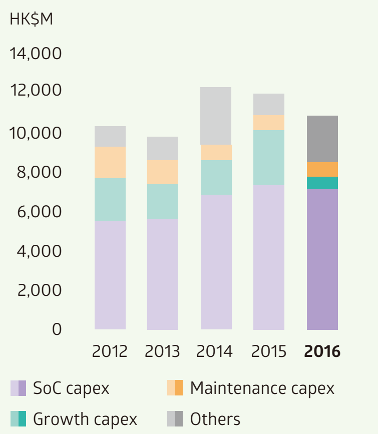


Notes:

1 The 2014 to 2016 figures include CAPCO and PSDC as subsidiaries of the Group after the acquisitions. For comparative purpose, we have included CLP Group, CAPCO and PSDC in the 2012 and 2013 figures.

2 The maturities of revolving loans are in accordance with maturity dates of the respective facilities instead of the loan drawdown tenors.

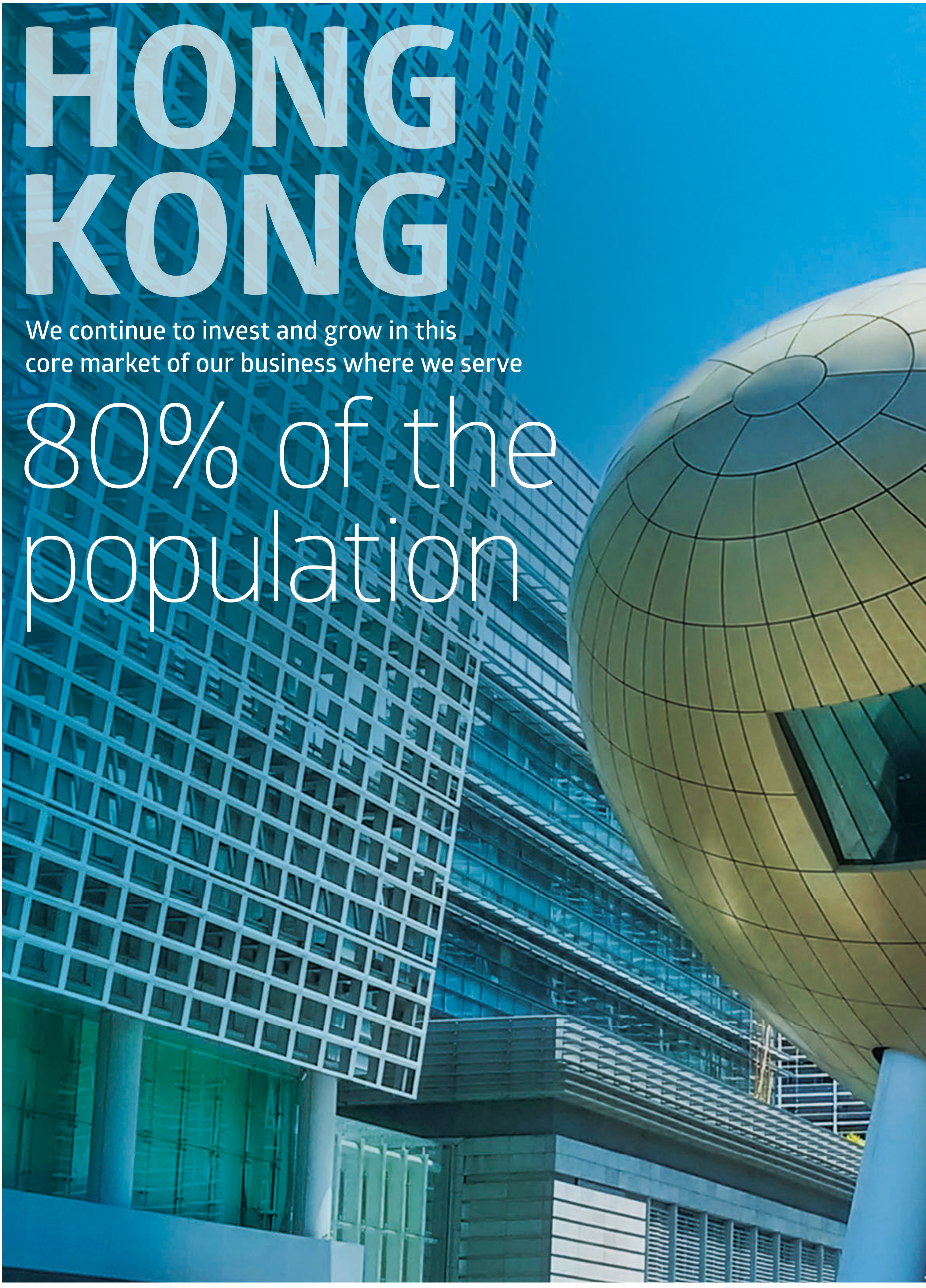
Capital Investments



Business Performance and Outlook

Our **“Focus · Delivery · Growth”** strategy has worked well for us. This section presents an integrated view of our performance in each of the five markets where we operate, and outlines the existing challenges and opportunities that lie ahead

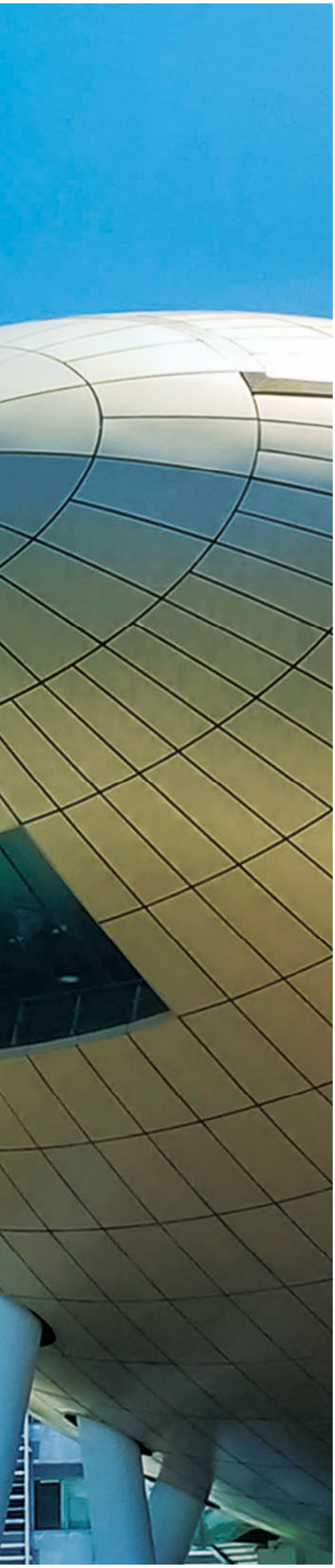
CUSTOMERS
100%
智能電網



HONG KONG

We continue to invest and grow in this core market of our business where we serve

80% of the population

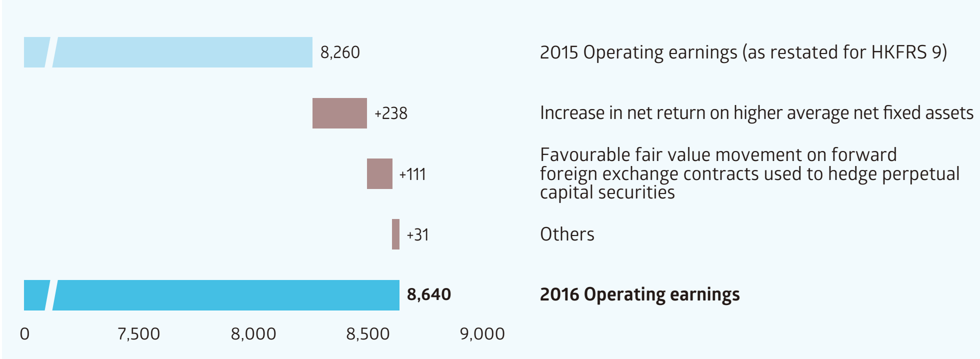


Financial and Operational Performance

Overview

In 2016, we continued to provide our 2.52 million customers in Hong Kong with a safe, reliable and environmentally responsible electricity supply at a reasonable cost. Operating earnings from our electricity business were HK$8,640 million, a 4.6% increase from 2015. The chart below summarises our performance in 2016.

Operating Earnings of Hong Kong Electricity Business (HK$M)



During the year, we invested HK$7.3 billion to maintain and enhance our supply system and generation assets to meet both current and future energy demand. This included the upgrade of existing generation units, commissioning of new substations to support new development areas and the expansion of Hong Kong's railway networks, and the commissioning of new circuits to reinforce our transmission and distribution networks.

Demand for electricity and its delivery infrastructure was driven by new infrastructure projects and the city's ongoing development. Local electricity sales in 2016 rose 0.6% to 33,237 gigawatt hours (GWh) compared with the previous year and sales to the Mainland increased by 1.5% to 1,205GWh. Combined total electricity sales in 2016 increased by 0.6% to 34,442GWh. Please refer to our website and supplementary information online for details on sales by sector.

We understand customers' concerns about the need for reasonable electricity prices, and we have always emphasised prudent management of costs. For 2017, we are able to freeze the Average Total Tariff at HK$1.132 per unit of electricity and at the same time offer our customers special fuel rebates amounting to nearly HK$800 million, or 2.3 cents per unit of electricity consumed in 2016.

Our local electricity business is regulated by the Hong Kong Government through the SoC Agreement. As the current agreement will expire in September 2018, we are in discussions with the Government over a new SoC Agreement. The SoC Agreement has served Hong Kong well for over half a century and has been an effective framework to meet the Government's energy objectives and community aspirations. We look forward to reaching agreement with the Government.

Climate Change

We endeavour to minimise the impact of power generation on the environment and to play our part in transforming Hong Kong into a smarter and greener city. We continued to pursue a number of key initiatives to support the Government in achieving its policy objective of increasing the use of natural gas to around 50% of the total fuel mix for electricity generation in 2020.

In December 2016 we obtained approval from the Government to construct a 550MW gas-fired generation unit at our Black Point Power Station which will use state-of-the-art combined-cycle gas turbine (CCGT) technology. Construction work has started and we aim to commission the new unit before 2020. The total estimated capital expenditure of the new gas unit is about HK$5.5 billion.

In addition, we continued our discussions with the Government and other stakeholders regarding the proposal to build an offshore LNG terminal in Hong Kong waters. The terminal will enable us to have direct access to a range of gas sources from around the world and strengthen the reliability of Hong Kong's fuel supplies. We are progressing with various studies under the environmental impact assessment of the project, and are proactively engaging with potential suppliers to secure the additional supply of gas needed on a long-term basis. A final investment decision is expected by the end of 2018.

Meanwhile, to cater for gas demand in the near term, we are working closely with CNOOC China Limited to link the new Wenchang gas field currently under development in the South China Sea to our existing pipeline to bring gas to Hong Kong from 2018 onwards as supply from the Yacheng gas field declines.

In order to combat climate change and in support of the Government's recently announced target to reduce carbon intensity in Hong Kong from the 2005 level by 65% to 70% by 2030, CLP will undertake both supply and demand-side measures focusing on mitigation, adaptation and resilience.

Mitigation

As an electricity supplier, CLP is committed to mitigating the impact of our operation on climate change. On the supply side, we strive to lower the emissions from our power generation by using cleaner fuel and promoting the use of renewable energy where practicable despite its constraints in Hong Kong. For our existing fleet, we completed the upgrade of two generation units, one at Black Point and another at Castle Peak in 2016, with advanced emissions control technologies to improve efficiency and reduce emissions. We also supported the development of renewable energy and have connected more than 250 renewable energy systems to our grid. One example is the support we provided for the Drainage Services Department to build Hong Kong's biggest solar farm near the airport. The 1.1MW solar farm made up of over 4,200 solar panels is capable of generating electricity for about 230 households a year. We are also applying for an

CLP's Green Tools and Education Programmes

EE&C Support for Customers

- Conducted 160 free energy audits for some of our commercial and industrial customers, and helped save 15.8GWh of electricity.
- Launched the "Supporting SME with 6 Energy-Saving Rewards" campaign to help small and medium businesses to reduce electricity consumption.

Eco Power 360

- Launched the enhanced online home energy assessment platform to encourge our residential customers to use energy wisely.

POWER YOU Kindergarten Education Kit

- Has enabled 135,000 kindergarten children in Hong Kong to learn about electricity and energy efficiency through this electricity-themed interactive kit.

Eco Building Fund

- Provided subsidies to residential building owners to enhance the energy efficiency of the communal areas of their buildings.
- Approved 83 applications, with total funding reaching HK$36.4 million.

Meter Online

- Developed an innovative energy management tool that provides a nine-day energy forecast based on weather information to help our commercial and industrial customers predict and manage their electricity consumption.

CLP's Green Studio

- Received over 110,000 visitors since 2009 through Hong Kong's first mobile classroom with interactive 4D movie and augmented reality educational games.

environmental permit from the Government to develop Hong Kong's largest landfill gas power generation project that will produce 10MW of renewable power close to our Black Point Power Station.

On the demand side, our efforts focus on the promotion of energy efficiency and conservation (EE&C) through the green tools and education programmes shown on the left.

Adaptation and Resilience

While we work to reduce carbon emissions with the above measures, we also need to adapt and upgrade our facilities to strengthen our defence against extreme weather events that are becoming more frequent.

In 2016, we completed the reinforcement project for pylons of 400kV overhead lines and various critical structures at Castle Peak Power Station so that they can better withstand super typhoons. We have also installed flood damage mitigation and alarm systems at our low lying substations to guard against storm surges.

In addition, we conducted post-typhoon reviews and regular drills to ensure a smooth execution of our contingency plans when needed. Looking forward, we plan to develop a model that can more accurately forecast the effect of an approaching typhoon on our network so that we can be better prepared.

Innovation

The phenomenal advancement of information and communication technologies in recent decades has provided ubiquitous connectivity and intelligent automation. The idea of "smart city" has emerged and cities around the world are building their own version of this concept. As an innovative energy service provider, CLP is well-positioned to support Hong Kong's transformation into becoming a smart city.

To further promote energy efficiency and conservation among our residential customers, we launched an innovative initiative Eco Rewards, a scheme that encourages energy savings where customers can earn points to redeem rewards. In addition to the many smart green tools that provide our customers with more choice, we recently cooperated with the Hong Kong Science and Technology Parks to explore new digital technologies designed by local start-ups to be showcased in our newly revamped customer service centre. These technologies will enable a more interactive and interesting experience for our customers in learning about the latest energy saving products and smart home solutions. Through this collaboration, CLP aims to act as a catalyst for innovation in Hong Kong.

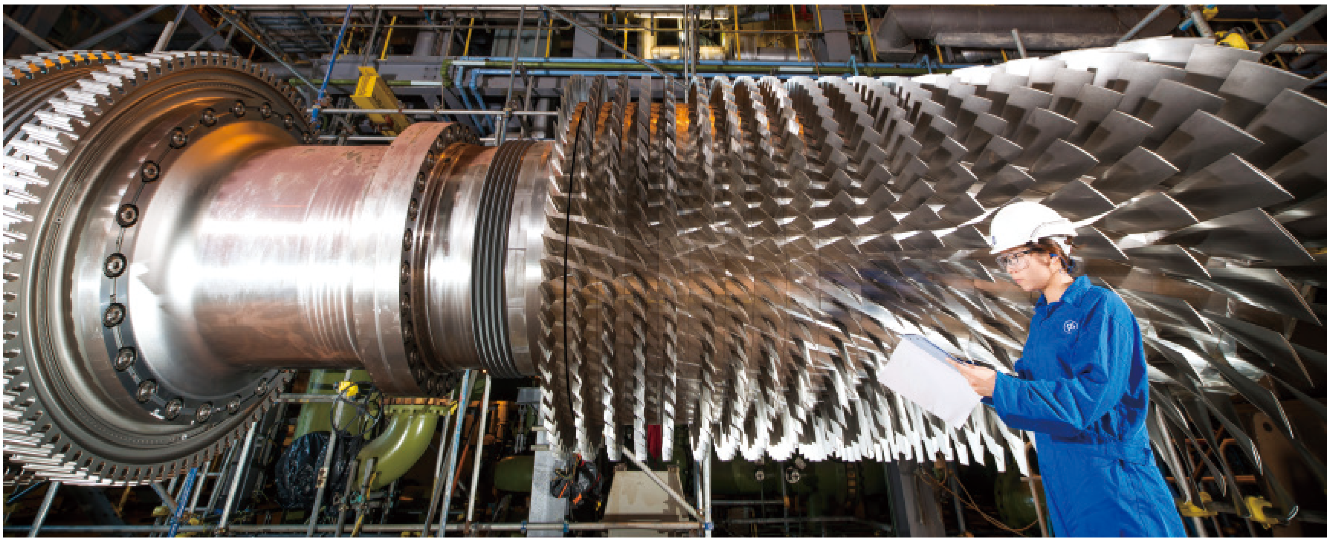
Moreover, CLP is supportive of the Government's initiatives in developing a pilot project in Kowloon East to explore the feasibility of making Hong Kong a smart city. We will take every opportunity to apply emerging technologies in providing reliable, smart and greener electricity to customers.

In 2016, we joined forces with HKT in the Smart Charge service to promote green driving in Hong Kong. In addition to this, CLP has developed an extensive electric vehicle charging network in our supply area, where drivers can find a quick charging station on average every 10 kilometres.

Environmental Performance

Air Emissions

We have established a robust system to manage environmental issues, in particular air emissions, for our generation portfolio and we conduct regular assessments to ensure our environmental controls are up to date.



Investment in new gas-fired generation capacity enables us to lower emissions and support the Government's climate objectives

In 2016, we continued to meet the stringent emissions caps set out by the Government which require CLP to reduce its emissions by up to 65% from the tight base of 2014. We adopted a number of operation measures including:

- further optimising our fuel mix,
- continuing the usage of low emissions coal, and
- enhancing the effectiveness of our emissions control facilities to meet the reduction targets, while maintaining high supply reliability at the same time.

During the year, we concluded discussions with the Government on a new set of emissions caps for our power stations starting from 2021. The new caps further tighten the allowances for emissions of sulphur dioxide, nitrogen oxides and respirable suspended particulates from the already stringent 2020 caps. With the approval of the new gas-fired generation unit at Black Point Power Station, we are on track to increase our natural gas generation to around 50% of our fuel mix starting in 2020.

Environmental Regulatory Compliance

All of our assets in Hong Kong achieved another year of full compliance with all environmental regulations in 2016.

Social Performance

The success of our business is closely aligned with the well-being of the communities we serve. In Hong Kong, we work closely with local non-governmental organisations and community groups to identify the society's evolving needs and develop programmes that can help meet those needs. Helping the disadvantaged is one of our main focus areas and in recognition of our efforts in 2016, CLP received the Outstanding Contribution Award from the Social Welfare Department for our support to its Partnership Fund for the Disadvantaged.

During the year, we initiated and supported 447 community projects in Hong Kong. Some of the key projects are highlighted below while more details can be found in the Social and Relationship Capital chapter on pages 81 – 84.

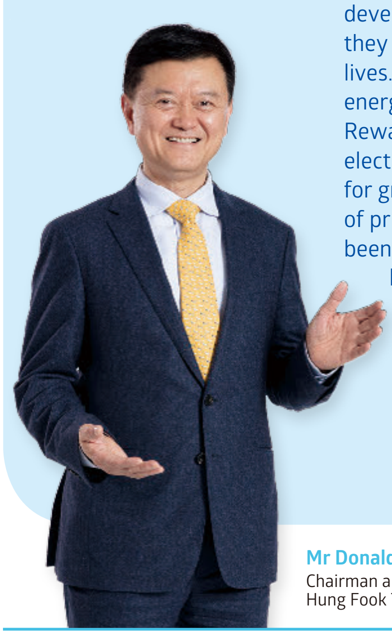
Outlook

We look forward to agreeing with the Government on the new SoC Agreement in the near future, which will enable us to continue to provide a safe, reliable, environmentally friendly electricity supply for our customers at a reasonable cost.

We are equally committed to maintaining our excellent and innovative services for our customers and to stepping up our engagement with them through the offering of new products such as various digital platforms and visits to our new smart energy experience centre. As we expect electricity demand to continue to grow in our supply area on the back of new infrastructure developments and population growth, we need to keep pace with evolving customer needs, enabling their energy management and offering them more choice.

As Hong Kong's largest power company, we will also work closely with the Government to play our part in achieving its 2030 climate targets, supporting our city's transition to a greener and smarter future.

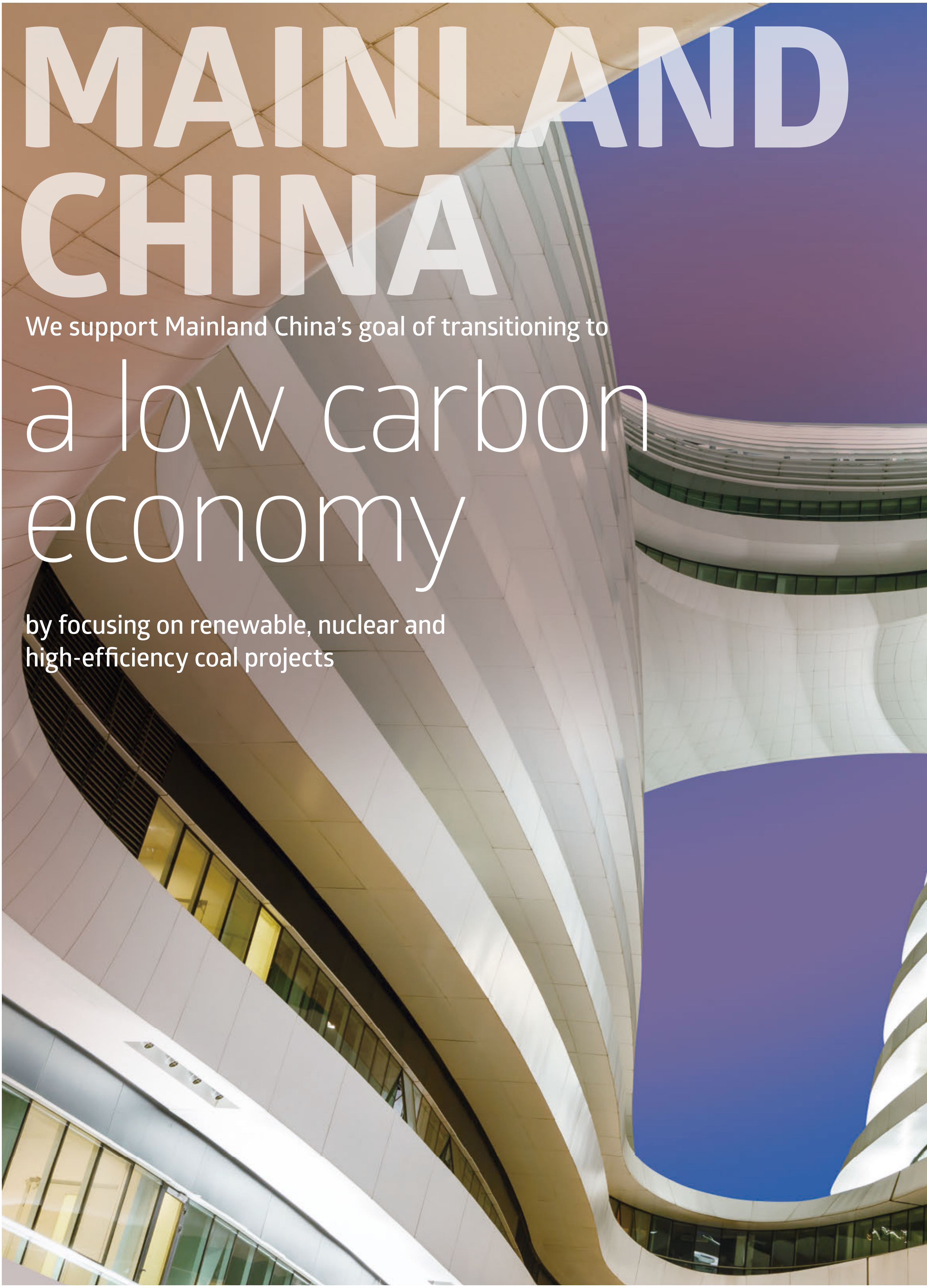
My company is a green partner of the Eco Rewards scheme. How can CLP Power help residential customers with energy efficiency and conservation through the scheme?



At CLP, we believe conserving energy is essential for sustainable development and we do our utmost to help customers understand that they can contribute to this mission through making small changes in their lives. For example, we have rolled out a range of initiatives to promote energy saving and Eco Rewards is one of them. By participating in Eco Rewards, customers can gain Eco Points through lowering their electricity usage and joining other green activities such as signing up for green bills. They can then use their Eco Points to redeem a variety of prizes offered by our green partners. So far, their response has been encouraging. This new programme has started well and we hope activities like this can help more customers to adopt a green lifestyle.

Mr Donald Tse
Chairman and Executive Director
Hung Fook Tong Group Holdings Limited

Quince Chong
Chief Corporate Development Officer



MAINLAND CHINA

We support Mainland China's goal of transitioning to

a low carbon economy

by focusing on renewable, nuclear and high-efficiency coal projects

Financial and Operational Performance

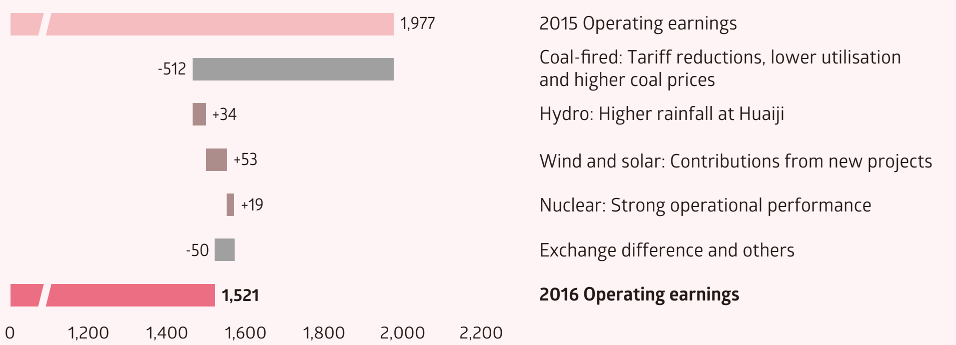
Overview

In 2016, while Mainland China's economy continued to grow, albeit at a slower rate, utilisation of most thermal power plants remained low. This was partly due to the country's structural reform to shift away from heavy industry and other traditional growth sources as well as the continuous deployment of both thermal and renewable generation capacity. As a result, there was a glut in electricity supply in the northern and western parts of China with associated grid constraints and curtailments, particularly for renewables. In addition, more stringent environmental controls significantly affected thermal power plants. This is in line with China's commitment to reducing coal's dominance in the energy mix that was underlined in the 13th Five-Year Plan announced in December 2016.

Against this backdrop, CLP's business in Mainland China reported a 23.1% decrease in operating earnings in 2016, mainly due to significant tariff reductions for our coal business, low utilisation hours, and the rebound of coal prices in the second half of the year. However, earnings of renewables rose by 27.4% to HK$404 million, largely driven by increased contributions from our hydro projects as well as new wind and solar projects. The earnings contribution of our renewable portfolio approached that of our coal projects. Meanwhile, earnings from our 25% stake in Daya Bay Nuclear Power Station increased by 2.3% as the plant continued to operate reliably with high utilisation rate. Our performance in Mainland China is summarised below.

Operating Earnings	**2016 HK$M**	2015 HK$M	**Change %**
Renewables	**404**	317	+27.4
Thermal	**429**	941	-54.4
Nuclear	**863**	844	+2.3
Operating and Development Expenditures	**(175)**	(125)	+40.0
Total	**1,521**	1,977	-23.1

Operating Earnings of Mainland China (HK$M)



Renewables Projects

In support of the Government's low carbon transition and CLP's Climate Vision 2050, we added 275MW to our renewable capacity in 2016, including 230MW wind and 45MW solar, bringing the total capacity of our renewable projects to over 2,000MW.

During the year, our hydro projects reported strong overall performance. Power generation at Huaiji in Guangdong province increased significantly thanks to abundant rainfall.

Our solar portfolio grew with the full-year operation of Xicun II in Yunnan province, which was commissioned in the second half of 2015, and our acquisition of the remaining 49% shareholding in Sihong in Jiangsu province from our joint venture partner in July. As a result, generation from our solar facilities increased by 17% compared with 2015.

Generation of our wind projects also increased from a year ago following the commissioning of Xundian I in Yunnan province, Sandu I in Guizhou province and CLP Laizhou I in Shandong province.

Notwithstanding the increase in earnings of our overall renewable portfolio, the financial performance of our renewable projects in Yunnan, Sichuan, Gansu and Jilin provinces were affected by grid curtailments and lower tariff rates prescribed by the local authorities under the different market sales programmes in 2016.

In 2016, Yang_er Hydro and Penglai Wind achieved Platinum 5-Star ratings from the internationally-recognised National Occupational Safety Association for the first time, recognising the projects' high safety, health and environmental standards.

Performance of our renewable projects can be seen in the table below. Please refer to our supplementary information online for more details.

Renewables Projects – Performance

	Installed Capacity [1] MW	Electricity Sent Out [1] GWh		Availability %		Utilisation %	
		2016	2015	**2016**	2015	**2016**	2015
Wind							
Wholly-owned	395	**603**	312	**98.9**	98.9	**22.3**	18.6
Minority-owned	937	**1,714**	1,617	**98.2**	97.6	**20.5**	20.4
CGN Wind JV	1,993	**3,677**	2,910	**97.2**	98.1	**20.1**	19.0
Solar	262	**422**	357	**99.7**	100.0	**18.3**	19.3
Hydro	509	**1,879**	1,705	**88.2**	89.5	**43.6**	40.1

Note:
1 Indicate total installed capacity and sent-out of all projects in operation without adjusting for CLP's equity share

Thermal Projects

During the year, utilisation of Fangchenggang Power Station was affected by the economic slowdown and competition from both nuclear and hydro projects in the Guangxi Zhuang Autonomous Region. The financial performance of Fangchenggang was also impacted by the discounted tariffs of increased direct sales. Because of these short-term adverse circumstances and the substantial environmental investment to enable Fangchenggang Power Station to effectively compete in the presently oversupplied market, we have booked a HK$199 million impairment to the carrying value of Fangchenggang's cash generating unit. Nevertheless, we remain optimistic about the long-term prospect of Fangchenggang due to its strategic location to the Association of Southeast Asian Nations (ASEAN) countries. We are confident that demand for electricity will grow as more investors establish their businesses in Guangxi to take advantage of the region's access to the growing Belt and Road markets, a key initiative of the Central People's Government.

In the fourth quarter of 2016, we successfully commissioned two new units which use the most advanced ultra-supercritical technology at Fangchenggang Power Station Phase II.

In 2016, we were invited by the Guangxi Government to become a founding member of the Guangxi Power Exchange Centre. This provides us with an opportunity to contribute our knowledge and capitalise on our experience in competitive markets such as Australia.

Meanwhile, performance of our other minority-owned thermal projects was affected by tariff reductions, low utilisation and higher coal prices in the second half of the year.

The table below shows details of our thermal projects in Mainland China over the past year.

Thermal Projects – Performance

	Installed Capacity [1] MW	Electricity Sent Out [1] GWh 2016	Electricity Sent Out [1] GWh 2015	Availability % 2016	Availability % 2015	Utilisation % 2016	Utilisation % 2015
Majority-owned							
Fangchenggang I & II	2,580	**3,081**	2,933	**97.2**	88.9	**28.1**	28.4
Minority-owned	10,720	**47,111**	47,741	**95.6**	95.0	**53.6**	52.8

Note:
1. Indicate total installed capacity and sent-out of all projects in operation without adjusting for CLP's equity share

Nuclear Projects

We believe nuclear energy plays a very important role in the world's and China's transition towards a low carbon economy. In November 2016, we entered into a conditional equity transfer agreement with CGN Power to acquire a 17% equity stake in Yangjiang Nuclear Power Co., Ltd. The acquisition is a valuable opportunity for CLP to strengthen our presence in China's nuclear industry and in Guangdong province.

During the year, Daya Bay Nuclear Power Station operated steadily and its safety performance was ranked favourably by the World Association of Nuclear Operators.

Environmental Performance

Air Emissions

Fangchenggang is currently our only fossil-fuel based power station under CLP's operational control in China. Its air emissions in 2016 reduced from 2015 due to low dispatch levels.

The newly commissioned Fangchenggang II is designed and built to meet the latest and most stringent air emission requirements in Mainland China. We have begun tendering for a major retrofitting project for Fangchenggang I to enhance the efficiency and emission standards of its two supercritical units so that they can meet the same emissions requirements by 2020.

Power generation by our solar facilities in Mainland China increased 17% in 2016 compared with 2015

Environmental Regulatory Compliance

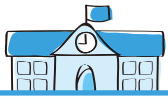
During the year, there was one environmental issue at Sandu I wind farm in Guizhou province where the construction of an access road and wind turbine platforms resulted in a greater impact on the environment and forestry land than initially authorised. The local Forestry authority has imposed a sanction totalling RMB14 million as at the end of 2016. A site environment restoration programme has mostly mitigated the impact with some seasonal revegetation works to be carried out in 2017. Project management and technical procedures have been enhanced to improve our future performance at this type of geographically difficult locations.

Social Performance

Stakeholder Engagement

Mainland China is a key growth market for CLP. We are keen to contribute to the country's power sector reform through sharing our operational and safety excellence as well as expertise on clean energy, corporate governance and community initiatives with our peers. To this end, we held a number of activities in 2016 to strengthen key stakeholder relations and promote the awareness of CLP. During the year, we met with government departments at the central and provincial levels, including the National Development and

Youth Education & Development



Sponsored 5 schools in Yunnan and Guangdong to upgrade their facilities, benefitting more than 1,900 students.

400 students from 17 schools in Guangdong, Guangxi, Yunnan and Guizhou benefitted from our "Support-a-student Programme" with contributions from CLP colleagues and the company's matching funds.

Over 100 students from 11 secondary schools in Guangxi participated in the "CLP Young Power Programme" to learn more about low carbon energy and energy conservation.

Community Health & Wellness

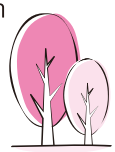
Donated daily living necessities to over 1,100 impoverished villagers, seniors in elderly homes and children in need in Jilin, Jiangsu, Sichuan and Guangxi.

Over 4,300 villagers benefitted from improved village drainage system, new elderly home construction, and other projects for local community's well-being in Guangdong and Guangxi.

Volunteering

CLP volunteers contributed over 1,500 hours of their free time to help organise charity events and to visit schools and elderly homes.

About 4,600 residents and students in Guangdong, Jilin, Guangxi and Yunnan learned about environmental protection and safety topics through our volunteering activities.



Reform Commission, the National Energy Administration, Hong Kong and Macao Affairs Office, and the China Electricity Council.

Members of our senior management also met with State Councilor Yang Jiechi and Vice Minister of Science and Technology Yin Hejun to introduce CLP's operations in China.

Community Initiatives

The establishment and upkeep of community relations is an important part of our stakeholder engagement efforts in Mainland China. In 2016, we continued to focus our community initiatives on education and community well-being and launched a number of pioneering activities. Some of the key projects are highlighted on the left while more details can be found in the Social and Relationship Capital chapter on pages 81 – 84.

Outlook

With our diversified generation portfolio and an increasing share of non-carbon capacity, we are well-positioned to participate in the energy transition in Mainland China and withstand the impact of declining utilisation of our coal projects. In the coming years, we will focus on further expanding our clean energy portfolio, although we expect competition for new renewable projects to be keen and an evolving market regime is likely to affect their performance. At the same time, we expect the Yangjiang acquisition to have a positive impact on our future earnings from completion, which is expected to take place in the first half of 2017.

We also take note of the fact that direct trading with large power users will likely become more prevalent as China continues to reform its power sector. To this end, we will also seek to sign more direct sales contracts to boost utilisation.

As part of the move by the Central People's Government to combat climate change and lower emissions, it will establish a national carbon market in 2017 in order to expand the role of market forces in the development, manufacturing and operation of low carbon energy technologies. CLP will continue to monitor and prepare for the new market and ascertain how we can contribute our international experience to its development.

Q

In recent years, reforms in the power sector in Mainland China have accelerated. What is CLP's role in the series of reforms as one of the largest external independent power producers in the China market?

For over a century, CLP has been involved with the electricity business from power generation and transmission to retail business. Our investments encompass power facilities of different fuel types including coal, gas, and non-carbon emitting sources of nuclear and renewables. Since the late 1990s, we started to expand to other power markets in Asia Pacific under different regulatory regimes. We serve about 5.15 million customers in Hong Kong and Australia. We believe our experience in the Australian electricity market will prove to be of particular value to the Government officials and our industry peers in Mainland China. We can share our experience in how the current market mechanism works there and the successes and failures during different stages of the reforms.

We are honoured that we have been invited to participate in the Guangxi Power Exchange Centre and we are delighted to be able to play our part in contributing to China's power reform.

A

Mr Li Xiangxing
Deputy Director General of Development and Reform Commission of Guangxi Zhuang Autonomous Region & Director of Energy Bureau, Guangxi Zhuang Autonomous Region

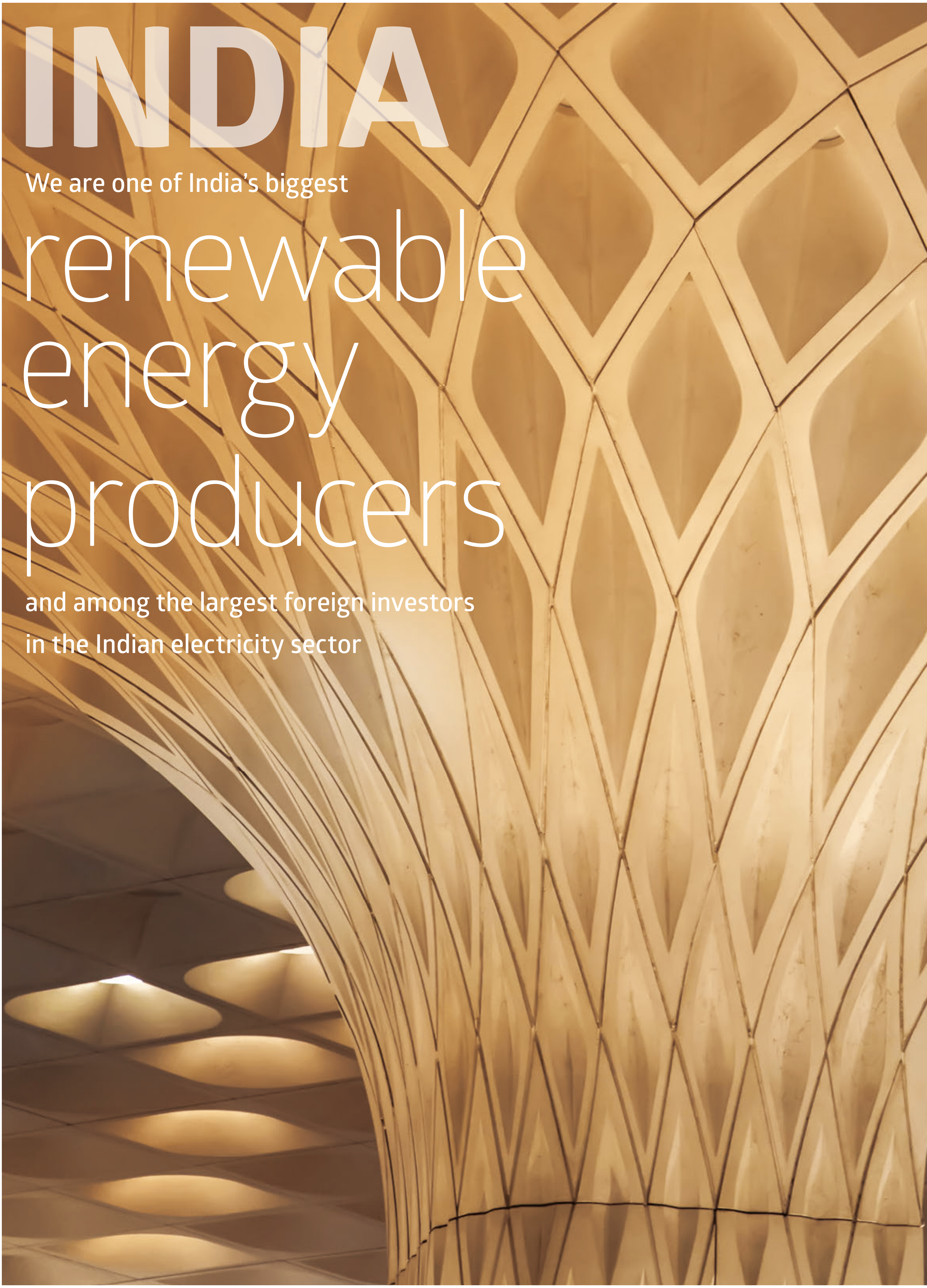
Chan Siu Hung
Managing Director – China

INDIA

We are one of India's biggest

renewable energy producers

and among the largest foreign investors in the Indian electricity sector



Financial and Operational Performance

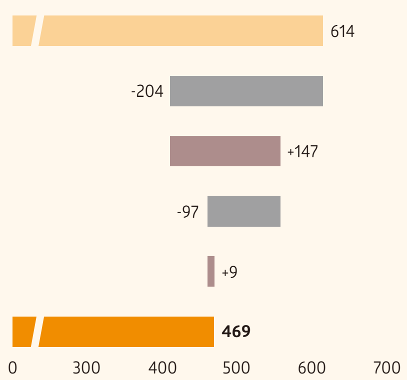
Overview

In 2016, operating conditions in India's power sector showed signs of improvement on the back of steady coal supply for thermal plants and better grid management for the renewable energy sector. Demand for power in India in recent months, however, has softened due to slower growth in the economy and the issue of power affordability. Nonetheless, the country continued to make progress with its low carbon transition in line with the target to achieve 160GW of renewable power by 2022.

During the year, availability of both of our thermal projects was above 90% with Jhajjar achieving a record availability of 93%. Energy produced by our wind farms increased from 1.5TWh in 2015 to 1.7TWh in 2016, reflecting the commissioning of new units. Despite these positive figures, operating earnings came down by HK$145 million to HK$469 million, mainly due to the fact that we benefited from several one-off elements in 2015 that amounted to HK$204 million and a contractual step down in tariffs for Jhajjar in 2016. Our performance in India is summarised below.

Operating Earnings	**2016 HK$M**	2015 HK$M	**Change %**
Renewables	**135**	134	+0.7
Thermal	**334**	480	-30.4
Total	**469**	614	-23.6

India Earnings (HK$M)



Renewables

2016 marked our entry into India's solar energy segment through a joint venture with Suzlon Group to develop a 100MW project in Telangana. CLP owns a 49% stake in the Veltoor Solar Farm with an option to acquire the remaining 51% in the future. The project is expected to be commissioned by mid-2017.

Our operating wind capacity totalled 924MW at the end of 2016. We commissioned Tejuva and Chandgarh wind farms in the second half of 2015 and their addition boosted the amount of electricity generated by wind power in 2016.

Meanwhile, Theni in Tamil Nadu had lower grid curtailment in 2016 compared with the previous year while our three wind farms in Rajasthan continued to face grid constraints throughout the year, although they had started to ease off in the fourth quarter. This challenge is not unique to CLP, and we are working closely with other members of the wind industry to resolve the issues.

In addition, we faced problems with one of our contractors suffering from financial difficulties, which led to lower availability of some of our projects. We are developing a course of action to address the situation and mitigate the adverse impacts on our business.

Thermal Projects

In 2016, both Paguthan and Jhajjar performed steadily.

At Paguthan, availability stood at 94%. The Government cancelled auctions for subsidised imports of gas from March 2016 due to a lack of competition. Consequently, utilisation has remained at around 10% as our customer Gujarat Urja Vikas Nigam Limited (GUVNL) was reluctant to buy electricity from us due to the expensive fuel prices.

At Jhajjar, availability remained high at over 93%, but utilisation was low due to lower dispatch as a result of overcapacity and soft demand in the state of Haryana.

Despite the fact that our income from both plants is mainly determined by availability, we are working hard with our customers to raise utilisation so that both plants can be used more efficiently.

The table below shows the performance of our wind portfolio and thermal projects in 2015 and 2016. Please refer to our supplementary information online for more details.

Renewables and Thermal Projects — Performance

	Installed Capacity MW	Electricity Sent Out GWh		Availability %		Utilisation %	
		2016	2015	**2016**	2015	**2016**	2015
Wind	954	**1,704**	1,473	**92.9**	94.4	**21.0**	20.6
Coal	1,320	**2,965**	5,406	**93.2**	82.4	**27.3**	49.9
Jhajjar							
Gas	655	**547**	621	**94.4**	97.4	**9.7**	11.1
Paguthan							

Environmental Performance

New Environmental Regulations

A set of new statutory limits applicable to Jhajjar will become effective in December 2017, covering particulates, nitrogen oxides, sulphur dioxide, and mercury. There is also a water use intensity requirement. Jhajjar is already equipped with environmental control systems to comply with most of these limits. A cross functional team has been formed to ensure Jhajjar will be able to meet all the new requirements.

Air Emissions

Overall air emissions levels for both Jhajjar and Paguthan were lower than 2015 due to low dispatch. However, Jhajjar's sulphur dioxide emission slightly increased in 2016 due to higher oil consumption.

Environmental Regulatory Compliance

During 2016, there were no fines or prosecutions arising from environmental-related regulatory non-compliances for any of our India assets in which we had operational control.

Social Performance

Community Initiatives

Our key community initiatives in India focused on primary healthcare, youth education and skill development, community infrastructural support and women empowerment. In 2016, we reinforced and scaled-up existing community initiatives at Paguthan and Jhajjar and we have made a good start with our renewable operations. We also stepped-up our efforts to make clean water readily available to the communities in which we operate through providing "Water ATMs" to the villages around our assets. These water vending machines make use of Reverse Osmosis, a water purification technology, to reduce the total dissolved solids in the ground water to a level that is potable. Two such "Water ATMs" have been inaugurated in recent months, in Paguthan & Kothi villages in the state of Gujarat. We plan to roll these out progressively to cover more communities near our assets in 2017. In addition, the construction of a 50-bed secondary care hospital near our Jhajjar plant is close to completion. We plan to donate it to the Haryana State Government for the community's use once it is completed. Some of the key projects we carried out in 2016 are highlighted below.

Community Health & Wellness

37,000 villagers benefitted from our "Mobile Health Van" outreach programme in Jhajjar, Paguthan, Andhra Lake and Tejuva.

Provided dental, eye and general health screening services to 580 school children in Jhajjar.

Contributed to the construction of 100 toilets in three villages in Paguthan, benefitting 3,200 villagers.

Helped build 25 underground water tanks in Tejuva.

Climate Change & Environment

Planted 691 tree saplings at schools in Paguthan and near Tejuva to raise environmental awareness among the students.

Distributed 147 LED lamps at three Jhajjar schools and village government offices as well as 100 solar lanterns in communities near Tejuva to encourage energy efficiency.

Youth Education & Development

Provided computer education for about 320 villagers and students in Paguthan and Jhajjar.

Held "Igniting Young Minds" science and mathematics workshops in Paguthan, benefitting over 450 students.

Outlook

The slowdown in the economy in recent months has led to softer demand for power in India. The Government's demonetisation initiative in November 2016 to curb black money and the implementation of a goods and service tax reform are expected to further dampen short-term economic growth. But in the long run, we expect these reforms to put India on a stronger footing towards improving transparency and better compliance, benefitting the business sector.

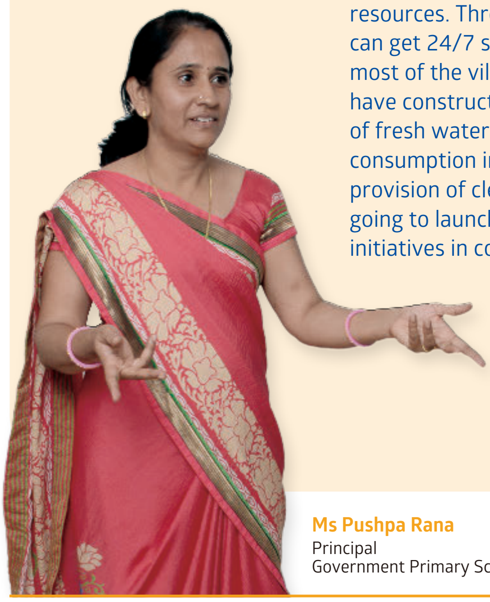
At the same time, in 2016 the Indian Government approved a restructuring package for the country's debt-ridden electricity distribution companies called Ujjwal Discom Assurance Yojana (UDAY). UDAY aims to improve the financial capacity of the distribution companies so that they can become financially and operationally viable for the long term. If successful, the initiative is expected to solve the biggest challenge facing the power sector.

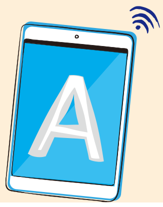
We remain confident of the future prospects of India's power industry and will continue to contribute to the country's transition to a low carbon future through investing in renewable energy projects, including the possibility of decentralised generation, and potentially in transmission infrastructure to bring that energy to customers.

CLP India celebrates its 15th anniversary of operation on 20 February 2017

CLP has recently installed a water ATM facility at Paguthan village to provide clean drinking water to the community. How does CLP plan to help its neighbouring communities to address water resource management issues?

The scarcity of water in India, especially of clean drinking water, is distressing. We recognise the need to help communities around our plants in this regard and work with different stakeholders to customise solutions according to their needs and challenges. At CLP India, we strive to create positive impact on climate change and the environment by supporting projects and programmes that optimises the responsible use of resources. Through the water ATM initiative in Paguthan, the community can get 24/7 safe water access. We plan to expand this initiative to most of the villages in the neighbourhood of our assets. Likewise, we have constructed underground water storage tanks for effective storage of fresh water for individual households and a water pond for animal consumption in Jaisalmer near our wind farm. Other initiatives include provision of clean drinking water for schools in Jhajjar. We are soon going to launch watershed management and rain water harvesting initiatives in communities around our other sites.





Ms Pushpa Rana
Principal
Government Primary School, Paguthan

Rajiv Mishra
Managing Director – India

SOUTHEAST ASIA AND TAIWAN

We are committed to investing in and developing power projects to support the

economic growth

of the region

Financial and Operational Performance

Overview

During 2016, our assets in Southeast Asia and Taiwan operated reliably. However, operating earnings declined by 12.2% to HK$274 million.

Although Ho-Ping coal-fired plant in Taiwan continued to perform steadily during the year, its profitability was affected by reduced tariffs resulting from a lagging contractual tariff adjustment mechanism which reflected lower coal prices in the previous year.

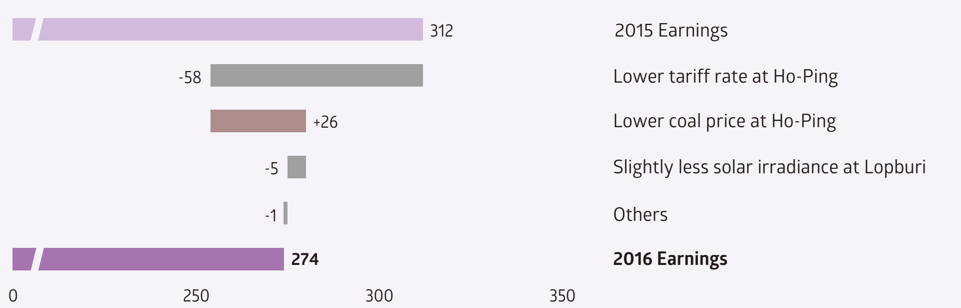
In Thailand, the Lopburi solar farm continued to perform solidly in 2016 although marginally lower solar resources resulted in reduced earnings.

In Vietnam, significant progress was made in the development of our two coal-fired projects – Vung Ang II and Vinh Tan III. Negotiations with the Vietnamese Government for the Build-Operate-Transfer Contract and Power Purchase Agreement (PPA) have reached the final stage and efforts to raise financing have progressed very well.

Our performance in Southeast Asia and Taiwan is summarised below.

Operating Earnings	2016 HK$M	2015 HK$M	Change %
Renewables	**60**	65	-7.7
Thermal	**249**	274	-9.1
Operating and Development Expenditures	**(35)**	(27)	+29.6
Total	**274**	312	-12.2

Southeast Asia and Taiwan Earnings (HK$M)



Outlook

In the near future, we will continue to focus on our existing operations in Ho-Ping and Lopburi, as well as the development of Vung Ang II and Vinh Tan III. In addition, we will explore opportunities in the renewables sector in markets where we operate to support the Group's transition to a low carbon future.

AUSTRALIA

Guided by our customer-focused strategy, we provide

reliable and innovative

energy services to our customers while supporting Australia's transition to a cleaner future

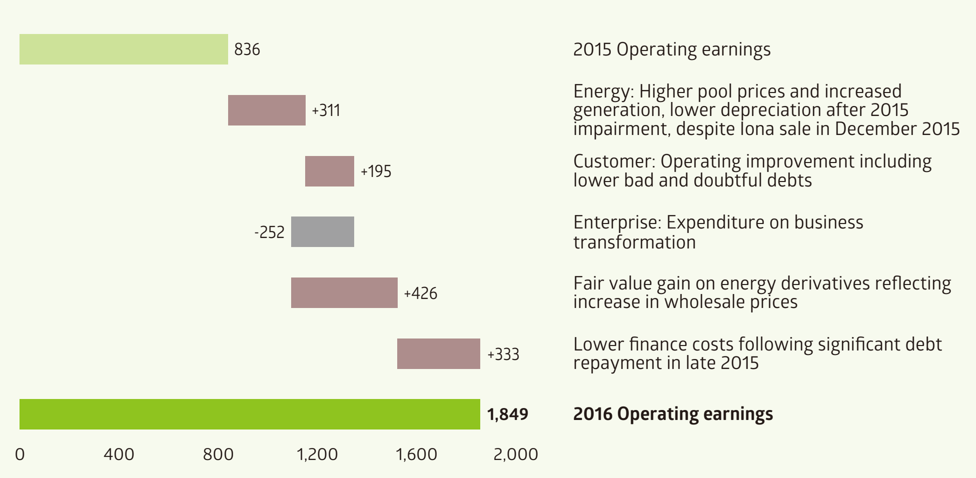
Financial and Operational Performance

Overview

EnergyAustralia performed well in 2016 with operating earnings up 121.2% to HK$1,849 million. Our customer-focused strategy continued to deliver progress and performance of the generation business improved due to higher volumes and higher wholesale electricity prices. Lower finance costs after repaying debt in December 2015, favourable non-cash mark-to-market gains on energy derivatives and lower depreciation and amortisation also contributed to the increase in earnings. Overall, the result represented continued good progress towards a goal of restoring value to the business.

The improvements were all the more notable in an eventful year for the broader industry. The need for a national approach to energy policy was highlighted by a series of issues including a major blackout in South Australia, generator and network reliability, the closure of coal-fired power stations, intense retail competition and Australia's climate change commitment. The chart below summarises our performance in Australia in 2016.

Operating Earnings of Australia (HK$M)



Customer

Competition for customers in Australia remained intense in 2016 with discounts and rebates dominating the acquisition strategies of retailers. Despite this, EnergyAustralia, one of the around 30 retailers active in the key markets of New South Wales and Victoria, delivered value by increasing customer tenure with improvements to customer service and investment in its capacity to develop new products and services. Net Promoter Score, a metric of customer experience, improved compared to a year ago while the overall number of customer accounts held steady.

Crucially, better service has led to customers staying longer; EnergyAustralia's churn rates in New South Wales and Victoria were 13% and 19% respectively, against the industry's average of 17% and 24%. Across the business, complaints to state ombudsmen about customer service fell from a year ago while at the same time our capacity to collect and manage account payments improved, resulting in significantly lower bad debts.

The improvement in customer service was reflected in top ratings and awards, such as the recognition of our Geelong contact centre as the best in its category in Victoria. The opening of a new contact centre in the Philippines in March 2016 has allowed EnergyAustralia to extend operating hours at lower cost.

In December 2016, EnergyAustralia launched *Go Neutral*. The initiative is a government-certified carbon neutral product that allows existing residential customers to offset all the carbon emissions generated from the electricity they use at no cost to them.

Energy

In 2016, an excess of supply eased through a combination of short and long-term factors, including drought in Tasmania, interconnector and plant reliability, a tighter gas market and power station closures.

Meanwhile, demand in aggregate across the National Electricity Market (NEM) increased over the year, driven by a 4% growth in demand in Queensland from increased LNG production. However, increased renewable generation as a proportion of the NEM contributed to price volatility.

These market conditions and high utilisation of key assets underpinned the performance of the EnergyAustralia generation portfolio. Utilisation of the Mount Piper plant in New South Wales increased as coal supply issues were addressed. In addition, steps were taken to ensure the plant's future, with EnergyAustralia and partner Centennial Coal announcing an enhancement to an existing proposal to build a water treatment plant to support an extension of the Springvale Mine, which is the key source of coal supply for Mount Piper. The enhancement will improve the environmental outcomes of the water project and ensure significant long-term investment in the local community.

In the broader market, plant closures were a constant topic of discussion. In the last three years, operators of four base-load coal plants in the NEM which represent over 3,000MW have closed or announced plans to do so. In the latest closure, announced in November, France's ENGIE will shut down its 1,600MW Hazelwood coal-fired power plant by 31 March 2017. The station currently provides more than 20% of Victoria's power. While closing the plant will significantly lower Australia's carbon emissions, it will also reduce base-load supply to the NEM.

Intermittent renewable generation will likely replace this base-load coal capacity as Australia pursues a national Renewable Energy Target under which renewable sources will supply 23.5% of total energy by 2020.

The table below shows the performance of our generation projects in Australia in 2015 and 2016. Please refer to our supplementary information online for more details.

Renewables and Thermal Projects – Performance

	Installed Capacity[1] MW	Electricity Sent Out[1] GWh		Availability %		Utilisation %	
		2016	2015	**2016**	2015	**2016**	2015
Wind	66	**156**	168	**86.0**	89.0	**27.9**	30.0
Cathedral Rocks							
Gas	1,589	**1,154**	2,737	**89.6**	85.6	**9.9**	20.3
Coal	2,880	**17,746**	15,383	**82.8**	86.0	**76.0**	66.1

Note:
1 Indicate total installed capacity and sent-out of all projects in operation without adjusting for CLP's equity share

Supporting Low Carbon Investment

EnergyAustralia is committed to meeting its obligations under a national Renewable Energy Target and continues to support an orderly transition toward cleaner forms of energy. In December 2016, EnergyAustralia announced that it would sign agreements to underpin the development of up to 500MW of renewable energy in the form of new wind and solar projects across eastern Australia. As part of this commitment, EnergyAustralia has already announced that it has agreed to take output from the Manildra Solar Farm in New South Wales, the Ross River Solar Farm in Queensland and the Gannawarra Solar Farm in Victoria.

The approach supports the country's efforts to lower the emission intensity of electricity generation by helping new renewable energy projects to be built and operated in the most cost-effective way.

The table below shows the generating capacity of renewable energy under contract to EnergyAustralia in 2015 and 2016.

Generating Capacity under Contract to EnergyAustralia

	Installed Capacity MW	Electricity Sent Out GWh 2016	Electricity Sent Out GWh 2015
Wind			
Boco Rock	113	**373**	307
Gullen Range	166	**514**	433
Mortons Lane	20	**67**	63
Taralga	107	**318**	147
Waterloo [1]	131	**318**	289

Note:
1 EnergyAustralia purchases half of the energy generated by Waterloo Wind Farm Stage 1 (111MW)

New Business

EnergyAustralia established a "NextGen" business unit in 2015 to identify and develop innovative products and solutions to meet the current and future needs of customers. NextGen has a particular focus on technology that allows customers to manage their energy consumption in ways that help them save money and reduce their impact on the environment.

In October 2016, EnergyAustralia committed to invest A$9 million in an Australian business, Redback Technologies. Redback's flagship product is a Smart Hybrid Solar Inverter System, combining a smart solar inverter, battery enclosure and sophisticated energy management software into one package. The technology will allow customers to decide how they use, save and even sell energy captured from their roof-top solar panels, all managed from a smartphone. The EnergyAustralia/Redback partnership plans to roll-out the second generation of this technology in the first half of 2017. More details of this venture will be discussed on page 73.

EnergyAustralia has committed to underpin the development of up to 500MW of renewable energy such as wind and solar

Environmental Performance

Air Emissions

EnergyAustralia had a generally stable year in environmental performance. Air emissions from our Australian thermal power stations increased by 10.7% compared with the previous year, but were below 2014 levels. This was mainly due to increased coal-fired power station output to meet higher demand for electricity, partially offset by lower running of gas-fired generation facilities due to higher gas prices.

Environmental Regulatory Compliance

During 2016, there were no fines or prosecutions arising from environmental-related regulatory non-compliances for any of our assets in Australia where we had operational control.

An audit carried out by the Victorian environmental regulator of the Yallourn power station identified no non-compliance or significant findings. The New South Wales environmental regulator also audited the Mount Piper power station and the Wallerawang ash dam. We received recommendations, which we are implementing, to improve the Mount Piper pollution incident response management plan as well as the monitoring and reporting of data from Wallerawang.

Social Performance

EnergyAustralia engages external stakeholders to help us understand and address issues of importance to them. Two key developments from this work in 2016 are the Reconciliation Action Plan (RAP) and Financial Inclusion Action Plan (FIAP). In addition, we continued to carry out a range of other community initiatives as highlighted below. Please also refer to the Social and Relationship Capital chapter on pages 81 – 84 for more details of EnergyAustralia's initiatives in this area.

1,500 people attended our Yallourn site's open day and 120 people attended our mine rehabilitation information sessions.

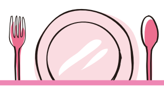
EnergyAustralia introduced its first Reconciliation Action Plan (RAP) in 2016, setting out the steps to increase our engagement with the Aboriginal and Torres Strait Islander peoples. 8 RAP launches were held across our sites with a total attendance of approximately 400 staff.

Community Health & Wellness

Our community fund programme donated A$170,000 across 7 sites to support projects and initiatives that provided positive social benefits.

EnergyAustralia was the 1st energy company in Australia to participate in the government-funded Financial Inclusion Action Plan (FIAP) programme. We launched our own FIAP in 2016 in order to help our more vulnerable customers achieve financial security and independence.

Volunteering



Through our volunteering programme with Foodbank Victoria, we helped pack 84 tonnes of food, or about 151,200 meals, that were distributed to Victorians in need.

Over 170 employees participated in almost 900 hours of volunteering.

Outlook

In 2016, the Australian energy industry was characterised by wholesale market volatility and sustained high prices. With the announced closure of Hazelwood, new renewable projects and gas supply constraints, we expect wholesale electricity prices to remain strong but more volatile in the short term. We believe this suggests an urgent need for Australia to adopt a national energy plan to support the delivery of reliable, affordable and cleaner supplies of energy to customers.

While utilisation of EnergyAustralia's generating assets is likely to benefit from tighter market conditions, gas portfolio margins are expected to be materially lower than in 2016 as supply costs increase.

We expect the retail market to remain intensely competitive. In this environment, EnergyAustralia will continue to focus on improving customer service, and evaluating and supporting innovative ideas for new energy-efficient technology.

Why is financial inclusion important? Why has your organisation decided to become a Financial Inclusion Action Plan programme Trailblazer? What are some of the outcomes you are expecting?

Financial vulnerability is one of the biggest challenges facing the energy industry. The profile of hardship customers is changing. In EnergyAustralia, we often see people fall into financial difficulties unexpectedly. More and more, it is people with jobs and mortgages to pay who are struggling. Last year a leading Australian NGO noted 30% of its clients seeking support have jobs and a mortgage; five years ago that was only 5%.

Affordability is a sensitive and challenging issue, and one we cannot solve alone. It is an issue that is part of a broader economic and cost-of-living problem which needs an all-industry approach, government support and regulatory reform. And we want to be part of the solution.

Our Financial Inclusion Action Plan is about working together to do what we believe is the right thing for our customers. We believe people should be supported with the products, services and guidance they need to manage their finances before it gets too late. Immediate outcomes include policies and practices that better support those experiencing and exiting abusive relationships. Longer-term outcomes include customers having access to appropriate and affordable products and services.

Mr Adam Mooney
CEO
Good Shepherd Microfinance

Catherine Tanna
Managing Director – EnergyAustralia

Capitals

We have selected a number of critical resources and relationships – collectively known as Capitals – and explain how we manage them to contribute to the sustainability of our business


TECHNOLOGY
Connectivity

Financial Capital

2016 was an extraordinary year in which a number of surprises in the political and financial arena caused serious upheavals in the debt, equity and foreign exchange markets. This was illustrated by "Brexit", the result of the United States presidential election, the weakness of the Renminbi (RMB), spikes in RMB offshore interbank interest rates and the sharp rebound in the oil price after OPEC's decision to cut production for the first time since 2008.

This uncertainty has translated into a number of exceptional events in the financial markets, including:

- the decline of the US 10-year treasury bond price by about 7% over two months;
- the nosedive of the British pound by 11% over five days in June; and
- the increase in the RMB offshore interbank overnight interest rate to over 60% on 12 January 2016 and 6 January 2017.

These were "black swan" events that have tested the robustness of CLP's "prudent and diversified" financial strategy.

Turning Strategy into Action in a Volatile Environment

Identifying potential financial market risks is only the first step of our financial strategy. Equally important is the swift and rigorous implementation of policies and procedures put in place to mitigate the potential risks to the business which could be exposed to a variety of external financial risks in areas such as funding, foreign currency, interest rates, credit rating and counterparty.

This year, strong operating performance of various business units and improved financial performance across the CLP Group further consolidated the Company's financial strength. This was evidenced by the:

- reduction in net debt balance of HK$4.7 billion;
- lower debt gearing ratio:
  net debt to total capital as at 31 December 2016: 29.5% versus 31 December 2015: 32.4%; and
- rise of debt serving capability:
  FFO (funds from operations) interest cover in 2016: 14 times versus 2015: 9 times.

CLP's business and financial performance persuaded Standard & Poor's (S&P) to revise the rating outlooks of CLP Holdings and CLP Power Hong Kong from stable to positive, and affirm their credit ratings at A- and A respectively in May 2016.

The further consolidation of CLP's financial strength and flexibility has empowered the Group with additional firepower to capture investment opportunities consistent with our business strategy, when opportunities arise. As our investments are highly capital intensive and involve long payback periods, it is important to acquire sustainable, diversified, cost-effective and long-tenured funding on a timely basis to support business growth.

Among this year's achievements were debt financing for the CCGT generation project at Black Point Power Station in Hong Kong, non-recourse project financing for the Vinh Tan III coal-fired project in Vietnam, and funding for the acquisition of a 17% equity stake in the Yangjiang nuclear project in Mainland China.

Further details of two major financing activities are as follows:

- CCGT project at Black Point Power Station

  On 13 December 2016, the Hong Kong Government approved CLP Power Hong Kong's proposed investment in the 550MW CCGT generation unit at the Black Point Power Station, which is important for meeting the city's 2020 fuel mix target. Total investment is about HK$5.5 billion. Ahead of the Government's final approval, CLP had already lined up a number of relationship banks and engaged Euler Hermes, a German export credit agency, to provide support for the project, ensuring that there would be no delay to the start of construction and that funding could be arranged at attractive terms.

- Vinh Tan III coal-fired project

  At the Great Hall of the People in Beijing in September 2016 and under the witness of the Premier of the People's Republic of China, Mr Li Keqiang, and the Prime Minister of Vietnam, Mr Nguyễn Xuân Phúc, the Vinh Tan 3 Energy Joint Stock Company (VTEC) (24.5% owned by CLP) and the China Development Bank Corporation (CDB) executed a non-recourse project financing term sheet. In parallel, VTEC appointed CDB as the underwriter, the Sinosure coordinating bank and a lead arranger for the Vinh Tan III project financing. A potential syndicate of banks including Chinese, regional and international banks have since been reviewing the project with keen interest to lend to Vinh Tan III. The success of this CLP-led fund-raising signified a vote of confidence to the Vinh Tan III project. With CLP as a co-developer and main sponsor, the project is a major Belt and Road initiative developed in partnership with Vietnam Electricity Group (EVN) and has the potential to deliver reliable and cost-effective energy to EVN's customers.

Executive Director & CFO Geert Peeters (front right) signs the Mandate Letter with Xie Zhijun, General Manager of China Development Bank Guangxi Branch, for Vinh Tan III in Vietnam

- Other financing arrangements

  During 2016, CLP Power Hong Kong arranged HK$6.1 billion three and five-year bank facilities and issued a HK$500 million 15-year private placement bond all at very competitive rates. In India, Jhajjar issued Rs.2.2 billion (HK$251 million) standalone seven and eight-year bonds which carry credit rating of A+ and are listed on the Bombay Stock Exchange. It has materialised in significant savings to the cost of the historic financing in place.

Diligent and Disciplined Risk Management

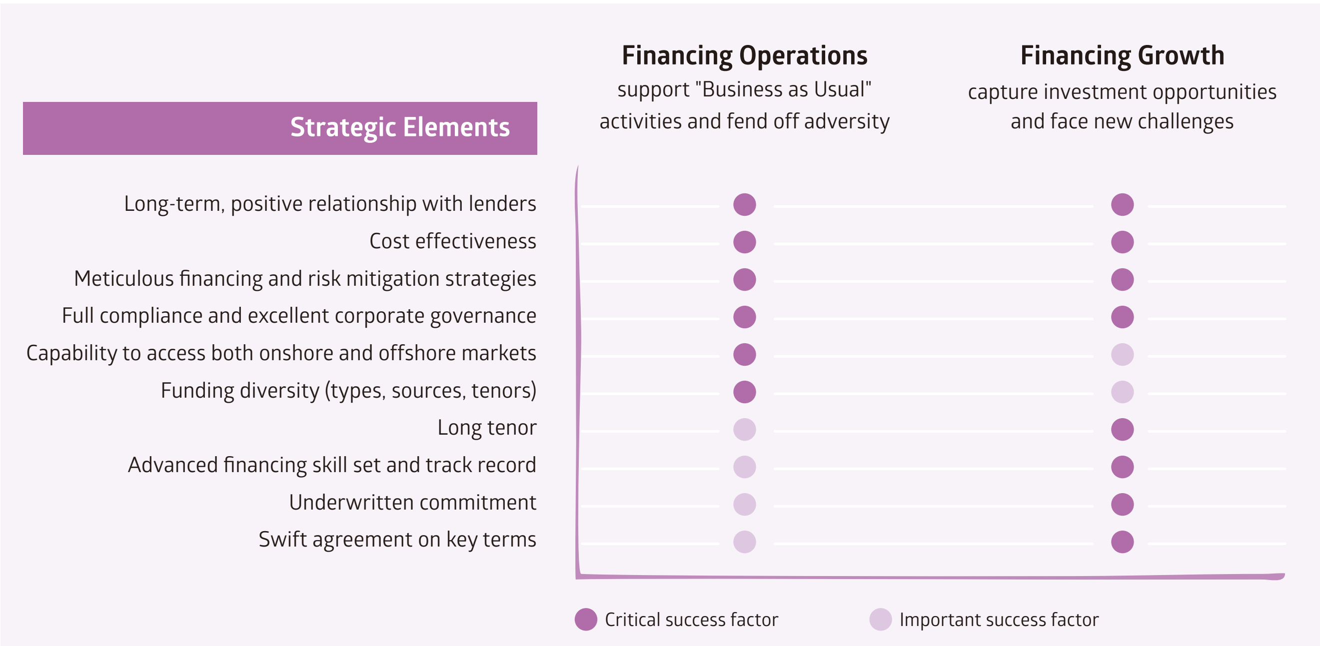
The power industry is well-known for its high investment costs, capital intensity and long payback periods with compounding risk factors. The ability to arrange timely, cost-effective, diversified, multiple-tenured and sustainable funding is critical in managing and growing our business. Our shareholders and business partners place high value on our consistent commitment to prudent and vigilant financial management. We are highly committed to preserving our robust capital structure, maintaining strong investment grade credit ratings, keeping and cultivating good, long-term business relationships with lenders and investors, and reserving financial strength and flexibility to meet business objectives and contingencies.

With our growing, cross-border businesses portfolio, we are exposed to multiple risks of liquidity, financing and refinancing, foreign exchange, interest rates, counterparties and compliance. CLP Group requires all business units to clearly identify, earnestly monitor and effectively manage their financial-related exposure, both in policy formulation and implementation.

Our financing strategies, success factors, and risk mitigation approaches as well as funding sources and usages are highlighted in the diagrams below and on the next page. They show:

- how our financing goals are achieved through the implementation of our strategic objectives;
- how we mitigate our liquidity and financing risks, and manage the financial market volatility risk as well as the credit and operational risks; and
- how effective management of these risks contribute to maintaining a healthy capital structure for our Company and enhance our shareholder value.

CLP's financial framework, major financing activities in 2016, and other related information are available in the online supplementary information.



Well-thought-out financing strategies with sound execution plans enable CLP to obtain sufficient funding as and when required at cost-effective terms and thus mitigate the liquidity and financing risks

Financial Market Volatility Risk

Effectively mitigate undue adverse impact on profit or loss, cash flow or balance sheet

Liquidity and Financing Risks

Effectively reduce risk of inadequate funding to support operations, fend off adversity and capture investment opportunities

Credit and Operational Risks

Effectively curtail risk of adverse impact due to default by business parties, execution, or failure to meet regulatory requirements

Our Measures and Performances

Foreign Exchange

- Transactional Risk – CLP hedges a high portion of committed and highly probable exposure. Residual risk is low and within tolerable level
- Translational Risk – This risk carries no profit or loss nor cash flow effect. CLP does not hedge for regional equity investment but match funding with local currency debt

Interest Rate

As at the end of 2016, the Group's fixed rate debt as proportion of total debt was approximately 57% (excluding perpetual capital securities) and 61% (if including)

Strong Financial Flexibility

- Having HK$28.7 billion of undrawn bank facilities and internal resources
- Maintaining long-term business relationships with 71 financial institutions (2015: 74)
- Distributing loan maturities evenly (beyond 5 years 40%, 2-5 years 30%, 1-2 years 9%, within 1 year 21%)
- Spreading out debt types (bonds 52%, term loans 40%, money market lines 8%) and sources
- Diversifying bond denomination currencies (USD 50%, HKD 33%, JPY 9%, INR 5%, AUD 3%)

(All figures are as at end of 2016)

Credit Risk

We only conduct transactions with trustworthy and capable parties

Compliance and Governance

- Professional integrity and commitment
- Full compliance

Advanced Technological Support

- Launched a new Group Treasury Management System which is a scalable, integrated and cloud-based platform
- Won the CFO Innovation Award 2016 for Excellence in Treasury Management Transformation

Holistic risk management framework with effective implementation can help CLP protect profit, improve reliability of cash flows and thus contribute to the financial strength of CLP and value creation to its shareholders

Funding Sources

Operational Performance

Quality operations deliver revenues to pay for expenditures, debt services and dividends

- Free cash flow: HK$22,485 million

Capital Recycling to Realise Economic Benefit and Support Future Growth

Divestment of non-core, limited growth assets will generate profit and cash flows for new investments

Debt and Equity

Provide new funding for natural growth, merger and acquisitions

Healthy Capital Structure

Strong operational performance will generate strong cash flows, dependable dividends and retained earnings ensuring a sustainable capital structure. In 2016 we:

- Reduced net debt balance by HK$4,705 million
- Decreased net debt to total capital ratio by 2.9%
- Increased Shareholders' Funds (including retained earnings) by HK$4,892 million

Funding Usages

Shareholder Value Creation

On-going capital investments will lead to higher earnings in subsequent years. These investments include:

- Scheme of Control: HK$7,123 million
- Growth: HK$635 million
- Maintenance: HK$723 million
- Investment properties, joint ventures, associates and others: HK$2,385 million

Dividends

We have delivered dependable growth in dividends

- 2016: HK$7,074 million
- 2015: HK$6,822 million

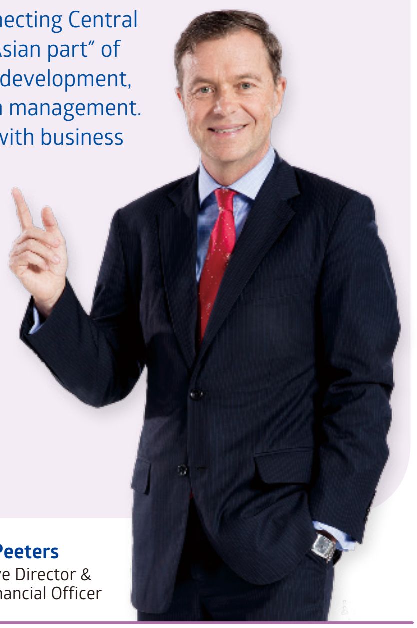
Credit Rating

CLP always strives to maintain strong investment grade credit ratings. In 2016, our commitment and initiatives to support a strong financial position were recognised by positive rating actions from S&P for both CLP Holdings and CLP Power Hong Kong (rating outlooks revised to positive from stable) as well as to EnergyAustralia (credit rating to BBB from BBB- and outlook to positive).

	S&P	Moody's
	CLP Holdings (A- / Positive) CLP Power Hong Kong (A / Positive) EnergyAustralia (BBB / Positive)	CLP Holdings (A2 / Stable) CLP Power Hong Kong (A1 / Stable)
Positives	• Sound and stable regulated business in Hong Kong • Higher earnings from overseas businesses • Ample liquidity, enhanced operational stability and working capital management in EnergyAustralia	• Predictable cash flow contributions from Hong Kong business • Sound liquidity profile of CLP Holdings • Good access to banks and capital markets, and the availability of sizeable committed bank facilities
Negatives	• Limited visibility on the regulatory framework in Hong Kong after 2018 • EnergyAustralia operates in a highly competitive energy market that is facing some structural changes	• Overseas and non-regulatory business investments increase risk profile • CLP Holdings' credit rating is constrained by improving but modest performance of its Australian operations

Does CLP plan to explore new investment opportunities in countries along the Belt and Road Initiative as Chinese enterprises and financial institutions capitalise on the policy momentum and expand in these markets?

CLP's target investment regions include Mainland China, Southeast Asia and India, which are under the Belt and Road Initiative. In the past decades, we have made a number of investments in the region, including the Fangchenggang power plant in Guangxi, the Jhajjar project in India and a 20 km undersea section of the West-East Gas Pipeline connecting Central Asia with Hong Kong. CLP has detailed knowledge of the "Asian part" of Belt and Road countries and strong credentials in business development, financing, engineering, and fuel procurement and operation management. In particular, we have established long-term relationships with business partners, financial institutions and equipment suppliers in Mainland China. They are keen to join hands with us to do business in Belt and Road countries. Vinh Tan III, a 3 x 660MW coal-fired project with emission reduction facilities in Vietnam, is the latest demonstration of how CLP can forge successful partnerships with key stakeholders and introduce Chinese financing and equipment to help power the economic development in Vietnam.



Dr Xie Zhijun
General Manager
China Development Bank Corporation Guangxi Branch

Geert Peeters
Executive Director &
Chief Financial Officer

Manufactured Capital

Manufactured capital is the man-made physical objects used in the production of utilities like electricity or the provision of services. Distinct from natural resources, they include equipment, infrastructure and buildings.

CLP excels in the fields of power generation, transmission and distribution technology, project management and operations. We have the technical know-how to construct and manage generation, transmission and distribution projects. We monitor and deploy the latest technology which has a proven track record in the power industry in our operations.

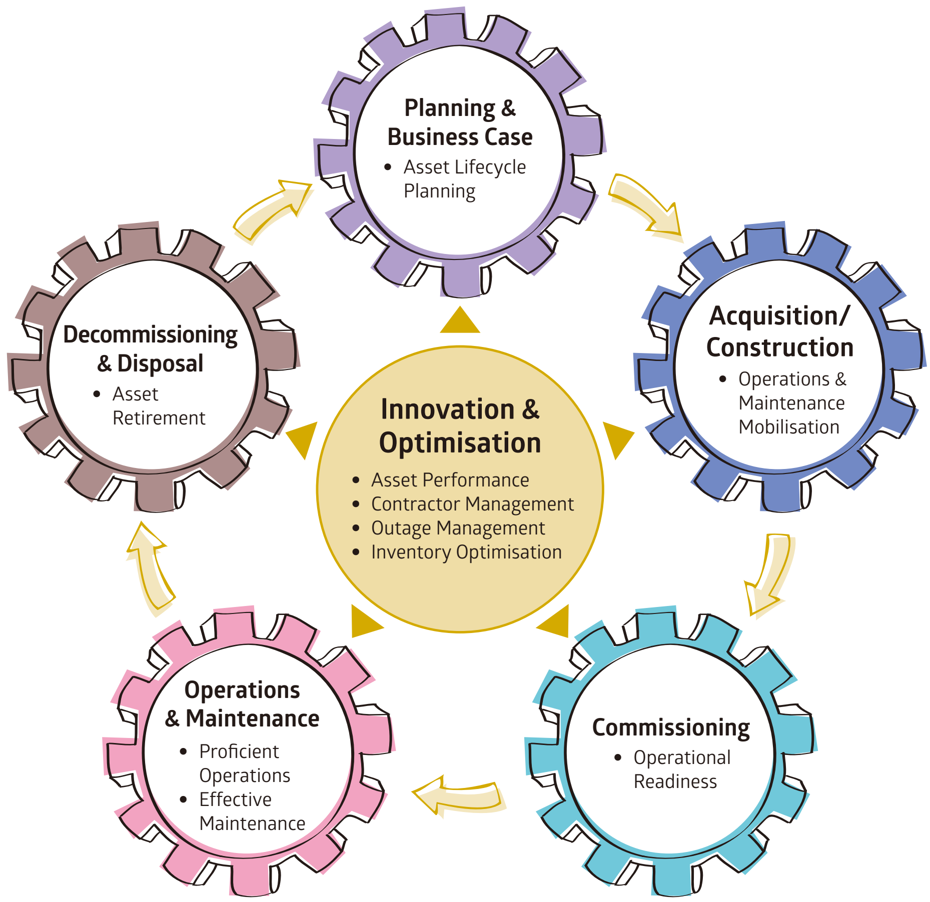
In 2016, the Group's total electricity sent out, which is based on 100% of sent out from the plants where CLP has investment and includes our capacity purchase, was 133,275GWh. On CLP's equity basis, our electricity sent out was approximately 79,600GWh with capacity purchase included. They remained at similar levels to 2015.

Strengthening Asset Management

Assets are critical to the success of business operations. At CLP, a key initiative in 2016 was the development of a Group-wide Asset Management System (AMS) Standard that aims at standardising key practices in asset management across different markets. The AMS Standard, which is illustrated below, sets out a framework to ensure that we follow the industry's best practices based on the ISO 55000 series of standards for asset management as well as the ISO 31000 standards for risk management.

The AMS Standard is integrated with CLP's Health, Safety, Security and Environment (HSSE) Management System and the new Project Management Governance System (PMGS) Standards to manage the complete lifecycle of an asset from the planning stage to decommissioning.

Overview of CLP's Asset Management System



Maintaining Asset Quality

Although we have a diverse range of generation assets using different fuel sources, we endeavour to identify opportunities wherever possible for improving their operational efficiency at various stages of the asset lifecycle. For projects that involve a major overhaul of the assets, stringent technical and financial scrutiny is conducted before implementation. Our ultimate goal is to operate all of our plants efficiently with minimal environmental impact.

Some of the operational efficiency improvement initiatives conducted on our plants in 2016 are as follows:

- At Hong Kong's Black Point Power Station, one of the eight gas turbine systems was successfully upgraded, increasing its capacity by 25MW, or 8%, enhancing its nitrogen oxides emissions performance and making a minor improvement in efficiency and fuel cost. The success of this trial paves the way for additional units to progressively be upgraded in coming years to realise the full potential for environmental performance improvement and capacity increase.
- In our Fangchenggang power station in Mainland China, we completed Phase II extension of two ultra-supercritical units with higher efficiency, increasing the project's capacity from 1,260MW to 2,580MW. We also modified the existing supercritical units of Phase I, saving around 26,000 tonnes of standard coal per year. In addition, we optimised coal yard management by maintaining a reasonable coal stock level and reduced the cost of coal inventory by RMB5 million in 2016. Further improvements are planned in 2017. We have begun tendering for a retrofitting project for Phase I to ensure compliance with Mainland China's emissions requirements by the end of this decade.
- In Mainland China, we completed refurbishments of three hydro stations at our Huaiji asset, increasing the overall Huaiji generating capacity by around 3%.
- At our Mount Piper Power Station in Australia, performance has deteriorated over a number of years due to deposition on the steam turbine blades. In 2016 we successfully removed the deposition at one unit and recovered approximately 8% in capacity and 2% in efficiency. The second unit will be similarly treated in 2017 to improve output and efficiency.

The energy intensity of our power plants that use fossil fuel, are under CLP's operational control (defined as full authority to implement CLP's operating policies) and have been operating for a full calendar year is listed below. Energy intensity is not calculated for renewable energy.

Region	Facility	Energy Intensity kJ/kWh
Hong Kong	Black Point	7,982
	Castle Peak	10,893
	Penny's Bay	17,062
Mainland China	Fangchenggang	10,093
India	Jhajjar	10,390
	Paguthan	9,036
Australia	Hallett	20,339
	Mount Piper	10,169
	Tallawarra	7,648
	Yallourn	13,926

Enhancing Group Procurement Practices

To provide high-quality and cost-effective services to our customers in a responsible manner, we continue to enhance our procurement and supply chain management.

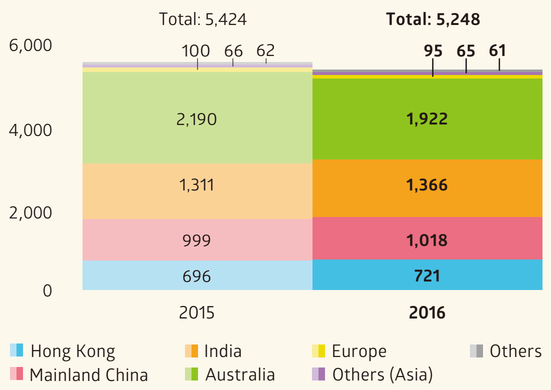
In December 2016, we launched the CLP Group Procurement Standard (GPS) to set the key principles for general and fuel procurement for all regions across the Group. The key objectives of the GPS are to help us acquire the most suitable products and services at the best price while maintaining integrity and ethical standards.

Our preferred suppliers are those who are ethical and committed to sustainable development, and have a track record on HSSE competence. Their products and services should be of high quality and they should be capable of meeting the expectations of our Responsible Procurement Policy Statement (RePPS). They should be compliant with legal and business performance requirements and maintain internationally competitive pricing. All purchases performed should be in line with CLP's Code of Conduct as well as Procurement Values and Principles.

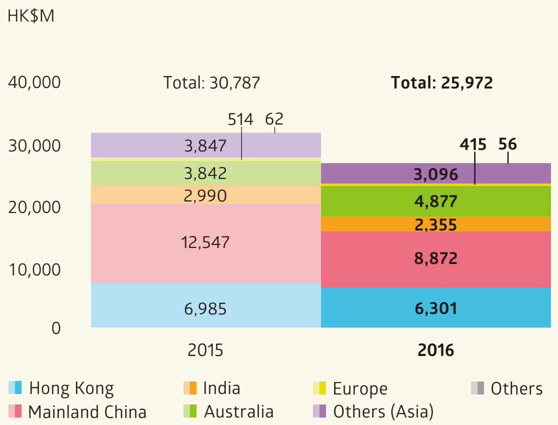
Furthermore, we collaborate with suppliers in managing environmental impact during operations because of the nature of our business. Suppliers for critical projects are assessed on their relevant sustainability status and practices through self-declaration, tender evaluation, site visits or checks, or two-way performance review as appropriate. Our supplier assessment and monitoring mechanism confirmed there was no significant RePPS risk in 2016. No supplier relationship was terminated due to the assessment and monitoring results.

Across all major assets in Hong Kong, Mainland China, Australia and India, we procured from 5,248 suppliers for a total of HK$26 billion in 2016. Some 86% of this amount was from local suppliers in these four regions, supporting the local communities while meeting CLP's business needs. Details of the number of suppliers and payment to them are included in the charts below.

Number of Suppliers by Region



Payment to Suppliers by Region



Note: All data are rounded to the nearest whole number.

In addition, we are committed to protecting the company's intellectual property rights, as well as complying with all applicable laws and regulations, including observing the intellectual property rights of our suppliers and vendors.

Focusing on Customer Needs

As an operator of retail energy businesses in Hong Kong and Australia, we strive to improve our customer-related infrastructure. For instance, in 2016 EnergyAustralia opened a new contact centre in the Philippines while our Hong Kong branch continued to enhance its digital retail platforms.

Furthermore, we are committed to complying with all applicable laws and regulations in relation to health and safety, marketing, labelling and privacy matters. There was no reported incidence of non-compliance with regulations or voluntary codes with regard to health and safety impacts of our products and services in 2016.

We also monitor and annually document any complaints related to breaches of customer privacy and loss of customer data. In our Hong Kong retail business, no customer privacy or data loss cases were reported. A small number of queries were received from the Australian Privacy Commissioner regarding potential breaches of customer privacy in EnergyAustralia's business; however following investigation, the Commissioner closed all files on the basis that EnergyAustralia had not interfered with the customer's privacy. CLP Privacy Principles are available on our Group website.

On product and service information and labelling, there was no breach of regulatory obligations and no fine for non-compliance relating to the provision and use of electricity in our Hong Kong business. EnergyAustralia reported some instances of non-compliance with information, contractual and billing requirements under the National Energy Retail Rules and the Victorian Energy Retail Code. These were reported as required under the self-reporting regime that operates in Australia. We are taking action to prevent these breaches reoccurring and to ensure customer satisfaction. Since 1 January 2016, the payment that energy retailers operating in Victoria must make to wrongfully disconnected customers has been doubled to A$500 a day for each day that customers' supply is cut off. EnergyAustralia paid compensation of approximately A$110,000 for wrongful disconnections.

In wholesale markets EnergyAustralia received two infringement notices of A$20,000 under the National Electricity Rules in relation to failure to follow dispatch instructions on 13 January 2016. The regulator noted that EnergyAustralia cooperated fully with the investigation and that no further action will be taken.

Other than the instances reported above, there was no breach of laws and regulations concerning advertising of our products and services in Hong Kong and Australia.

Intellectual Capital

The electricity industry is confronted with major changes that are reshaping the traditional utility model. Climate change, as one, has prompted the decarbonisation of generation facilities around the world. Technological advancements are driving down the costs of wind turbines, solar panels, energy storage devices and distributed energy, making renewables increasingly a part of people's daily life. Meanwhile, the ubiquitous communication networks coupled with the Internet-of-Things (IoT) are bringing about a digital revolution that means many everyday devices are becoming more intelligent and automated.

To thrive amid these challenges and maintain our leadership role, CLP needs to continuously innovate and adapt to the changing environment. Fresh ideas are developed; new experiences are sought; and technological expertise is constantly refined to meet the evolving needs of our customers.

Our customers today are empowered by the abundant information available to them on almost any topic in any geographic location at no cost. Increasingly they are demanding more individualised solutions and more choice. The focus of business has turned from a one-way promotion of products and services to putting customers at the heart of our transition and satisfying their needs before they even realise them. Our role as a utility is to leverage technology and innovation to do just that for our customers.

Big Data

The digitisation phenomenon across many facets of our day-to-day activities, from banking to shopping, is transforming the way societies and individuals behave. The development of many smart systems and devices has resulted in the generation of data from a variety of sources in huge quantities and at high speed. Big data has become a new source of value creation and addition in almost all industries. Consequently, big data management is becoming an essential part of business and the following examples illustrate how CLP leverages big data to create new value for customers.

Eco Power 360

We have introduced the online home energy assessment platform Eco Power 360 in Hong Kong to assist our residential customers in managing their energy usage more efficiently. It makes use of our extensive consumer usage records to help customers understand how much power they are using for different appliances and how their consumption patterns compare to historical data and their peer households.

Meter Online

Since 2015, an advanced feature of the Meter Online service has combined data from the Hong Kong Observatory's weather projection, smart meter data from CLP's customer consumption archives, and our data analytic models to produce a nine-day consumption forecast for our customers. By enabling them to manage their energy consumption and demand for days ahead, better energy efficiency and money saving can be achieved. In 2016, over 2,100 CLP commercial and industrial customers subscribed to Meter Online, with more than 40% having access to the advanced nine-day consumption forecasting model. While continuing our efforts to promote the service to customers, we shared our experience with overseas power companies in various conferences.

Integrating Renewables

CLP continues to support the community in developing renewable projects where practicable, especially in schools, on rooftops and at local community facilities. In Hong Kong, we provide expertise to help our customers understand and resolve technical issues so that they can connect their renewable energy systems, normally less than 200kW per site, to the electricity grid. By the end of 2016, over 250 renewable projects totalling more than 38MW have been connected to our grid.

We have also participated in building Hong Kong's largest solar facility (1.1MW) at a government sewage treatment plant on Lantau Island. The experience we gained in developing and operating renewable facilities in Hong Kong, along with our solar power and wind generation projects in Mainland China, India and Australia, has made us a reliable and innovative developer of renewables in Asia.

Distributed Energy Resources

In the past, distributed generation has been limited by the lack of affordable local resources (e.g. natural gas or waste heat) and special conditions (e.g. backup generators). However, distributed renewables such as rooftop solar panels and small wind turbines have now become more accessible and affordable. In addition, the arrival of different energy storage means, including chemical batteries, flywheels, thermal storage systems and even electric vehicles, now enables both customers and utilities to store limited electricity easily.

It is important for utilities to understand these developments and their impact on the grid. In 2012, CLP commissioned Hong Kong's first self-contained microgrid on Town Island. Powered entirely by solar, wind and battery storage, it is completely isolated from the main grid. This exercise has enabled us to develop our knowledge and experience in developing microgrids, especially with renewables and storage devices. In recent years, we have continued the exploration through projects like a new partnership on a smart hybrid solar inverter system in Australia.

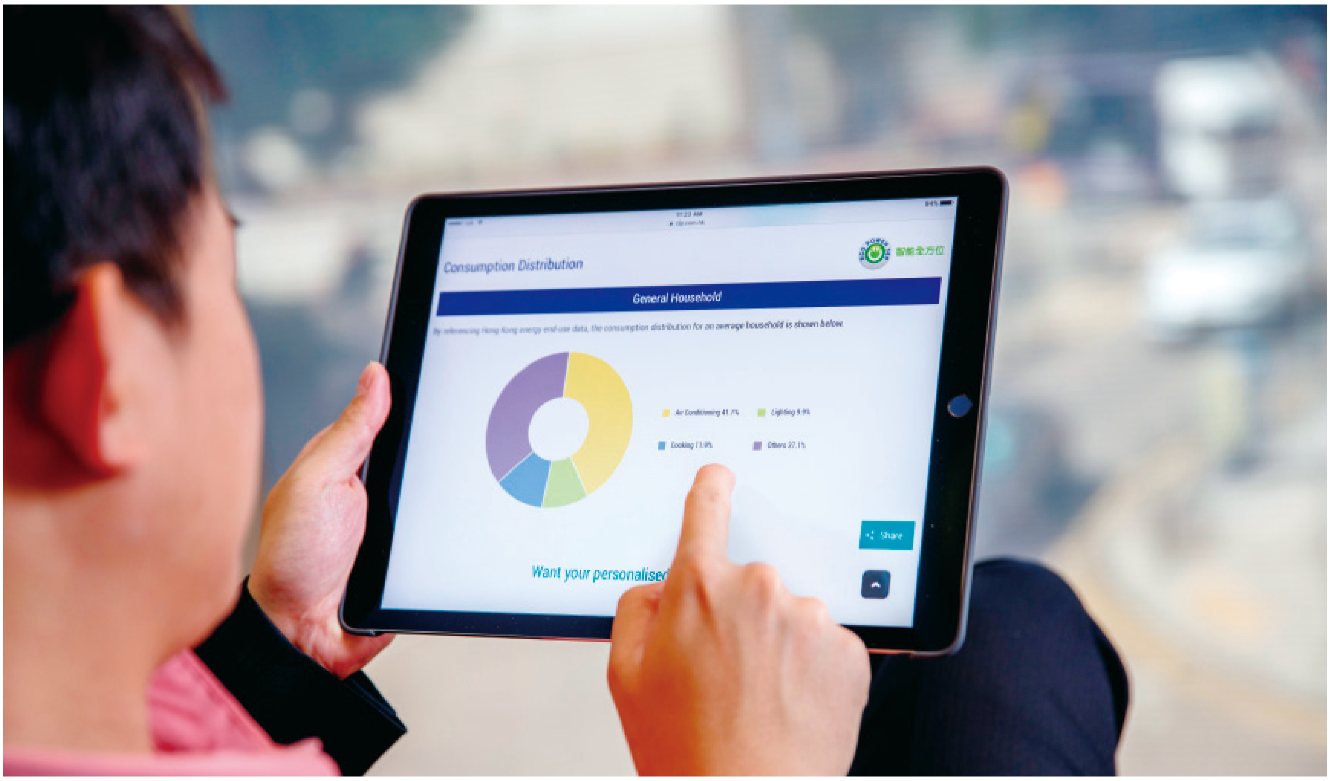
In 2016, EnergyAustralia teamed up with Redback Technologies to promote a smart hybrid solar inverter system to its customers. The system combines a smart solar inverter, battery enclosure and "intelligent" energy management software in a complete package which allows customers to choose how they use, save and even sell energy captured from their rooftop solar panels. The aim of the partnership is to invest in the development of reliable, affordable and cleaner technology which puts the customer more in control of their energy consumption.

Electric Vehicles

Globally, electric vehicles have gained significant traction and investment in recent years. While manufacturers from Japan, the US and Mainland China are delivering new models, governments are also providing incentives for consumers to buy these vehicles. Although most electric vehicles do have some limitations on their range and charging time, utilisation and adoption in urbanised areas is increasing. What has become critical in determining the rate of electric car adoption in a city is the planning and deployment of charging stations, especially their locations, accessibility and availability.

Smart Charge

CLP and HKT formed Smart Charge in 2016 to offer electric vehicle charging solutions in Hong Kong. Smart Charge aims to develop a comprehensive EV charging network that provides safe, reliable and convenient EV charging services in residential and public areas. The joint venture shows that we can provide not just electricity but also adjacent energy services – a one-stop service to electric vehicle users.



The Eco Power 360 home energy assessment platform allows residential customers to manage energy use at their fingertips

Towards a Customer-Centric Utility of the Future

The electricity industry is undergoing a period of transition. Enabled by technologies, regulatory advancement and customer empowerment, the new interaction between utilities and customers, and among customers themselves, will have to be developed and integrated as we evolve to become a utility of the future. In this new era, utilities can no longer succeed by simply fulfilling their traditional roles in managing the power system in a safe, economic and reliable manner. Increasingly, power companies such as ours must learn to put innovation and technology to work in order to meet the evolving demands of customers. CLP will continue to pursue ventures that turn new ideas into reality and rely on that knowledge and experience to achieve a sustainable future for the communities in which we operate. We also have an important role to play in helping governments and the general public adopt technological advancements in a way that balances regulation, economics, environment and social concerns.

New Horizons – A Platform to Share Our Intellectual Capital

One way to understand and keep track of the emerging issues affecting the industry is to encourage new ideas and experience sharing. Launched in 2015, CLP's New Horizons website provides a platform for industry experts to share their latest insights into market trends and innovations in the energy sector; and discuss how we can work together to achieve a more sustainable energy future.

CLP's New Horizons website

Human Capital

We operate in a complex and rapidly changing business environment. To build and maintain a sustainable and innovative workforce, we pay special attention to issues such as safety, diversity and equality, competitive benefits, building new capabilities, and respect for human rights.

As at 31 December 2016, the Group employed 7,428 staff (2015: 7,360), of whom 4,233 were employed in the Hong Kong electricity and related business, 2,925 by our businesses in Mainland China, India, Southeast Asia and Taiwan, and Australia, as well as 270 by CLP Holdings. Total remuneration for the year ended 31 December 2016 was HK$5,151 million (2015: HK$4,855 million), including retirement benefits costs of HK$440 million (2015: HK$384 million).

Care for Safety

Safety is always our number one priority. Each year, we assess the safety levels of our assets to help improve our safety performance and strive towards our goal of zero injuries.

Our Health, Safety, Security and Environment (HSSE) standards apply to assets where we have operational control. The CLP HSSE Management System Standard and Critical Risk Standards apply to everyone who works with us and allow us to apply HSSE considerations across our operations in a structured way. Our Crisis Management Plan helps us respond to emergency situations promptly and with due care.

Sadly three people lost their lives while working at sites under our operational control, namely Sihong Solar in Mainland China, and Jhajjar and Tejuva Wind in India in 2016. All involved contractors with two of the incidents relating to falls from height and the other an assault on a security guard at a remote location. We have the deepest sympathies for the families of the deceased and have thoroughly investigated these incidents to avoid similar events in the future.

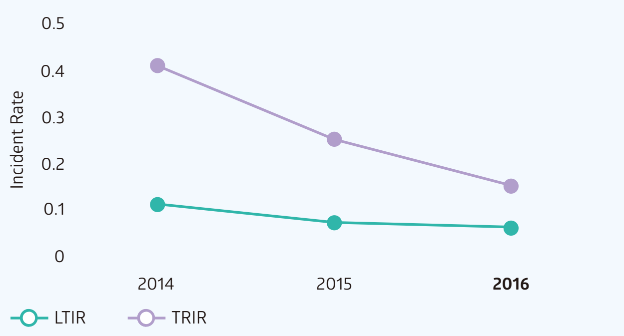
Following the incidents, we reminded all employees and contractors to pay special attention to safety precautions. We also reviewed the safety conditions of similar facilities to ensure that they are up to our required safety standards. In 2016, we did not register any breach of laws or regulations regarding the provision of a safe working environment and the protection of employees from occupational hazards.

The approach we have adopted to reduce the exposure to serious injuries and fatalities is to identify the high-risk situations in which management controls are either absent, ineffective, or not complied with and to address the risks by bringing in corresponding protection. We also established a set of life saving rules to avoid exposure to serious injuries and fatalities. These rules will be implemented across assets under CLP's operational control in the first quarter of 2017. We hope that our existing and new measures will help reduce exposure to serious injuries and fatalities for employees and contractors.

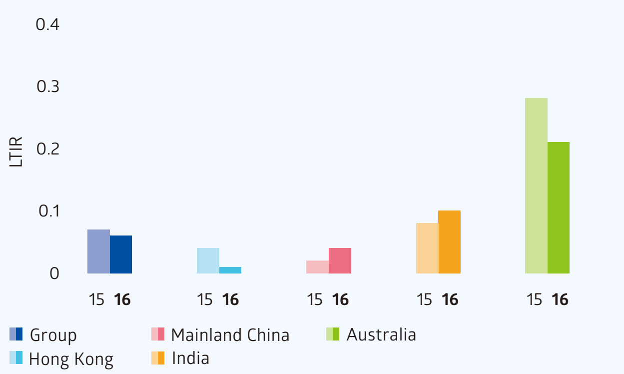
We provide extensive training for our employees to ensure a safe working environment and a high standard of service

The following charts show the safety performance of all CLP employees and contractors in the Group and individual regions in terms of Lost Time Injury Rate (LTIR) and Total Recordable Injury Rate (TRIR) in 2016. Notwithstanding the fatal incidents, our overall safety performance showed an improvement.

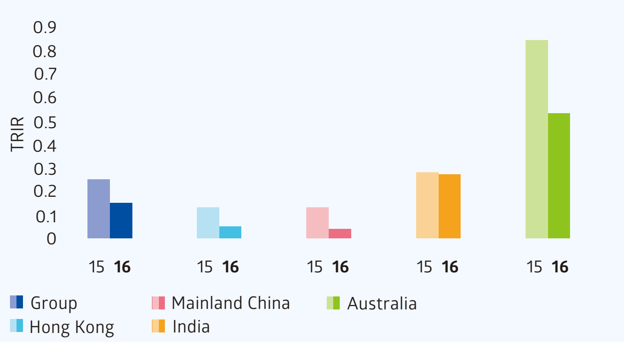
Group Lost Time Injury Rate and Total Recordable Injury Rate



Lost Time Injury Rate at Group and Regional Levels



Total Recordable Injury Rate at Group and Regional Levels



Note: The Lost Time Injury Rate (LTIR) and the Total Recordable Injury Rate (TRIR) are the number of lost time injuries or recordable injuries measured over 200,000 working hours of exposure, which is equivalent to around 100 persons working for one year.

Increasing Diversity

The energy sector is facing revolutionary changes. In this complex environment, it is essential for our leadership team to have diverse thinking and background in order to strengthen the decision making capability, agility and resilience of our organisation. This diversity can be seen in the tables below.

	Percentage of Group Executive Committee (GEC) members by Gender
Male	69%
Female	31%

	Percentage of Group Executive Committee (GEC) members by Nationality
Chinese	23%
European	23%
American / Canadian	15%
Australian / New Zealander	31%
Indian	8%

Note: The statistics are based on GEC members' passport nationality, which does not necessarily reflect their ethnic origin.

The diversity of our broader workforce is also important, both as a reflection of the different communities in which we operate, and because a sustainable workforce requires a broad base of recruitment. Workforce diversity, particularly of tenure, can also support innovation capability.

Diversity and Gender Equality

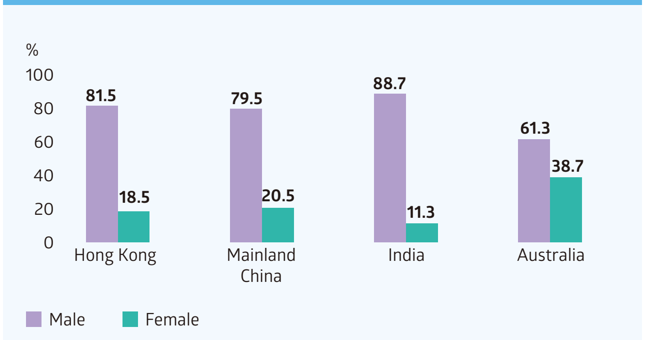
How we approach diversity takes into account differences in culture, values, traditions and religions. Consequently, we give flexibility to each subsidiary to develop locally specific approaches to diversity. For example, EnergyAustralia's diversity and inclusion programme in 2016 covered improved arrangements for employees returning from parental leave, improved workplace inclusion for the LGBTI community, establishment of a reconciliation action plan aimed at increasing our engagement with indigenous people, and support to address issues of domestic violence.

The most significant and common issue we face as the CLP Group is gender diversity. Demographic trends confirm the business case for this; and as gender equality is embedded in the United Nations Guiding Principles on Business & Human Rights and in the United Nations Sustainable Development Goals (SDGs), the social and economic case for making it a priority is equally strong.

However, we face some challenges in increasing the proportion of female employees from the current figure of 23.6%. The nature of our business requires a high percentage of the workforce to have technical and engineering skills. However, there are supply constraints due to the global shortage of females studying science, technology, engineering and mathematics (STEM) subjects at school and university.

We also face cultural constraints in places like India, which has a relatively low female workforce participation rate. The gender distribution of our employees by region is shown in the chart below.

Gender Distribution by Region



Given this context, we have identified three priorities that reflect our business needs, align with the UN SDGs, and support the social and economic empowerment of women:

- Women in Leadership
- Women in Engineering
- Gender Pay Equity

For further details on these priorities and initiatives taken in 2016, please see our Sustainability Report.

Competitive Benefits

In 2016 a number of initiatives were taken to enhance the sustainability of our benefit schemes for attracting and retaining employees.

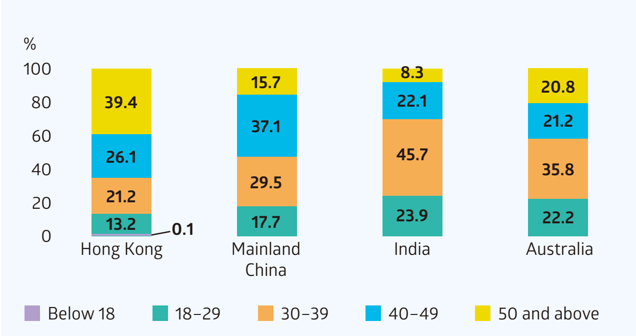
Enhancing Pension Fund Sustainability

Globally there is increasing concern over the adequacy and sustainability of pension schemes because of low investment yields and increasing life expectancy.

In 2016 we reviewed the sustainability of our Hong Kong defined contribution scheme and increased the existing matching contribution scale to further support the shared responsibility of individuals and the Company for making adequate retirement savings.

The age distribution of our workforce is shown below.

Age Distribution by Region



Implementing Family Friendly Policies

We increased our paid maternity leave in Hong Kong from 10 to 14 weeks and paid paternity leave from five to 10 days. While this places us clearly among the market leaders in Hong Kong, we will continue to monitor international trends and best practices.

In Australia, the Keeping you Connected initiative keeps EnergyAustralia's employees on maternity leave connected to the company while on leave, and working parents connected to their families. The company also supports primary carers with 14-week parental leave and encourages return-to-work parents to work 75% of their agreed hours but receive full remuneration for the first four weeks.

Enhancing Employee Well-being

Medical benefits are not only important for attracting and retaining our staff, but also help maintain a healthy and productive workforce.

Medical cost inflation poses a threat to the sustainability of medical benefits schemes. In Hong Kong, the associated premiums are rising rapidly. Enhancing employee well-being is an important measure to help improve the health status of the workforce, manage the cost of medical claims, and reduce the impact of sickness absence on productivity.

Subject to respect for individuals' confidentiality, we work with health professionals to use aggregate employee health data to identify common health issues affecting our workforce so that fact-based prevention measures can be identified.

We recognise that employee well-being extends beyond physical health to mental health. Our Group Executive Committee was given a briefing by a leading psychiatrist on the impact of mental health issues on the workforce, and we have established a mechanism for addressing any mental health issues in a professional and sensitive manner.

EnergyAustralia has focused on improved management of "return to work" for long-term absentees and increased mental health support. These efforts have seen an improvement in absence from work statistics in our contact centres and a reduction of workers compensation claims.

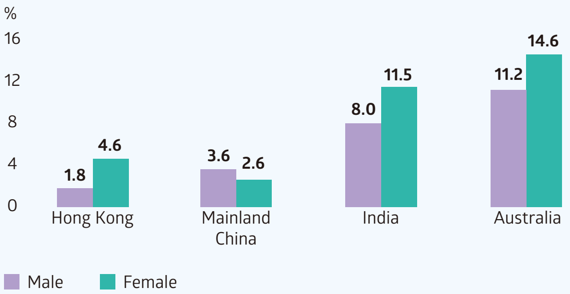
Our ability to retain staff is reflected in voluntary turnover rates lower than local market averages. Below are our voluntary staff turnover rates according to age, region and gender.

Leveraging Our Core Competencies

We maintain our core competencies through the planned intake of trainees and continuous investment in training and development. In 2016, we recruited 57 apprentices, technicians and graduate engineers in Hong Kong. More than a fifth of them are females. In Mainland China, two of our five graduate engineers under training are women. Further details on employee training are shown below.

Voluntary Turnover Rate

By Region and Gender

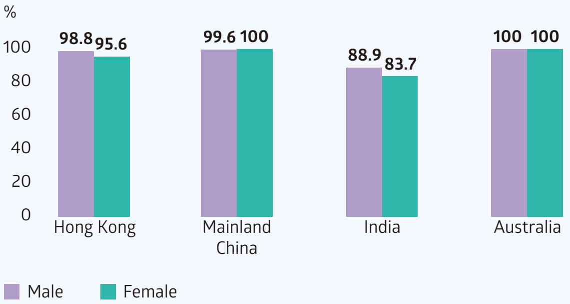


By Region and Age Group (%)

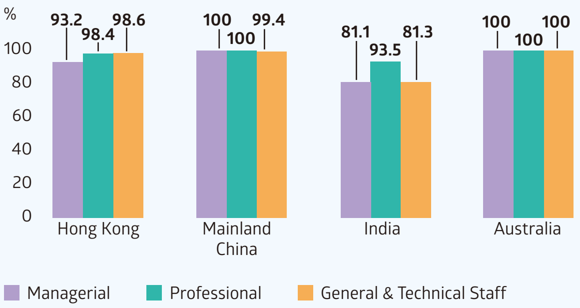
	Below 18	18-29	30-39	40-49	50 and above
Hong Kong	–	5.4	4.0	1.6	1.5
Mainland China	–	12.0	1.9	1.4	1.2
India	–	10.5	9.9	3.4	6.5
Australia	–	18.3	13.1	10.9	7.1

Employee Training

% of Employees Trained by Region and Gender



% of Employees Trained by Region and Professional Category



Average Hours per Employee

By Gender

Male	55.9
Female	27.7

By Professional Category

Managerial	29.4
Professional	44.5
General & Technical Staff	55.1

By Region

Hong Kong	62.9
Mainland China	70.9
India	39.6
Australia	14.3

The effective international deployment of our core engineering capabilities is a critical success factor, both to leverage our core competencies across the Group and to provide staff with career development opportunities. A pool of project engineers in Hong Kong were identified as mobile resources to support projects and provide technical services to assets across the region.

Fostering an Innovative Culture

We also build new capabilities in order to stay aligned with changes in our business environment. Given the challenges presented by the digitalisation of the energy industry, a Senior Director of Innovation was recruited in 2016 and an Innovation Team was formed with senior staff seconded from various parts of the business. These colleagues have been assigned to lead specific priority innovation projects, following which they will return to their business units in order to ensure cross-fertilisation of innovation skills into the broader organisation. For example, four colleagues were seconded to our Smart Charge venture, co-established with HKT.

Embracing New Technologies

Our capabilities are extended and broadened by leveraging external strategic partnerships. An example of this is our relationship with École Polytechnique Fédérale de Lausanne (EPFL) which provided us with access to:

- An executive education programme for 23 employees on the impact of new technologies on the energy sector;
- Internships for two MSc students from EPFL to work on complex technical challenges as part of their MSc studies;
- Technology-related briefings on topics such as smart grids and solar energy to senior management and the non-executive directors; and
- Technology transfer agreements to support our internal innovation capability.

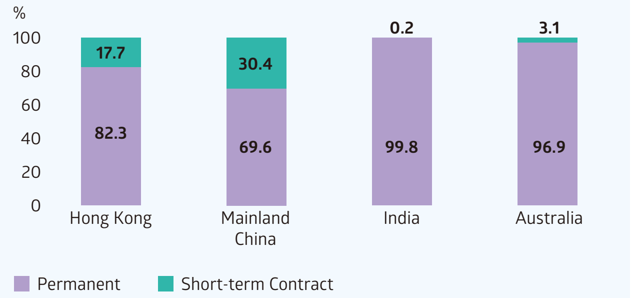
Short-term Employment and Use of Contractors

A sustainable workforce includes not only our permanent staff, but also short-term contract staff, temporary staff, and labour supplied by external contractors.

While short-term employment contracts are sometimes necessary to meet temporary resourcing needs, the repeated renewal of such contracts is not an acceptable resourcing strategy. We have taken steps to limit the use of short-term employment contracts to a maximum of four years, following which continued employment must be on permanent terms.

Strengthening our understanding and reporting of our use of contractor labour is a priority given the associated risks. In 2016, we initiated a human rights due diligence exercise focused on contractor labour, and reviewed the safety practices and culture of our external contractors. Our workforce by employment type (excluding labour supplied by contractors) is illustrated below.

Employment Type by Region



Respect for Human Rights

Our human resources policies and procedures are intended to ensure that we comply with local laws and regulations relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare in the markets where we operate.

Given the technical complexities and ambiguities of some laws and regulations, the risk of unintended breaches cannot be prevented entirely. We take immediate action to investigate and address any suspected breaches and issues that are brought to our attention.

We also carry out independent audits of our human resources policies and practices to proactively identify any risks of non-compliance and take remedial actions if such risks are identified.

Occasionally, there are disagreements with individual employees or unions over the interpretation or application of local laws and regulations. In such cases we will first attempt to resolve any issues amicably within locally determined procedures. If negotiation or reconciliation is unsuccessful, we comply fully with the final decisions of any relevant arbitration, tribunal or court.

With respect to the minimum wage, we comply fully with local legal requirements as well. In practice, our policies and remuneration and benefits often significantly exceed local legal requirements. We place great importance on treating employees fairly, including ensuring a fair wage, fair working hours and fair treatment regardless of gender, race or any other attribute recognised by the laws of the countries in which we operate.

We recognise that our corporate responsibility to respect human rights extends to our network of suppliers and contractors. Working in partnership with the Danish Institute for Human Rights (DIHR), we commenced a pilot due diligence exercise focused on the use of contractor labour in Hong Kong and India. Hong Kong is our largest operational location, where we have experienced some employee relations issues relating to our contractor workforce. We also make extensive use of contractor labour in India, where issues have been raised on areas including safety performance.

The objectives of the due diligence exercise are to identify any salient human rights issues, and to build our organisational capability to manage human rights issues systematically. For further information, please refer to our Sustainability Report.

Child and Forced Labour

CLP prohibits the employment of child, forced or compulsory labour in any of our operations. We require all our operations to ensure that they do not use child or forced labour. We have also put an increasing focus on due diligence activities in relation to human rights, and engaged independent consultants to conduct risk assessment regarding our contractor workforce. No such violation was discovered in 2016.

In 2016 we did not identify any operation or supplier as having significant risk of child labour, young workers exposed to hazardous work, or forced or compulsory labour. There was no breach of the laws and regulations in relation to child and forced labour across our Group in 2016.

Discrimination and Harassment

With respect to complaints of discrimination and harassment, we have clear policies in place, supported by employee training. Our Group-wide Harassment policy sets a common framework of principles and our detailed policies in each country are fully compliant with local legislation.

Q: Diversity and gender equality are keys to our future growth and sustainability. How does CLP attract females to join an engineering-focused industry?

A: There is a global shortage in the number of females studying science, technology, engineering and mathematics (STEM) subjects at school and university. As such, we have taken a number of initiatives to encourage female students to study STEM subjects. For instance, we continued with our mentoring programme for female engineering students at Hong Kong universities; organised engineering work placement programmes; and partnered with The Women's Foundation in Hong Kong to promote STEM studies among girls.

To attract and retain female talent, we have also taken steps to create a family-friendly working environment. These include enhancing our maternity leave policy in a number of markets.

We also recognise the importance of career development for our female employees. In 2016, we launched a Group-wide network of female engineers from India, Australia, Mainland China and Hong Kong to develop gender diversity action plans.

Shweta Jhamb
Assistant Manager – Procurement & Inventory
Jhajjar Power Limited

Roy Massey
Chief Human Resources Officer

Social and Relationship Capital

Social and relationship capital primarily describes how we engage with stakeholders to achieve mutual benefits. Maintaining strong relationships both internally and externally is crucial for the sustainability of our business. Our key stakeholders include our customers, employees, shareholders, regulators and the communities in which we operate. During the year, we continued to build trust and understanding with our stakeholders through dialogues and community initiatives.

Community Initiatives

To ensure we continue to have a social licence to operate, it is critical that the communities we serve not only trust us, but also view our company as one that can contribute to the sustainable development of their future.

As enshrined in CLP's Value Framework, we care for the people and the communities where we operate, and that guides us in devising and implementing our community programmes. In line with the Group's policies on community engagement, we aim to:

- support projects or programmes that reflect the needs and expectations of local communities and are sensitive to prevailing cultures, traditions and values;
- provide support to projects or programmes that are systematically managed with clearly-identified objectives and expected outcomes;
- engage in long-term partnerships with credible international, national, regional and local community organisations, non-governmental organisations, and charities;
- focus our support on projects or programmes that offer the opportunity for our employees to be involved in the activities; and
- regularly evaluate our contributions as well as the outcome and the impact that have been achieved.

In Hong Kong, we conduct a public perception survey every year to understand the public's view on various aspects of the electricity industry as well as the performance of CLP Power Hong Kong. Similarly, EnergyAustralia has since 2014 undertaken community perception surveys to better understand the needs and interests of local stakeholders and communities in which we operate. This helps us understand how we can best support these communities and ensure our engagement and social investment activities align with their expectations.

For many years, we have focused our community agenda on education – the sharing and imparting of knowledge, skills and experience from one generation to the next. We do this because we are convinced that we have a role to play in our future society.

Many of the CLP-initiated programmes centred around energy efficiency and promoting a career in engineering. However in 2016, we took our education commitment to a wider level by extending our reach to kindergartens – a journey from early childhood to adulthood.

Building Awareness for Energy Efficiency

POWER YOU

In Hong Kong, we developed an innovative electricity-themed education kit with story books, finger puppets, a board game and worksheets. It is available to all kindergartens free of charge. This initiative has the dual aim of teaching children about energy production while promoting energy efficiency. The kit has been used by over three-quarters of the kindergartens in Hong Kong, benefitting more than 135,000 students. It also encourages family members and the community at large to adopt energy-saving habits and low carbon lifestyles through the "*Please Come and Save the Earth*" theme song.

Learn more about the POWER YOU Kindergarten Education Kit

POWER YOU is an innovative electricity-themed education kit for kindergarten students in Hong Kong

Green Elites Campus

At the primary school level, CLP Power Hong Kong continued to organise school visits, support reducing food waste, conduct energy audits, and host a variety of learning programmes. We have awarded 22 primary schools the Green Elites Campus accreditation since the programme inception in the 2014/15 academic year in recognition of their efforts in promoting environmental protection through educational activities, use of school facilities and management, lunch arrangements, transportation and resource allocation.

Promoting Engineering Careers

In recent years, the number of students pursuing a career in science, technology, engineering and mathematics has dwindled globally. This has in turn affected the pool of potential engineers and technicians on which CLP relies to fill its positions. With this in mind, we have been encouraging young people to consider an exciting career in the power and engineering industries through various initiatives.

The Engineer in School Programme

This programme provides secondary school students with a better understanding of Hong Kong's energy industry and the power supply system in particular. It also educates them on the importance of environmental protection and energy conservation through job shadowing, day camps and school talks.

In 2016, the programme reached out to about 3,000 students in 14 secondary schools. More than 100 teachers and students participated in the first Energy Day Camp in December. The programme will continue in 2017.

Social Investment in Education

In Australia, we encouraged more women and girls to study to become engineers through collaborating with non-profit Power of Engineering. This came about after the newly-established Social Investment Committee of EnergyAustralia chose to champion the themes of education and social inclusion.

In addition to financial assistance, EnergyAustralia provided support in-kind including media advice to promote related events and staff to host workshops aimed at encouraging female high school students to consider engineering careers.

In 2017, the social investment themes of education and social inclusion will be incorporated into our community grants programme to ensure consistency across our entire community engagement programme.

Reaching out to the Mainland Chinese Community

To further enhance environmental awareness among secondary school students in Mainland China, we continued our signature CLP Young Power Programme in 2016. Some 150 high school students from Nanning in Guangxi and Hong Kong took part in learning tours and seminars, and became our young energy ambassadors. We also contributed to the community by offering grants to schools near our assets to improve school facilities.

Strengthening Collaboration with Universities and Professional Bodies

Professorship in Sustainability

As a leading energy provider in the Asia-Pacific region, CLP established a professorship in sustainability at the Hong Kong University of Science and Technology – the first of its kind at a local university. The professorship, which focuses on climate change and sustainable energy, will serve to attract an outstanding scholar and nurture skilled and innovative talent for Hong Kong and CLP.

CLP Power Low Carbon Energy Education Centre

Moreover, we are sponsoring City University of Hong Kong to establish a low carbon energy education centre on campus to present the challenges posed by climate change and demonstrate the importance of low carbon energy sources in an interactive manner. The opening of the centre is scheduled for the first half of 2017 and guided tours will be offered to the general public.

Professional Workshops and Symposiums

In November 2016, the CLP Research Institute co-hosted an international workshop with International Electric Research Exchange to discuss how technologies, big data, and their intelligent applications can enhance people's lives. The workshop was attended by over 100 industry experts, business executives, academics and research professionals from Japan, Korea, Mainland China, South Africa, Germany, the Netherlands, Mexico, Malaysia and Hong Kong.

CLP Power Hong Kong also hosted the fourth Green Building Symposium, where over 300 executives were introduced to some of the latest energy saving technologies and solutions that suit business needs.

Continuing Dialogues with Policymakers

CLP actively engages with governments at different levels and industry bodies in the markets where we operate to ensure the smooth operation of our businesses. We have regular dialogues with the Hong Kong Government on regulatory and policy matters including the post-2018 regulatory arrangements, gas supply security, air quality objectives, environmental targets and smart city developments. In Australia, we contributed to several reviews of different aspects of the energy market, including the East Coast Wholesale Gas Market and Pipeline Frameworks Review, the Queensland Inquiry into a 50% Renewable Energy Target and the Victorian Hardship Review.

CEO Richard Lancaster (left) and Professor Tony Chan, President of The Hong Kong University of Science and Technology, celebrate the establishment of the CLP Holdings Professorship in Sustainability – the first of its kind among universities in Hong Kong

EnergyAustralia continues to support energy and climate policy that is national, integrated, technology neutral and durable. It is essential to build the confidence needed to invest in transitioning Australia's energy sector to lower emission power generation, while ensuring reliable and affordable energy for consumers.

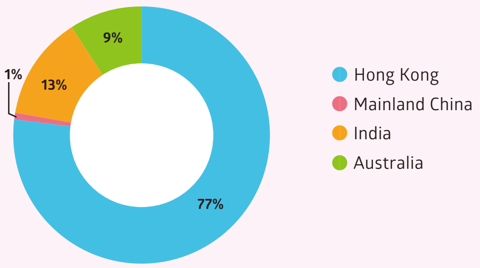
More Information

Further details of our stakeholder engagement efforts and community initiatives are available in the Business Performance and Outlook section and our Sustainability Report. SR

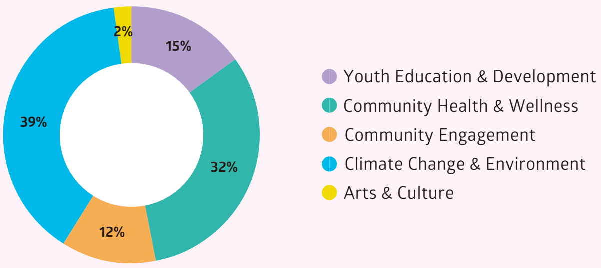
CLP's Community Initiatives in 2016

Our Community Spending

By Region[1]



By Theme[1]



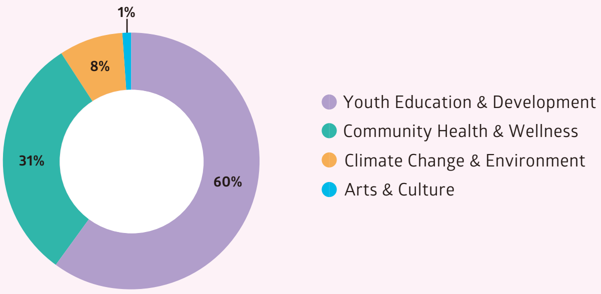
Our Beneficiaries

Over 359,000 direct beneficiaries

373 organisations benefitted

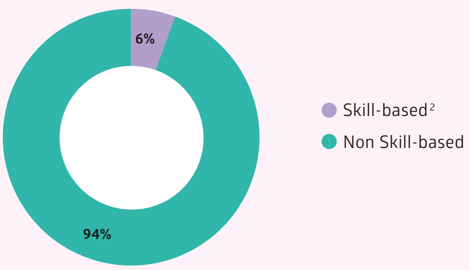
574 programmes were implemented

Direct Beneficiaries by Theme[1]



Contributing Our Time and Expertise

13,302 volunteer hours from CLP staff



Notes:
1 Figures include rounding adjustments.
2 Volunteering work that requires electrical engineering skills.

Natural Capital

We are mindful that our operations not only depend on natural resources, but also create impact on the natural environment. At CLP, we are committed to responsibly managing the short-term and long-term impact of our business throughout the entire lifecycle of our projects. We place a high priority on steps to address global climate change through the deployment of renewable resources and steadily reducing emissions. These are in line with technological advances and changing stakeholder expectations around the globe.

Transition to a Low Carbon Economy

With the Paris Agreement officially ratified in record time in 2016, governments, businesses, organisations, and communities around the world have rallied together to address the imminent challenges of global warming.

In 2007, we voluntarily pledged to reduce the carbon intensity in the Group's portfolio by 75% by 2050 and meeting some interim targets along the way. In 2010, we tightened the 2020 carbon intensity target and set ourselves new 2020 renewable energy targets:

- 28%+ further reduction in carbon intensity from 2007 levels; and
- 20% renewable energy in our generating portfolio.

Reviewing Our Emissions Reduction Roadmap

While we initially planned to review our roadmap once the Intergovernmental Panel on Climate Change releases its new emissions scenario projections in 2018, we now consider it appropriate to start the review a year earlier given the successful ratification of the Paris Agreement, as well as the release of Recommendations of the Task Force on Climate-related Financial Disclosures by the Financial Stability Board in December 2016.

Over the year, the Group's carbon intensity slightly increased to 0.82kg CO_2/kWh from 0.81kg CO_2/kWh in 2015. This was mainly due to increased output from Mount Piper and Yallourn power stations because of higher demand and decreased output from Tallawarra Power Station driven by higher gas prices in Australia. In India, overcapacity and reduced demand in the state of Haryana led Jhajjar Power Station to lower output. While these factors combined to cause a slight increase in the Group's intensity, total carbon emissions were at a similar level as in 2015.

Meanwhile, the share of non-carbon emitting energy and renewable energy in our portfolio decreased to 19.2% and 16.6% respectively primarily due to the approval of a new gas-fired generation unit at the Black Point Power Station in Hong Kong and a reduction in the capacity of the Yermala Wind Farm in India.

In the Asia-Pacific region where CLP operates, energy security, access and affordability remain the key priorities supporting the continued development of fossil-fuelled assets. While this makes it challenging for us to achieve our emissions reduction targets, we remain committed to our interim and long-term goals. We continued to expand our renewable energy portfolio with the construction of new projects in Mainland China. In 2016, we added 275MW of new renewable energy capacity to our operating portfolio. We also announced our intention to enter into PPAs to underpin the development of up to 500MW of renewable energy in Australia.

In parallel with our decarbonising strategy, we are determined to ensure that the transition will not result in denial of access to an affordable and reliable electricity supply that is essential for social and economic development and stability. For the emerging economies in which we operate that require new coal-fired power stations to meet their development needs, we see a continuing but limited role for us. If we develop such facilities, we are committed to utilising technology to achieve the highest possible efficiency, while continuing our investment in renewable energy. We have already begun to explore the use of new financing tools such as green bonds and are looking for ways to increase our involvement in renewable-related procurement arrangements where possible.

Our Online Carbon Credit Sales Platform

Apart from continuing our efforts in reducing our carbon footprint, we believe it is equally important to assist our stakeholders on their decarbonisation journeys.

In 2017, we plan to launch an eCommerce platform that allows users to purchase carbon credits online, in the hope of making it easier for individuals or organisations to offset their carbon emissions. We believe a price on carbon is inevitable.

Therefore, offsetting unavoidable emissions is one way to begin incorporating a potential price on carbon into the financial planning and budgeting process for an individual or an organisation. This will be the last component of the three-step range of solutions we plan to offer our stakeholders to assist them in their journeys towards achieving net zero carbon emissions. The solutions are prioritised as:

1. reducing energy use first;
2. transitioning towards using energy generated with low or no carbon emissions next, and
3. offsetting the remaining or unavoidable emissions last.

At EnergyAustralia, customers can now get 100% carbon neutral electricity in their home at no extra cost. For customers who opt for carbon neutral electricity, EnergyAustralia purchases carbon offset units which support projects that reduce emissions, such as renewable energy projects in developing countries or land management and tree planting in Australia, to offset the amount of carbon they release into the atmosphere.

Mitigating Environmental Impact

As we grow our non-carbon portfolio, there will still be impacts on the environment, such as land use and biodiversity-related ones. We are committed to mitigating these potential impacts through well-planned management and stringent monitoring. In CLP's Value Framework, we stress our care for the environment. We have also put in place an overarching Group Environmental Policy Statement, supported by a suite of standards and guidelines like the HSSE Management System Standard and Sustainability Principles to cover the material environmental issues we face. We also continue expanding and strengthening our data management system to ensure our data reporting and analytical work is robust.

CLP's recent performance in key environmental categories is summarised below:

Environmental Category	Aspect	Parameters	2016	2015
Emissions	Greenhouse gases	Total CO_2 emissions (from power generation)	**46,518kT**	46,553kT
		Carbon intensity (on equity basis)	**0.82kg CO_2 / kWh**	0.81kg CO_2 / kWh
	Air pollutants	Total SO_2 emissions	**71.2kT**	63.4kT
		Total NO_x emissions	**58.1kT**	56.3kT
		Total particulate matter emissions	**8.5kT**	9.8kT
	Water discharged	Total water discharged	**4,219.2 Mm^3**	4,463.0 Mm^3
	Waste	Total solid waste produced	**9,619T**	12,096T
		Total liquid waste produced	**1,335kl**	3,031kl
Resource use	Fuel	Total coal consumed	**453,904TJ**	450,937TJ
		Total gas consumed	**86,787TJ**	95,591TJ
		Total oil consumed	**4,162TJ**	2,892TJ
		Non-carbon % (on equity basis)	**19.2%**	19.5%
		Renewable energy % (on equity basis)	**16.6%**	16.8%
	Water	Total water withdrawal	**4,257.0 Mm^3**	4,503.0 Mm^3
Biodiversity	Ecology	Biodiversity Impact Assessment	**Biodiversity impact assessed in all new projects and mitigation measures implemented**	Commenced implementation

Emissions and Waste

As shown in the table on the left, our total air emissions increased to 137.8kT in 2016 mainly due to increased generation at Mount Piper and Yallourn power stations in Australia. CLP also makes every effort to minimise waste through recycling and reusing materials. We continue selling our generation by-products such as ashes and gypsum to other industries for utilisation.

Water

On our sourcing and management of water resources, we conducted an in-depth assessment of water risk across our portfolio in 2016. The assessment covered parameters such as water availability, water sensitivity, water stress mapping, potential competing use with other stakeholders, and management strategies in place in each of our regions. The results of the assessment indicated that we have a sufficiently robust regime in managing our water risks. We will continue to monitor and manage our water risks, reduce our impacts, and use this precious resource efficiently.

Our facilities also monitor their total water withdrawal and discharge. The largest volume of water we withdraw from water bodies is for cooling purposes and this is confined to our thermal power stations. However, the majority of this water is discharged back to its sources after appropriate treatment to ensure no adverse environmental impact is caused. The water intensity of our power generation process increased from 1.04 m^3/MWh in 2015 to 1.05 m^3/MWh in 2016. This was within normal general fluctuations.

Regarding water availability, we manage our water resource risks through a number of means. We assess the water availability in the planning stage of projects including the likelihood of water scarcity in the future. During operations, our power stations will ensure that all licensing requirements and necessary engagements with local stakeholders are in place to maintain our license to operate. Depending on site-specific conditions, operational situations and age, our power stations have introduced a range of water conservation initiatives. Some new initiatives in 2016 were:

- **Jhajjar Power Station, India** – Flue Gas Desulphurisation (FGD) waste water separation system was optimised to prepare for its full operation towards the end of 2017;
- **Fangchenggang Power Station, Mainland China** – High and low chlorine ion wastewater were collected and stored separately, then used as cold hopper and desulfurisation process water. The annual volume of recoverable water was about 70,000 m^3;
- **Mount Piper Power Station, Australia** – EnergyAustralia and its partner Centennial Coal announced an enhancement to an existing proposal to build a water treatment plant to support an extension of the Springvale Mine. The mine is the key source of coal supply for Mount Piper and the enhancement will improve the environmental outcomes of the water project and ensure significant long-term investment in the local community.

We also place high emphasis on sharing initiatives across the CLP Group in order to maximise the benefit of our individual power station's efforts. Jhajjar Power Station formed a cross-functional team to conduct a study on water management. Study findings were presented in a sharing session with participants from all CLP operating regions.

Environmental Regulatory Compliance

In 2016, there was one environmental incident at Sandu I Wind Farm in Guizhou province, which incurred a sanction for forest damage. We have enhanced our project management and technical procedures to improve our future performance at this type of geographically difficult location. In India, there were two environmental licence limit exceedances of particulates emissions at Jhajjar Power Station. No penalty was imposed. Further information is available in the Business Performance and Outlook and Five-year Summary sections and the Sustainability Report. SR

Governance

We have long recognised good corporate governance as a key enabler of long-term value creation. It enhances our credibility and reputation, as well as promoting and safeguarding the interests of our stakeholders

Message from the Company Secretary

At CLP, we are strongly committed to maintaining a high standard of corporate governance.

We are continuously looking for opportunities to improve in this area including, in particular, the way in which we communicate with our shareholders.

We are conscious that the level of financial and non-financial disclosures required by regulation has been increasing over recent years along with the expectations of investors regarding the detail of information required. However, we are aware that not everyone has the time or inclination to read longer and more complex reports. Accordingly, presenting the disclosures in our Annual Report in a more "reader friendly" manner has become a key focus this year. With this in mind, we hope you will find the disclosures in our Annual Report to be a better reading experience.

Finally, we would like to thank our shareholders for their continuing support for good governance at CLP.

David Simmonds
Company Secretary
27 February 2017

Board of Directors

Non-executive Directors

The Honourable Sir Michael Kadoorie

GBS, LLD (Hon.), DSc (Hon.), aged 75, Chairman, N (Appointed on 19 January 1967*)

The Hon Sir Michael Kadoorie is a Commandeur de la Légion d'Honneur, Commandeur de l'Ordre des Arts et des Lettres, Commandeur de l'Ordre de la Couronne and Commandeur de l'Ordre de Léopold II. He is the Chairman of The Hongkong and Shanghai Hotels, Ltd. and Heliservices (Hong Kong) Ltd.; a Director of Sir Elly Kadoorie & Sons Ltd. and an Independent Non-executive Director of CK Hutchison Holdings Ltd.

William Elkin Mocatta

FCA, aged 63, 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 Ltd., Castle Peak Power Company Ltd. and Hong Kong Pumped Storage Development Company, Ltd.; an Alternate Director of CK Hutchison Holdings Ltd., as well as a Director of The Hongkong and Shanghai Hotels, Ltd. and other companies in Hong Kong.

John Andrew Harry Leigh

aged 63 (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. He is a Director of The Hongkong and Shanghai Hotels, Ltd. and also a Director of Sir Elly Kadoorie & Sons Ltd.

Andrew Clifford Winawer Brandler

MA, MBA, ACA, aged 60, F&G, S (Appointed on 6 May 2000)

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

Lee Yui Bor

BSc, MSc, PhD, DIC, C.Eng., MIET, FHKIE, aged 70 (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 Fellow of the Association of the Electricity Supply Industry of East Asia and the Western Pacific, of which he was the President in 1992. Dr Lee is the Chairman of Longmen Group Ltd., a Director of Metrojet Ltd. and Heliservices (Hong Kong) Ltd. and an Honorary Professor of the University of Hong Kong. Dr Lee first joined the CLP Group in 1976 and retired as an Executive Director of CLP Holdings in 2007.

Independent Non-executive Directors

Vernon Francis Moore

BBS, FCA, FCPA, aged 70, A, F&G, H (Appointed on 7 March 1997*)

Mr Moore is currently a personal advisor to the Chairman of CITIC Ltd. He was an executive director of CITIC Ltd. from 1990 to 2014 and chief financial officer from 1990 to 2005 and 2008 to 2014. He is a director of CITIC Pacific Ltd. and CITIC Mining International Ltd. and the chairman of the New Hong Kong Tunnel Company Ltd. and the Western Harbour Tunnel Company Ltd. Mr Moore was also a non-executive director of Cathay Pacific Airways Ltd. from 1992 until 2009 (except June to September 1996). He is a deputy chairman of the executive committee of the Community Chest.

Sir Roderick Ian Eddington

AO, aged 67, F&G (Appointed on 1 January 2006)

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

Nicholas Charles Allen

aged 61, A, F&G, H, N, S (Appointed on 12 May 2009)

Mr Allen holds a Bachelor of Arts degree in Economics / Social Studies from the University of Manchester, 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 the Chairman and an Independent Non-executive Director of Link Asset Management Ltd., as well as an Independent Non-executive Director of Lenovo Group Ltd. Mr Allen joined Coopers & Lybrand (C&L) in London in 1977 and was 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 68, 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 (June 2011 to May 2012), Chairman of The Hongkong and Shanghai Banking Corporation Ltd., HSBC Bank (China) Company Ltd. and HSBC Bank (Taiwan) Ltd. between 2005 and 2011, an Executive Director of HSBC Holdings plc (2008 to 2011), and a Non-executive Director of HSBC Bank (Vietnam) Ltd. (2008 to 2010). He is currently an Independent Non-executive Director of MTR Corporation Ltd., Great Eagle Holdings Ltd., China Minsheng Banking Corp., Ltd., Shanghai Industrial Holdings Ltd., Wing Tai Properties Ltd., CK Hutchison Holdings Ltd. and Hui Xian Asset Management Ltd.

Law Fan Chiu Fun Fanny
GBS, JP, aged 64, 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 has 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) Ltd., DTXS Silk Road Investment Holdings Company Ltd. (previously known as UDL Holdings Ltd.) and Nameson Holdings Ltd., the Chairperson of the Hong Kong Science and Technology Parks Corporation and External Director of China Resources (Holdings) Co., Ltd.

Lee Yun Lien Irene
aged 63, A, F&G, S
(Appointed on 15 October 2012)

Ms Lee holds a Bachelor of Arts Degree from Smith College, USA, and is a Barrister-at-Law in England and Wales and a member of the Honourable Society of Gray's Inn, UK. Ms Lee is currently the Executive Chairman of Hysan Development Company Ltd., an Independent Non-executive Director of Cathay Pacific Airways Ltd., Hang Seng Bank Ltd., HSBC Holdings plc, The Hongkong and Shanghai Banking Corporation Ltd. and Noble Group Ltd. (listed on Singapore Exchange Ltd.). She has held senior positions in investment banking and fund management in a number of renowned international financial institutions.

Zia Mody
LLM, aged 60, H
(Appointed on 2 July 2015)

Mrs Zia Mody obtained her law degree from the University of Cambridge in 1978 and was enrolled as an advocate with the Bar Council of Maharashtra and Goa in 1978. She gained her LLM from Harvard Law School and was then admitted as a member of the New York State Bar by examination in 1980. Mrs Mody worked as a corporate associate at Baker & McKenzie in New York for five years before establishing the Chambers of Zia Mody in India in 1984, which then became AZB & Partners (AZB) in 2004. Mrs Mody is currently the Deputy Chairman, an Independent Non-executive Director and a Member of the Risk Committee of The Hongkong and Shanghai Banking Corporation Ltd. Mrs Mody is also a senior partner of AZB, a Director of the London Court of International Arbitration (India) Private Ltd., a Non-executive Director of Cambridge India Research Foundation and a trustee of J. B. Petit High School for Girls.

Executive Directors

Richard Kendall Lancaster
BE, aged 55, 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. Prior to assuming his role of CEO in September 2013, he was the Managing Director of CLP Power Hong Kong for three years, responsible for its electricity generation, transmission and distribution business and service to its customers in Hong Kong. Mr Lancaster began his career with the Electricity Commission of New South Wales in Australia and has more than 30 years of experience in the power industry and in other industrial operations in Australia, UK and Hong Kong. Mr Lancaster joined CLP in 1992 and has held a variety of managerial positions in CLP. His experience covers project management, power plant operations, commercial, finance, legal and corporate functions. Mr Lancaster is the Chairman of Business Environment Council and a founding member of the Advisory Council of The Australian Chamber of Commerce Hong Kong & Macau. He is also a Fellow of the Hong Kong Management Association.

Geert Herman August Peeters
MSc(Eng.), CEng(Belgium), aged 53, F&G, P
(Appointed on 1 January 2016)

Mr Peeters, a Knight in the Order of King Leopold, has a master of science in electro mechanical engineering (hons. RUG Gent, Belgium), a postgraduate degree in business and IT administration (HEC Brussels, Belgium) and attended executive business training at INSEAD Paris, France. Mr Peeters has been the Group Director & Chief Financial Officer since 1 April 2014. He was appointed the Executive Director and Chief Financial Officer of CLP Holdings with effect from 1 January 2016 with additional responsibility for Group business development oversight. He has over 25 years of experience in the energy industry. Prior to joining CLP, he was the Deputy Chief Financial Officer of GDF SUEZ (now known as ENGIE) Group based in Paris and Executive Director and CFO of International Power plc, a ENGIE subsidiary formerly listed on the London Stock Exchange and part of the FTSE 100. Mr Peeters was with GDF SUEZ from 1997 to 2013, gaining extensive experience in senior financial and operational roles in Europe, Latin America, the Middle East and North America. He is a member of the CNBC Global CFO Council and the International Integrated Reporting Council.

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

* The date given is that of appointment to the Board of China Light & Power Company, 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 on 31 October 1997.

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

Senior Management

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

Richard Kendall Lancaster

Chief Executive Officer

Mr Lancaster's biography is on page 91.

Geert Herman August Peeters

Executive Director & Chief Financial Officer

Mr Peeters' biography is on page 91.

Derek Parkin

Chief Operating Officer, BSc(Hons), MPhil, MBA, CEng, Eur Ing, FEI, FIMM, MIoD, aged 57

Mr Parkin joined CLP as the Group's Chief Operating Officer in September 2015. He is responsible for the Group's operations, engineering, construction and fuel procurement. He also leads CLP's occupational health, safety, security and environment function. Mr Parkin is a chartered engineer and has over 30 years of engineering and business management experience across Europe, Russia, Asia and South America. Prior to joining CLP, Mr Parkin was the Chief Operating Officer / Chief Executive Officer of UK Coal and served on the executive board of power and gas giant E.ON UK for more than five years before being appointed as the Managing Director of New Build and Technology of E.ON.

Yuen So Siu Mai Betty

Group Director & Vice Chairman – CLP Power Hong Kong, B.Comm., CPA, aged 59, F&G

Mrs Yuen was appointed as the Vice Chairman of CLP Power Hong Kong Limited in 2010, with a primary focus on the strategic direction of the Group's electricity business in Hong Kong and China. 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 ExxonMobil for 13 years before joining CLP in 1999.

Poon Wai Yin Paul

Managing Director – CLP Power Hong Kong, BSc(Eng.), FIET, FIMechE, FHKIE, FIEAust, FHKEng, CEng, CPEng, aged 64

Mr Poon holds overall responsibility for the operations of the Hong Kong business. Mr Poon has over 39 years' experience in the power industry. He joined CLP Power Hong Kong in 1981 and has held various management positions in different operational departments and in CLP (International). He was the Chief Operating Officer – CLP Power Hong Kong before assuming his current position in September 2013.

Chan Siu Hung

Managing Director – China, JP, BSc(Eng.), MSc, CEng, HonFEI, MIET, MHKIE, aged 58

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 has 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 51

Mr Mishra is responsible for running CLP's business in India. He joined the CLP Group in 2002 and has over 20 years' experience in the power industry, both in India and internationally, mostly involved in project financing, investment appraisal, finance and accounting and general management. He holds a Bachelor degree in Chemical Engineering (first class distinction) from BIT, Sindri and an MBA degree from the Indian Institute of Management, Lucknow, and is an Advanced Management Program Graduate from the Harvard Business School, Boston.

Catherine Leigh Tanna

Managing Director – EnergyAustralia, LLB, aged 55

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

David John Simmonds

Group General Counsel & Chief Administrative Officer, LLB, BCom, aged 46

Mr Simmonds holds a Bachelor of Laws (Honours) degree and a Bachelor of Commerce degree 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 and the Company Secretary of CLP Holdings on 1 January 2016. He is responsible for the provision of legal and insurance services across the CLP Group, the Group's property development and management activities, special projects of the CEO, and a range of commercial and administrative matters of significance to the Group. He is also responsible for the corporate secretarial affairs of CLP Holdings and its subsidiaries. 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, JP, BSSc, aged 53, S

Ms Chong joined CLP Power Hong Kong on 1 September 2012 as Chief Corporate Development Officer. At CLP Power Hong Kong, she leads the functions of marketing and customer service, public affairs and community relations to help drive customer service excellence and strengthen ties with customers and the community as a whole. She is also responsible for all public affairs and sustainability development matters of the CLP Group. Ms Chong has over 25 years of experience in corporate communications and customer services after having held various senior management positions in the tourism, hotel and aviation industries. Ms Chong is currently the Chairman of the Hospital Governing Committee of Kwai Chung Hospital & Princess Margaret Hospital.

Roy Anthony Massey

Chief Human Resources Officer, MBA, LLB, aged 62

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

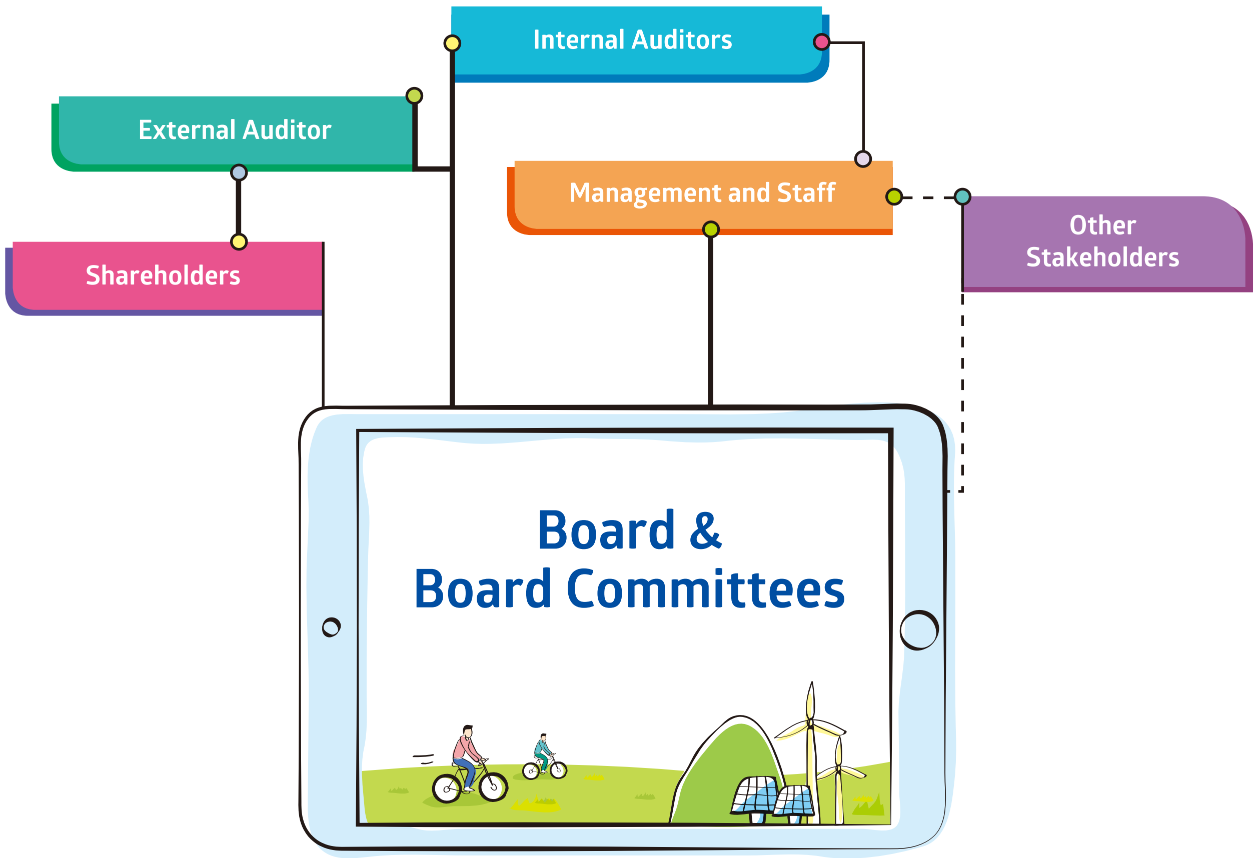
F&G Finance & General Committee **S** Sustainability Committee

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

Corporate Governance Report

Well established Corporate Governance Framework

"Do The Right Thing" Culture



Highlights of CLP's Corporate Governance Framework

- The CLP Corporate Governance Framework identifies all the key participants in the responsible governance of the CLP Group, the ways in which they relate to each other and the contribution each makes to the application of effective governance policies and processes.
- To achieve the goal of good governance, we are committed to:
  - disclosing our corporate governance principles and practices openly and fully; and
  - continuously improving our principles and practices considering our experience, regulatory requirements, international developments and investor expectations.

Introduction

This Corporate Governance Report explains the key aspects of our corporate governance policies and practices. These contribute to the high standard of corporate governance that we have achieved over the years, and include:

- the CLP Code on Corporate Governance (the CLP Code);
- our well established and documented Corporate Governance Framework; and
- a corporate culture of good governance.

Our culture

Before we highlight our key corporate governance focus areas in 2016 and how these have evolved, one fundamental area that does not change is the foundation of the CLP Code:

a culture of honesty and integrity and to "do the right thing" as a company.

This culture of good corporate governance has been set by our Board under the leadership of our Chairman. It is reflected in our policies such as our Value Framework and Code of Conduct and recognised in the CLP Code.

In fact, one of the key strengths of the Board identified in the external board performance evaluation conducted in 2016 is a board culture of high integrity. It reflects both the Chairman's values and the calibre of our Board members. From our Shareholders' Visit Programme and Annual General Meetings (AGM), our shareholders have consistently demonstrated their respect for, and support of, our Chairman's leadership.

Highlights for 2016

- The Board performance evaluation was conducted through an independent external consultant, Heidrick & Struggles. A summary of their findings is published on the CLP website and on page 103 of this Annual Report.
- The Board held a dedicated strategy review session which considered and reviewed the Group's Investment Strategy – see also page 99 of this Annual Report.
- The scope of delegated authority from the Board to the Finance & General Committee for approving investments and transactions was broadened with a higher transaction value threshold through the amendment of Company Management Authority Manual – see pages 101 and 108 of this Annual Report.
- Our new Senior Director – Group Internal Audit became a member of the Group Executive Committee for the first time to enhance the interaction and collaboration with management – for details, see page 112 of this Annual Report.
- The Sustainability Committee devoted considerable amount of time and efforts in assessing the implications of the developments on climate change – for details, see page 129 of this Annual Report.
- The Human Resources & Remuneration Committee considered and completed the review of Non-executive Directors' fees and the recommendations were approved at the Company's 2016 AGM – for details, see pages 132 and 133 of this Annual Report.

The CLP Code: Compliance and more

The CLP Code is our own unique code on corporate governance (available on our website or from the Company Secretary on request). Our Code incorporates and goes beyond the principles of good corporate governance, and the two levels of recommendations in The Corporate Governance Code and Corporate Governance Report of the Hong Kong Stock Exchange (the Stock Exchange Code). The only exception to this however, concerns quarterly reporting, details of which are explained on pages 96 and 97.

What is the Stock Exchange Code?

- The Stock Exchange Code is found in Appendix 14 of the Rules Governing the Listing of Securities (the Listing Rules) issued by The Stock Exchange of Hong Kong Limited (the Stock Exchange).
- It contains the following:
  - Code Provisions, with which issuers are expected to comply or to give considered reasons for any deviation; and
  - Recommended Best Practices (for guidance only) which encourage issuers to comply or give reasons for any deviation.

Throughout the year, the Company met the Code Provisions as set out in the Stock Exchange Code. CLP has also applied all the principles in the Stock Exchange Code.

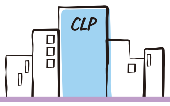
The diagram below illustrates how and in what ways the CLP Code exceeds the Code Provisions and Recommended Best Practices of the Stock Exchange Code.

Areas in which our Code exceeds the Stock Exchange Code

Our Board

- The composition of the Board and the Audit Committee exceed the independence requirements under the Listing Rules.
- We conduct a regular evaluation of the performance of the Board and its Committees and a summary of the conclusions is published on the CLP website.
- We issue a formal letter of appointment for Non-executive Directors. The model letter is on our website and deals with a range of matters regarding a Director's appointment and responsibilities.

Our unique policies and practices



- CLP has established its own Corporate Governance Framework, a formal Value Framework and its own Code for Securities Transactions by Directors.
- We have formulated our own Anti-Fraud Policy which stipulates our commitment to preventing, detecting and reporting fraud, bribery and extortion.
- General Representation Letters are issued by our CEO and CFO to the Audit Committee as verification compliance.

Our disclosure

- Our Fair Disclosure Policy sets out the principles for the broad and non-exclusionary distribution of information to the public.
- Our Continuous Disclosure Obligation Procedures guide the organisation in monitoring and disclosing potential inside information: these were further enhanced in 2016 with the establishment of a committee to conduct regular assessment of potential inside information.
  - Our Risk Management Report sets out CLP's risk management framework and how CLP manages the Group's material risks.
    - We disclose our Senior Management's CLP shareholding interests and their confirmation of compliance with the Model Code and CLP Code for Securities Transactions, in addition to similar disclosures by our Directors.
- We have enhanced our disclosure of financial information on the CLP Group's joint ventures and associates.
- We issue individual reports for the Audit Committee, Human Resources & Remuneration Committee and Sustainability Committee.
- 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.

Compliance with the Stock Exchange Code and the Environmental, Social and Governance (ESG) Reporting Guide

Our considered reasons for not issuing quarterly financial results

CLP deviates from only one Recommended Best Practice in the Stock Exchange Code – that an issuer should announce and publish quarterly financial results. We do not issue quarterly financial results, but we issue quarterly statements which set out key financial and business information such as electricity sales, dividends and progress in major activities, for the following considered reasons:

- they do not bring significant benefits to our shareholders;
- they encourage a short-term view of a company's business performance;
- CLP's activities do not run and need not be disclosed and judged on a three-month cycle; and
- preparation of quarterly reports is also costly, including the opportunity cost of board and management time spent on quarterly reporting.

CLP's focus remains on enhancing the quality of its reporting to shareholders through existing channels such as the Annual Report, Sustainability Report and its website – all of which far exceed regulatory requirements in the extent of disclosure made. Shareholders are invited to let us know if their views differ and we will review our position if there is a clear and justifiable demand from shareholders for quarterly financial reporting.

Compliance with the ESG Reporting Guide

CLP's approach to ESG Reporting

- We have been disclosing ESG information since 2002, in both our CLP Group Annual Report and Sustainability Report (originally our Social & Environmental Report).
- We were an early adopter of the Stock Exchange's ESG Reporting Guide when it was published as a voluntary requirement back in 2012.
- In this 2016 Annual Report, we disclose the 2016 ESG information mandated under the General Disclosures for the Environmental and Social Aspects of the Reporting Guide for the year ended 31 December 2016. We also report voluntarily on the "comply or explain" provisions for the key performance indicators (KPIs) in the "Environmental" Subject Area, which will only become a mandatory disclosure in 2017, as well as the "recommended disclosures" for the KPIs in the "Social" Subject Area, again being an early mover in this area.
- Our Sustainability Committee has been delegated with the responsibilities of reviewing and advising our Board on CLP's sustainability reporting including the related ESG information. For further details, see the Sustainability Committee Report on page 128.

Our disclosures of ESG information are set out in various parts of this Annual Report:

- Our performance in the Environmental Subject Area
  - General disclosures and KPIs on emissions, use of resources, the environment and natural resources can be found in:
    - Our Business Model and Value Creation Journey – pages 7 to 10;
    - Chairman's Statement – pages 12 to 14;
    - CEO' Strategic Review – pages 15 to 19;
    - the Business Performance and Outlook section – pages 34 to 61;
    - the Natural Capital section – pages 85 to 87;
    - the Manufactured Capital section – pages 69 to 71; and
    - the Five-year Summary: CLP Group Statistics – Environmental on page 242.
- Our performance in the Social Subject Area
  - General disclosures and KPIs on Employment, Health and Safety, Development and Training and Labour Standards can be found in:
    - the Business Performance and Outlook section – pages 34 to 61;
    - the Human Capital section – pages 75 to 80; and
    - the Five-year Summary: CLP Group Statistics – Social on page 243.
  - General disclosures and KPIs on supply chain management and product responsibility can be found in:
    - the Manufactured Capital section – pages 69 to 71; and
    - the Five-year Summary: CLP Group Statistics – Environmental on page 242.
  - General disclosures and KPIs on anti-corruption can be found in:
    - the Corporate Governance Report – pages 94 to 114; and
    - the Five-year Summary: CLP Group Statistics – Social on page 243.
  - General disclosures and KPIs on community investment can be found in:
    - the Business Performance and Outlook section – pages 34 to 61; and
    - the Social and Relationship Capital section – pages 81 to 84.

In addition to this Annual Report, our 2016 Sustainability Report, which is published online at the same time, captures in detail our delivery of social and environmental value in 2016 and reports, in an integrated manner, all aspects of our activities. It also includes an independent assurance report from PwC.

Our Board

The CLP Board

Key features of our Board are:

- it is a diversified Board of 14 Directors with three female Directors and the Independent Non-executive Directors representing half of the Board;
- it includes seven influential and active Independent Non-executive Directors to whom shareholders' concerns can be conveyed;
- the non-executive members of the Board bring a wide range of business and financial experience to the Board;
- the posts of Chairman and CEO are separately held by The Hon Sir Michael Kadoorie and Mr Richard Lancaster, respectively; and
- the Board has a culture of high integrity – reflecting the Chairman's values.

The Board's Roles and Responsibilities

Our Board plays more than a key role in our Corporate Governance Framework. Under the leadership of our Chairman, the Board cultivates good governance as the cornerstone of our corporate culture. To achieve this, the Board actively promotes the success of the Group by directing and supervising its affairs in a responsible and effective manner.

Some of the key responsibilities of the Board include:

- setting the Group's values and standards;
- establishing and maintaining the strategic direction and objectives of the Group;
- overseeing the management of CLP's relationships with stakeholders, such as Government, customers, communities and others who have a legitimate interest in the responsible conduct of the Group's business;
- monitoring the performance of management;
- ensuring that a framework of prudent and effective controls is in place to enable risks to be assessed and managed; and
- ensuring the financial statements are prepared to give a true and fair view of the state of affairs of the Group.

How the Board Spent its Time in 2016

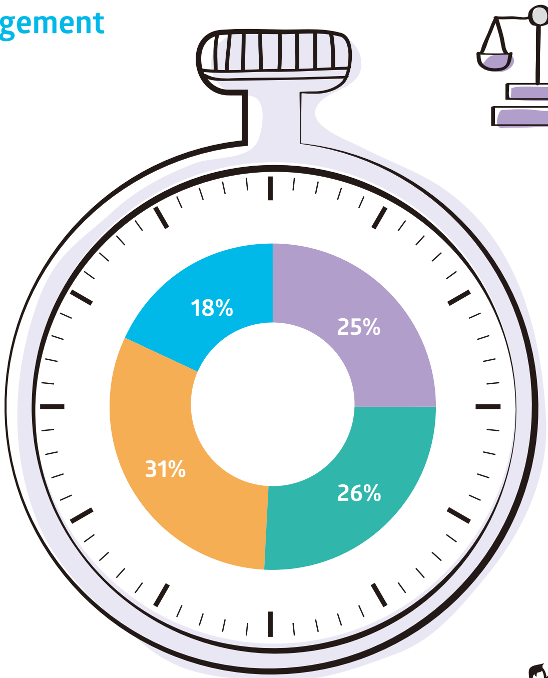
The following table shows a breakdown of the matters considered by and briefings to the Board in 2016.

	Annual Recurring Matters	Briefings on Selected Topics
January – March	• Annual Report and 2015 Results • 2015 Fourth Interim Dividend • Evaluation of Audit Committee Effectiveness • 2015 Audit Fees • Continuing Connected Transactions	• Cyber Security
April – June	• Quarterly Statement 2016 (January – March) • 2016 First Interim Dividend	• Electric Vehicle and Battery Technology
July – September	• Interim Report and 2016 Interim Results • 2016 Second Interim Dividend	• Market and Regulatory Update – Australia • Market and Regulatory Update – India
October – December	• Quarterly Statement 2016 (January – September) • 2016 Third Interim Dividend • CLP Group Business Plan & Budget • Directors' and Officers' Liability Insurance Policy Renewal	• Smart Grid

How the Board spent its time for the 2016 Board meetings*

Stakeholder Engagement
(including reporting and disclosure)

Governance and Risk
(including compliance, risk management and internal controls)



Performance Monitoring
(including consideration of projects and investments)

Leadership and Strategy
(including setting the Group's values, standards, strategic direction and objectives)

* In determining the estimated time spent, we took into account the time discussing the relevant agenda items and the volume of supporting board papers.

Key Areas of Focus

- Group investment strategy review
- Regulatory developments in Hong Kong
- New gas-fired generation project in Hong Kong
- Investment in the Yangjiang nuclear project
- Project development for the Vietnam projects
- Investment in the new Smart Charge joint venture in Hong Kong
- Board performance evaluation
- Climate change developments and impact
- Cyber and physical security risks
- Revision of the CLP Holdings Company Management Authority Manual
- Enhancement of Continuous Disclosure Obligation Procedures
- Enhancement of the Whistleblowing Policy
- 2017 Tariff Review for Hong Kong

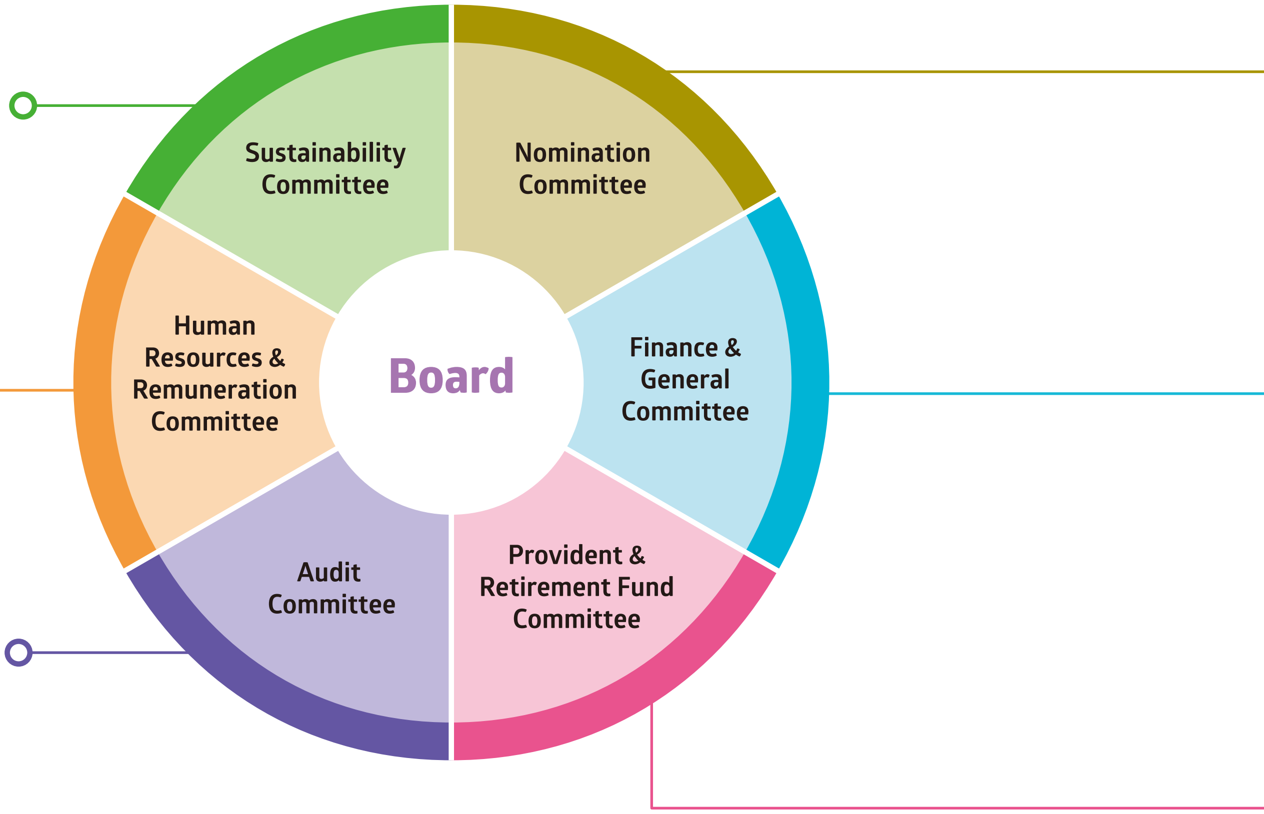
Board Committees

The following chart explains the responsibilities and the work that each Board Committee undertook on behalf of the Board during 2016 and in 2017 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 the Stock Exchange. They are also available upon request from the Company Secretary.

See separate report on page 128

See separate report on page 131

See separate report on page 124



The Board discharges some of its responsibilities through delegation to the respective Board Committees and these are set out below. Full details of the Committees' work are disclosed in the relevant sections for each of the Board Committees. In short, the Board:

(a) develops and reviews the Company's policies and practices on corporate governance (Audit Committee);

(b) reviews the contribution required from Directors to perform his or her duties (Nomination Committee);

(c) reviews and monitors the training and continuous professional development of Directors (Nomination Committee) and Senior Management (Human Resources & Remuneration Committee);

(d) reviews and monitors the Company's policies and practices on compliance with legal and regulatory requirements (Audit Committee);

(e) develops, reviews and monitors the Code of Conduct applicable to employees (Audit Committee); and

(f) reviews the Company's compliance with the CLP Code and disclosure in the Corporate Governance Report (Audit Committee).

Membership of Nomination Committee

The 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:

- reviewing the Board structure and composition and Board Diversity Policy;
- making recommendations to the Board on Directors appointment and reappointment and succession planning;
- assessing the independence of the Independent Non-executive Directors and whether Directors are spending sufficient time performing their duties; and
- reviewing and monitoring the training and development of Directors.

The work performed by the Committee during the Relevant Period included:

- examining the current Board structure and composition;
- reviewing the Board Diversity Policy;
- assessing the independence of all Independent Non-executive Directors, including Sir Rod Eddington, Mr Vernon Moore and Mr Vincent Cheng who will retire and present themselves for re-election by shareholders at the 2017 AGM;
- considering the findings of the performance evaluation of the Board and Board Committees conducted by an external consultant;
- reviewing the training and continuous professional development of Directors; and
- evaluating Directors' time commitment and the contribution required from Directors to discharge their responsibilities.

Membership of Finance & General Committee

Mr William Mocatta (Chairman), Mr Vernon Moore, Sir Rod Eddington, Mr Nicholas C. Allen, Mr Vincent Cheng, Ms Irene Lee, Mr Andrew Brandler, Mr Richard Lancaster, Mr Geert Peeters and Mrs Betty Yuen.

Responsibilities and Work Done

This Committee reviews the financial operations of the Company which 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 considering:

- the Company's interim and annual results and the amounts of dividends payable to shareholders for the financial years ended 31 December 2015 and 2016;
- the 2017 tariff strategy for the Hong Kong electricity business;
- the CLP Group Business Plan and Budget 2017 – 2021;
- the Post-2018 Hong Kong Regulatory Arrangements update;
- the CLP Group cost of capital study;
- CLP's foreign exchange translation risk and counterparty exposures;
- the impact of technology, disruption & innovation on our business;
- the innovation road map and investment criteria for the Group;
- investment in specific projects in China, India and Vietnam; and
- the proposed changes to the Company Management Authority Manuals of the Company and EnergyAustralia.

Membership of Provident & Retirement Fund Committee

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

Responsibilities and Work Done

This Committee advises the Trustee on investment policy and objectives for the Group's retirement funds, namely the CLP Group Provident Fund Scheme and CLP Group Top-Up Scheme.

During the Relevant Period, the Committee monitored the performance of the investment managers and the overall portfolio, arranged education and communication for schemes members; and organised activities relating to retirement planning for members.

Directors' Attendance and Development

In 2016, seven Board meetings were held, one of which was a dedicated strategy review session and the overall attendance rate of Directors at Board meetings was 89.11% (2015: 92.86%).

Details of Directors' attendance at the AGM, Board and Board Committee meetings and development programmes in the year 2016 are set out in the following table.

	Board [1]	Audit Committee [2]	Finance & General Committee	Human Resources & Remuneration Committee	Nomination Committee [3]	Provident & Retirement Fund Committee	Sustainability Committee	AGM [2, 6]	Directors Development Programme*
Non-executive Directors									
The Hon Sir Michael Kadoorie	**6** / 7 (C)				**1** / 1 (C)			**1**	**A, B, C**
Mr William Mocatta	**6** / 7 (VC)		**6** / 6 (C)	**3** / 3		**2** / 2 (C)		**1**	**A, B, C**
Mr Ronald J. McAulay [4]	**3** / 5							**1**	N / A [4]
Mr J. A. H. Leigh	**6** / 7							**1**	**A, C**
Mr Andrew Brandler	**7** / 7		**6** / 6				**3** / 3	**1**	**A, B, C**
Dr Y. B. Lee	**7** / 7							**1**	**A, B, C**
Independent Non-executive Directors									
Mr Vernon Moore	**7** / 7	**6** / 6 (C)	**4** / 6	**2** / 3				**1**	**A, B, C**
Sir Rod Eddington	**6** / 7		**6** / 6					**0**	**A**
Mr Nicholas C. Allen	**6** / 7	**6** / 6	**6** / 6	**2** / 3	**1** / 1		**3** / 3	**1**	**A, B, C**
Mr Vincent Cheng	**5** / 7		**3** / 6	**3** / 3 (C)	**1** / 1			**1**	**A, C**
Mrs Fanny Law	**7** / 7	**6** / 6					**3** / 3	**1**	**A, B, C**
Ms Irene Lee	**7** / 7	**6** / 6	**5** / 6				**3** / 3	**1**	**A, B, C**
Mrs Zia Mody	**5** / 7			**3** / 3				**0**	**A, C**
Executive Directors									
Mr Richard Lancaster	**6** / 6		**6** / 6				**3** / 3 (C)	**1**	**A, B, C**
Mr Geert Peeters [5]	**6** / 6		**6** / 6			**2** / 2		**1**	**A, B, C**

Notes:

1 Included a Board meeting where the Chairman met Independent and other Non-executive Directors in the absence of the Executive Directors and management.

2 Representatives of the external auditor participated in every Audit Committee meeting and the AGM.

3 In addition to the annual meeting, the Nomination Committee considered and reviewed the independence of Independent Non-executive Directors, Directors' time commitment and Directors' continuous professional development in 2016.

4 Mr Ronald J. McAulay resigned as a Non-executive Director with effect from 1 October 2016.

5 Mr Geert Peeters was appointed as an Executive Director with effect from 1 January 2016 and he has been a member of the Finance & General Committee and the Provident & Retirement Fund Committee since 1 April 2014. An induction was conducted for Mr Peeters.

6 Two of the Independent Non-executive Directors were unable to attend due to other overseas commitments; the other five Independent Non-executive Directors (along with other Directors) were available to take any shareholders' questions specifically addressed to the Independent Non-executive Directors during the AGM (of which there were none). Furthermore, a full length video of the AGM was sent to these Directors for viewing and reference; this included the Q&A session for them to understand the issues and questions raised by the shareholders.

7 Chairmen of the Board and Board Committees and the Vice Chairman of the Board are indicated by (C) and (VC) respectively.

* Our Directors Development Programme includes:

A – reading regulatory and industry related updates;

B – meeting with local management and stakeholders, including hosting shareholders' visits (2015-2016 Shareholders' Visit Programme) and visiting CLP's facilities and special projects with CLP's involvement; and

C – attending expert briefings / seminars / conferences relevant to the business or director's duties. Directors have access to Chatham House (a leading independent policy institute based in London) publications and the opportunity to attend Chatham House events on topics relevant to our business.

The Board is regularly kept up-to-date on key events, outlook, safety and environmental matters of the Group through the CLP Group Monthly Management Reports. The Management Report gives a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail and includes year-to-date financials as well.

Directors' Time and Directorship Commitments

To ensure that our Directors have spent sufficient time in the affairs of the Company, the Directors have given certain confirmations and made disclosures about their other commitments.

- Sufficient time and attention: Directors have confirmed that they have given sufficient time and attention to the affairs of the Company for the year.
- Other offices and commitments: Directors disclose to the Company twice a year the number, identity and nature of offices held in Hong Kong or overseas listed public companies and organisations and other significant commitments, together with an indication of the time involved.
- Other directorships: As at 31 December 2016, none of our Directors, individually, held directorships in more than eight public companies (including the Company).

Our Executive Directors do not hold directorship in other public companies; however, they are encouraged to participate in professional, public and community organisations.

In respect of those Directors who stand for re-election at the 2017 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 the Directors' biography are set out under "Board of Directors" on pages 90 and 91 of this Annual Report and on CLP's website.

Board Evaluation

In 2016, an independent evaluation of the Board and the Committees was carried out. In line with our CLP Code, we undertake a performance evaluation of our Board and Committees on an ongoing basis; the last independent evaluation was in 2012 and for the intervening years, the evaluations were conducted internally.

The 2016 evaluation was conducted by Heidrick & Struggles, an independent external consultant, that was appointed following a competitive tendering process.

The evaluation process involved a series of one-on-one structured conversations with each of the Directors and selected members of the Senior Management and focused on the Board's effectiveness and future readiness. The evaluation confirmed the effectiveness of the Board and its Committees.

The consultants also identified a number of signature strengths of the Board and its Committees which include:

- the Board plays an important corporate governance role and effectively oversees and contributes to CLP's core businesses;
- the Board and management have a highly transparent and collaborative partnership;
- the Board and its Committees are run efficiently; and
- the Board has a culture of high integrity reflecting the Chairman's values.

Looking ahead, recommendations were made by Heidrick & Struggles with a view to enhancing the effectiveness of the Board to ensure that it would be able to focus more on issues that could have an impact on CLP's future success. Over the course of this coming year, management will put forward these issues to the Board for review and implementation as appropriate.

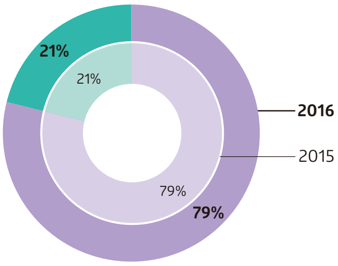
A key recommendation was the greater use of external consultants who can contribute to some of the critical issues facing CLP and provide expert assistance to the Board and its Committees.

The summary of the findings of the Board and Board Committees performance evaluation is available on the CLP website.

Board Composition and Diversity

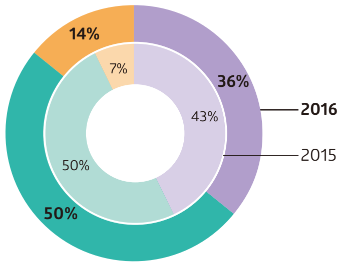
The following illustrates the degree of expertise, diversity and experience of the Board members (information as at the end of the financial year).

Gender



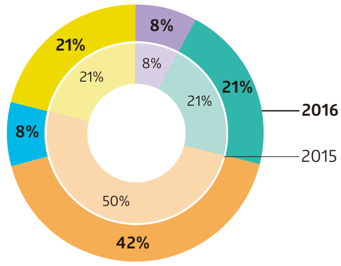
Male
Female

Capacity



Non-executive Directors
Independent Non-executive Directors
Executive Directors

Nationality

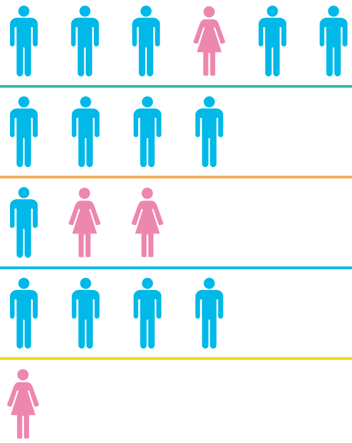


Indian Chinese British Belgian Australian

Note: Nationality is based on passport, and does not necessarily reflect ethnic origin.

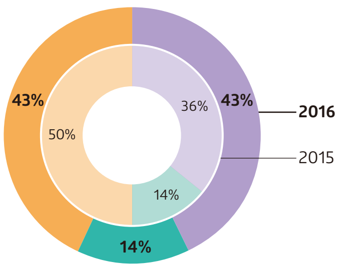
Professional Background and Experience

Business	33%	(2015: 33%)
Accounting	22%	(2015: 28%)
Legal	17%	(2015: 17%)
Engineering	22%	(2015: 17%)
Public Administration	6%	(2015: 5%)



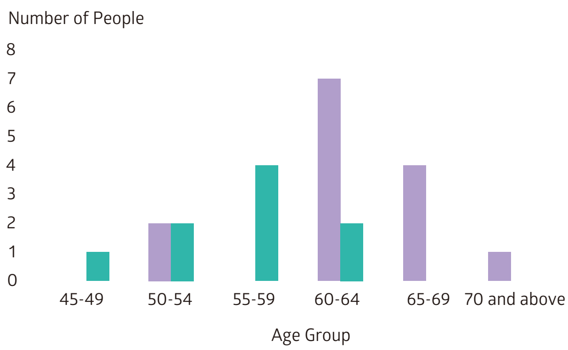
Note: Directors could have multiple professional background and experience.

Length of Service



1-5 years 6-10 years Over 10 years

Age Group of Directors and Senior Management



Directors Senior Management (excluding CEO and CFO)

Details of all Directors and their biographies including, if any, relationship between the members are disclosed on pages 90 and 91 of this Annual Report.

The diagram below illustrates the key features of CLP Board Diversity Policy.

CLP Board Diversity Policy

Background

- CLP Board Diversity Policy was adopted in 2013
- Incorporated Code Provisions of the Stock Exchange Code
- Aligned with amendments in our Value Framework made in February 2016

The value in board diversity

- Enhances decision-making capacity
- Improves effectiveness in dealing with organisational changes
- Reduces likelihood of group thinking
- Contributes to sustainable development

Aspects of diversity include:

- Professional experience
- Business perspective
- Skills
- Knowledge
- Gender
- Age
- Culture and educational background
- Ethnicity
- Length of service

How is this relevant to our shareholders?

- Shareholders approve the election or re-election of Directors
- Directors and the Board are responsible for promoting the shareholders' interests
- Shareholders need to be satisfied with the level of board diversity
- Shareholders need to be provided with sufficient information on board diversity
- The Nomination Committee reviews the Board Diversity Policy periodically

In 2016, we assessed the diversity of the Board based on aspects of independence, gender, nationality and ethnicity, skills and experience (the measurable objectives set out in the Board Diversity Policy) as well as the age and length of service on the Board. Please refer to page 104 for details.

The results of the Board diversity assessment revealed that:

- the percentage of the Independent Non-executive Directors was maintained at the same high level of 50%;
- gender diversity (female representation) remained at a relatively high level of 21.43% compared with other Hong Kong listed companies;
- there was an increase in the representation of Executive Directors;
- we experienced an increase in diversity in terms of nationality and length of service (following the Director changes in 2016); and
- the overall diversity of the Board was enhanced during the review period.

We also sought shareholders' views on the diversity of the Board during the Shareholders' Visit Programme 2015-2016. The overall results showed that the shareholders' satisfaction levels with aspects of Board diversity increased to 97.4%-98.0% in 2015-2016. The 2016 review of the Board Diversity Policy was endorsed by the Nomination Committee.

Appointment of Directors

CLP follows a formal, considered and transparent procedure for the appointment of new Directors.

CLP's process for appointing a Director

The diagram below presents the system used by CLP to appoint our Directors.

Nomination Committee

- Considers the candidates based on merit having regard to the experience, skills and expertise as well as the overall board diversity.
- Makes recommendations to the Board as appropriate.

Board

- Makes the appointment*.

Newly appointed Directors are:

- subject to election by shareholders at the first general meeting following the appointment*.

Existing Directors are:

- subject to rotation; and
- required to retire at the AGM but are eligible for re-election. This applies to one-third of existing Directors.

Non-executive Directors

- Appointment made through a formal letter.
- On a term of not more than four years.
- At end of term, eligible for re-election.

Shareholders

- Approve the election or re-election of Directors at the Company's general meeting.

Proposed Director appointment is considered as an individual resolution at the general meeting.

* In 2016, Mr Geert Peeters was appointed as an Executive Director in January and was subsequently elected by the shareholders in the 2016 AGM.

Disclosure of Conflict of Interest and Independence of Directors

Directors are requested to declare their and their connected entities' 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 2016, none of the Directors were required to withdraw from meeting in these circumstances.

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

In addition, identified significant related party transactions are disclosed in Note 29 to the Financial Statements of the Annual Report.

As required under the Listing Rules, the Company received written confirmations from all of the Independent Non-executive Directors regarding their independence. The Company considers all of the Independent Non-executive Directors to be independent.

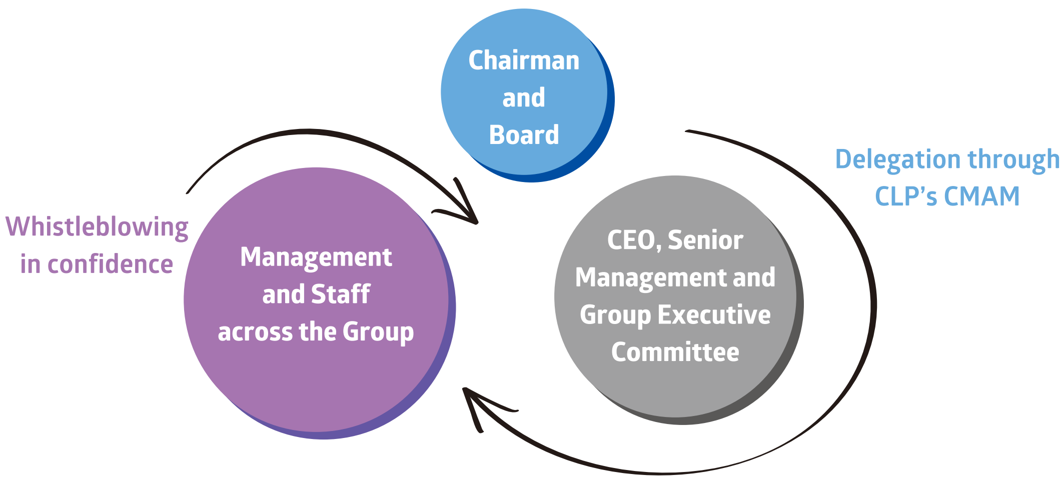
Directors' Shareholding Interests

Directors' interests in CLP's securities as at 31 December 2016 are disclosed in the Directors' Report of this Annual Report on page 145. All Directors have confirmed, following specific enquiry by the Company, that throughout the year ended 31 December 2016 they have complied with the required standard set out in the Model Code and our own Code for Securities Transactions. CLP's own Code for Securities Transactions is largely based on the Model Code set out in Appendix 10 of the Listing Rules and is on terms no less exacting than those in the Model Code.

Management and Staff

One of the key tasks of CLP's management and staff is the successful implementation of strategy and direction as determined by the Board under the leadership of our Chairman. This includes promoting and implementing the good corporate culture developed by our Board over the years. 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 positions of Chairman and CEO are separate, our CEO has the overall responsibility for carrying out the strategy and direction set by the Board and for managing the Group's business. The delegation of authority by the Board to the Committees, Senior Management and management are prescribed in the form of a "Company Management Authority Manual" (CMAM).

Role of Management and Staff in promoting good corporate governance practices



Management and Staff adhere to various Group policies that reflect the values and corporate culture of CLP

Value Framework

- Sets out the business principles and ethics that underpin CLP's activities.
- Articulates our vision, mission, values, commitments, policies and codes.
- Covers all aspects of our operations.

Code of Conduct

- Provides unique guiding principles for our employees to do what is right, behave with integrity and honesty, obey all laws and communicate openly. These principles cover all aspects of our operations including Anti-Corruption.
- Non-compliance results in disciplinary action.
- Disciplinary measures are subject to review and endorsement by a Group Code of Conduct Committee, which comprises the CFO, Group General Counsel & Chief Administrative Officer and Chief Human Resources Officer.
- In 2016, there was one suspected Code of Conduct violation in respect of bribery (2015: nil case). Two of our employees were alleged to be indirectly involved in a bribery case relating to one of our third party contractors. While this did not concern any of the business units of CLP, the alleged indirect involvement on the part of the two employees was considered as a violation against our strict principle of "No Bribery" as stipulated in our Code of Conduct.
- 2016 – there were 21 breaches (2015: 6) of the Code – see also Audit Committee Report.

Whistleblowing Policy

- Applies to CLP Group with specific policy for CLP India and EnergyAustralia.
- Allows employees and third parties to report suspected misconduct, malpractice or irregularity.
- 2016 – there were 23 reported cases (2015: 15).

In 2016, we reviewed and updated CLP Holdings' CMAM, which is the Group's holding company manual for delegation of authority. This refined the alignment of the governance process for the operational and strategic aspects of the business with the focus and strategy of the Group.

The Group Executive Committee has now been expanded to include our Senior Director – Group Internal Audit and Senior Director – Innovation. The addition recognises the significance of these functions and, in particular, the role that internal audit and innovation play across our organisation.

Our Management and Staff are subject to CLP Securities Dealing Restrictions.

- We appreciate that some of our staff may in their day to day work have access to potentially inside information.
- Our Senior Management and selected members of staff, "Specified Individuals", are subject to securities dealing restrictions in our CLP Code for Securities Transaction.
- Securities Transactions: All members of the Senior Management have confirmed, following specific enquiry by the Company, that throughout the year ended 31 December 2016 they have complied with the required standard set out in the Model Code and CLP Code for Securities Transactions.
- Shareholding in CLP shares: Except for the interest disclosed by Mr Richard Lancaster in the Directors' Report on page 156 of this Annual Report and the interest in 600 shares each disclosed by the Managing Director, CLP Power Hong Kong and the Managing Director, China, the other members of the Senior Management did not have any interests in CLP Holdings' securities as at 31 December 2016.

Senior Management Training and Development

We have a formal procedure in place for reporting the training and continuous professional development of Senior Management. Members of Senior Management have access to a variety of training activities. These include 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 to assist with identifying individual development needs and provide input to our succession planning decisions.

Participation in Training and Continuous Professional Development of Senior Management in 2016

	Attending formal executive development / training programme	Attending expert briefings / seminars / workshops / conferences relevant to the business or their duties	Participating as speakers at events	Access to web based learning resources
Senior Management				
Mr Richard Lancaster		✓	✓	✓
Mr Geert Peeters	✓	✓	✓	✓
Mr Derek Parkin		✓	✓	✓
Mrs Betty Yuen		✓	✓	✓
Mr Paul Poon		✓	✓	✓
Mr S. H. Chan		✓	✓	✓
Mr Rajiv Mishra		✓	✓	✓
Ms Catherine Tanna	✓	✓	✓	✓
Mr David Simmonds [1]	✓	✓	✓	✓
Ms Quince Chong	✓	✓	✓	✓
Mr Roy Massey	✓	✓	✓	✓

Note:

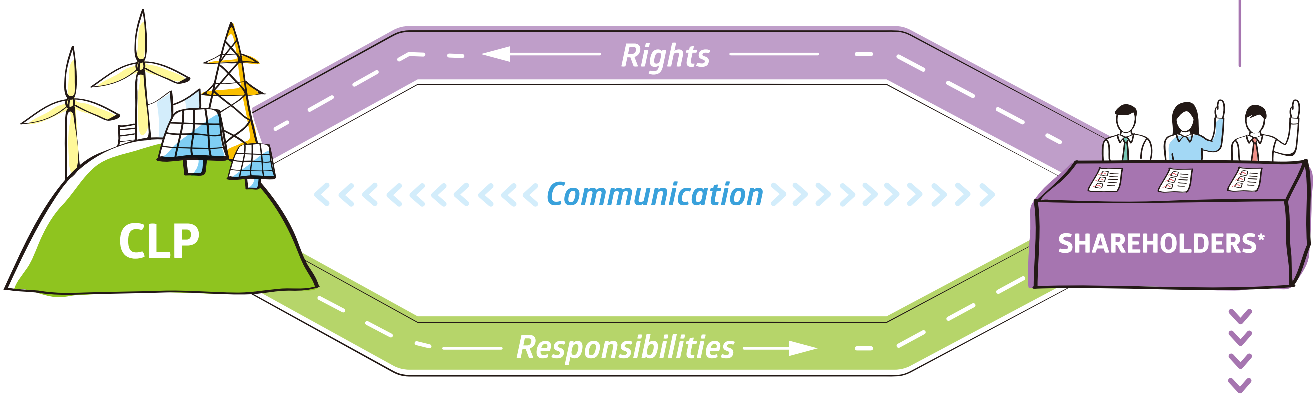
1 During 2016, Mr David Simmonds, the Company Secretary, served as a member of the Company Secretaries Panel, the Technical Consultation Panel and leads the Competition Law Interest Group of the Hong Kong Institute of Chartered Secretaries. He was also a frequent speaker at seminars and has fulfilled the relevant professional training requirements under the Listing Rules.

Shareholders

Shareholders are one of our key stakeholders and from a corporate governance perspective, the importance of the key elements of the relationship can be illustrated as follows:

Shareholders' Rights

- Shareholders have a set of rights including the right to dividends and to vote and attend general meetings.
- Shareholders also have the right to convene general meetings and to put forward proposals – details of which can be found in our explanatory notes to the 2017 Notice of AGM and on our website or on request.
- Shareholders can make enquiries with the Board through the Company Secretary via our shareholders' hotline (852) 2678 8228, email at cosec@clp.com.hk or by posing questions at our general meeting.



- The Board and Senior Management recognise their responsibilities to represent the interests of our shareholders as a whole.
- Our goal is to create long-term sustainable value for shareholders; for further details, please refer to the "Shareholder Value" section of this Annual Report.

Responsibilities to our Shareholders

**Other shareholder-related information:*

- by type and aggregate shareholding – see page 20
- coming important dates – see page 23
- year-end CLP shares public float – see page 20

Our AGM – an important shareholder event

- is attended by our Directors, Senior Management and our external auditor;
- includes a keynote address by our Chairman;
- since 2004, allows resolutions to be voted on by poll (instead of show of hands), the results of which are announced on the same day;
- provides an opportunity for our shareholders to raise questions in a dedicated interactive Q&A session; and
- published minutes including the Q&A session is provided after the meeting.

At our 2016 AGM held on 5 May 2016 at the Grand Ballroom, 1/F., Crowne Plaza Hong Kong Kowloon East, 3 Tong Tak Street, Tseung Kwan O, Hong Kong, this was well supported by our shareholders with:

- a record breaking attendance of over 1,500 shareholders; and
- a high level of votes approving the following major items:
  - the election and re-election of directors ranging from over 95% to over 99%;
  - the fees payable to our Non-executive Directors (99.99%); and
  - the general mandate to issue new shares of up to 5% of shares in issue only, at a price not being at a discount of more than 10% to a benchmarked price and to repurchase shares of not more than 10% shares in issue (over 99%).

Communication with Shareholders

The importance to CLP of an effective dialogue with shareholders and investors has been recognised with the implementation 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 table below shows the approach we take with our shareholders communications.

Multiple channels of communication

General Meetings
- average attendance in the past five years: 1,151 shareholders
- 1,527 shareholders in 2016
- high voting approval rate

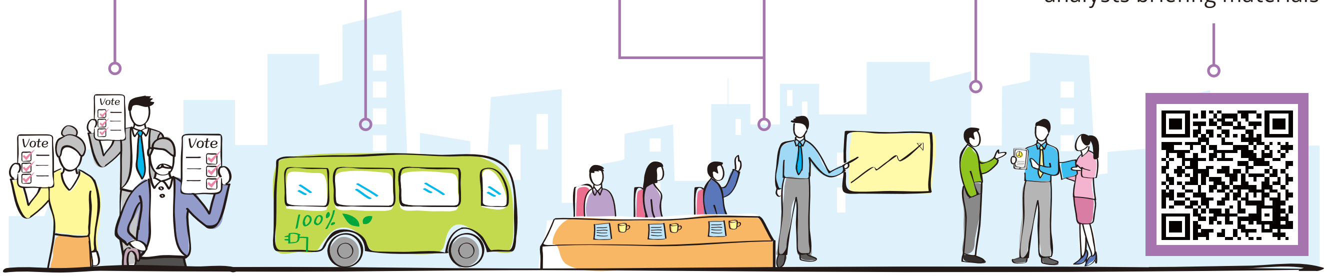
2016 Investor Meetings
- over 210 investor meetings
- ESG webcast and breakfast meeting plus direct engagement

Reports and Announcements
- Annual Report, Interim Report and Sustainability Report
- Quarterly Statements
- Announcements and media releases

2015-2016 Shareholder Visits
- 75 visits
- 2,632 shareholders and guests
- 8 weekend programmes
- 67 Board and management lunch hosts

2016 Analyst Briefings
- analyst briefings on the Company's interim and annual results
- a teleconference briefing for the Yangjiang investment

CLP Website
- AGM videos and minutes
- policies and codes
- updates of recent financial information and latest investor information
- analysts briefing materials



The above channels allow us to receive feedback from our shareholders and investment community. In addition, we have the shareholders' hotline as well as dedicated investor relations and company secretary email accounts for taking enquiries and for receiving information requests from shareholders.

Reviewing shareholders communication

The Audit Committee is responsible for regularly reviewing the effectiveness of the Shareholders' Communication Policy. The most recent review was undertaken in October 2016 and the effectiveness of the Policy was confirmed. In 2016, we sponsored research on shareholders communications conducted by the Hong Kong Institute of Chartered Secretaries. A number of measures to promote effective shareholders communications were identified and we were pleased to note that these were consistent with CLP's approach in shareholders communications.

Enhancing shareholders communication

As we strive to further enhance the effectiveness of our communication with our shareholders, we have undertaken a number of key measures in this area:

- on the recommendation of the Audit Committee, we are adopting a more "reader friendly" approach to our Annual Report;
- to broaden our shareholders participants base, our unique Shareholders' Visit Programme has been expanded with "Family Day" weekend visits to allow children of our shareholders to attend; and
- our ESG briefing format was changed to direct engagement with targeted stakeholders.

Providing Feedback and Answering Questions

Feedback and questions are an essential part of effective communication. Recognising that some of the questions posed by our shareholders may be of interest to other shareholders, we have selected some of the key questions and issues in 2016 to be included in our Annual Report.

These cover the following topics:

- Progress on the regulatory discussions with the Hong Kong Government – please see the Chairman's Statement (page 12), CEO's Strategic Review (page 15), Business Performance and Outlook – Hong Kong (page 36), Social and Relationship Capital (page 81) and Risk Management Report (page 115).
- Proposals regarding:
  - the new gas-fired generation unit – please see the Chairman's Statement (page 12), CEO's Strategic Review (page 15), Business Performance and Outlook – Hong Kong (page 36) and Financial Capital (page 64); and
  - the floating offshore LNG Terminal in Hong Kong – please see the CEO's Strategic Review (page 15) and Business Performance and Outlook – Hong Kong (page 36).
- Market developments in Mainland China, potential for direct sales of electricity, and impact on coal price – please see the Chairman's Statement (page 12), CEO's Strategic Review (page 15), Business Performance and Outlook – China (page 42), Financial Capital (page 64) and Risk Management Report (page 115).
- For India, renewable energy development opportunities, operational performance of the generation assets, loan financing, and green bonds – please see the Chairman's Statement (page 12), CEO's Strategic Review (page 15), Business Performance and Outlook – India (page 48), Financial Capital (page 64), Natural Capital (page 85) and Human Capital (page 75).
- EnergyAustralia – overall performance of our business, latest market developments and challenges in the wholesale and retail markets – please see the Chairman's Statement (page 12), CEO's Strategic Review (page 15), Business Performance and Outlook – Australia (page 56), Financial Capital (page 64), Intellectual Capital (page 72) and Risk Management Report (page 115).
- CLP's investment strategy to address climate change, exposure to coal-fired generation and mitigation measures – please see the Chairman's Statement (page 12), CEO's Strategic Review (page 15), Business Performance and Outlook – Hong Kong (page 36), Business Performance and Outlook – China (page 42), Natural Capital (page 85) and Risk Management Report (page 115).
- Dividends, managing our financial and debt position as uncertainty in financial markets increases, use of cash generated in the business.
  - Dividends – see the Chairman's Statement (page 12) and Financial Highlights (page 5).
  - Managing our financial position as markets change and uncertainty increases – see the Financial Capital (page 64).
  - Use of cash generated in the business – see Our Business Model and Value Creation Journey (page 7) and the Financial Review (page 24).

Internal Auditors

CLP's Group Internal Audit (GIA) department plays a major role in monitoring the internal governance of the CLP Group. In 2016, the head of the department, Senior Director – Group Internal Audit was newly appointed and she leads a well-resourced department of 26 highly qualified professional staff. For detailed tasks of the department please see the CLP Code on the CLP website.

The Senior 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 Senior Director – Group Internal Audit has the right to consult the Audit Committee without reference to management, and starting in 2016, became a member of the Group Executive Committee.

In 2015, an independent external review of the GIA function noted the function as a high performing one, with a number of recommendations for consideration in 2016. These recommendations were followed up by GIA with the action items reviewed and approved by the Audit Committee.

External Auditor

The Group's external auditor is PricewaterhouseCoopers (PwC) and we recognise their independence as an external auditor is a fundamental governance principle.

How the Group ensure the independence of the external auditor

- The lead audit partner of PwC is subject to rotation every seven years (as per The Independent Federation of Accountants rules on independence of external auditors).
- As part of the rotation, the current lead audit partner was first appointed for the 2014 financial year-end audit and he did not have any involvement in CLP Group for 10 years prior to the appointment in 2014.
- PwC is required to give an annual confirmation on their independence.

In addition, PwC will not be engaged to perform 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 or its delegates. There must be clear efficiencies and value-added benefits to CLP from the 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 provided the following audit and permissible audit related and non-audit services to the Group:

	2016 HK$M	2015 HK$M
Audit	**39**	39
Permissible audit related and non-audit services		
Accounting / tax advisory services	**5**	2
Other services	**4**	6
Total	**48**	47

(For these purposes, **Permissible audit related and non-audit services** include 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.)

Other Stakeholders

Good governance requires due regard to the impact of business decisions (including environmental impact), both on shareholders and on other key stakeholders. This Annual Report and our Sustainability Report, available on the CLP website, explain how we discharge our responsibilities to employees, customers, lenders, the environment and the communities in which we operate.

Risk Management and Internal Control

Effective risk management and internal control systems help the organisation anticipate its risk exposure, put controls in place to counter threats, and effectively pursue the set objectives. They are therefore an essential part of an organisation's operation and governance processes. This section explains (and contains cross references) the key features of our risk management and internal control systems.

Risk Management

CLP's overall risk management framework is overseen by, and the responsibility of, the Board, through its Audit Committee, and comprises four key elements:

- Risk management philosophy – CLP recognises that risk management is the responsibility of everyone within CLP and thus it is integrated into the business and decision-making process;
- Risk Appetite – the nature and extent of the risks that the Group is willing to undertake in pursuit of its strategic and business objectives;
- Risk Governance Structure – clear roles and responsibilities are assigned to multiple layers within the organisation. The structure facilitates risk identification and escalation; and
- Risk Management Process – through an integrated top-down and bottom-up risk review process, which enables risks identification and prioritisation throughout the Group, management maintains an open and effective communication channel to enable the timely escalation of material risk and adequate supervision of risk mitigation.

The way we manage risk is set out in the Risk Management Report on page 115.

Internal Control

The Company's structures of internal control is based on the internationally recognised COSO (Committee of Sponsoring Organizations of the Treadway Commission) 2013 integrated framework. This comprised 17 principles under the five COSO components of an effective internal control framework.

Our internal control system covers every activity and transaction of our Group. Management (which includes qualified accountants) is primarily responsible for the design, implementation, and maintenance of internal controls. It is based on clear stewardship responsibilities, authorities and accountability, supported by well-defined policies and procedures established and communicated to all staff.

With our developed internal control framework, we have continued to maintain voluntary compliance with the substance of the requirements under the Sarbanes-Oxley Act. We were required to comply with this Act when our Yankee Bonds were still in issue prior to its redemption and deregistration from the US Securities and Exchange Commission in 2008.

Identifying, Evaluating and Managing Significant Risks

Management and our staff concerned evaluate the control environment and conduct risk assessments of the business and processes. Key risks and associated controls, including mitigation when needed, are continually reviewed and updated.

High risks key controls are required to be tested annually by management. Based on the testing results, 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 are identified. The Board and its Audit Committee oversee management's monitoring activities, and thus the effectiveness of the controls that have been put in place.

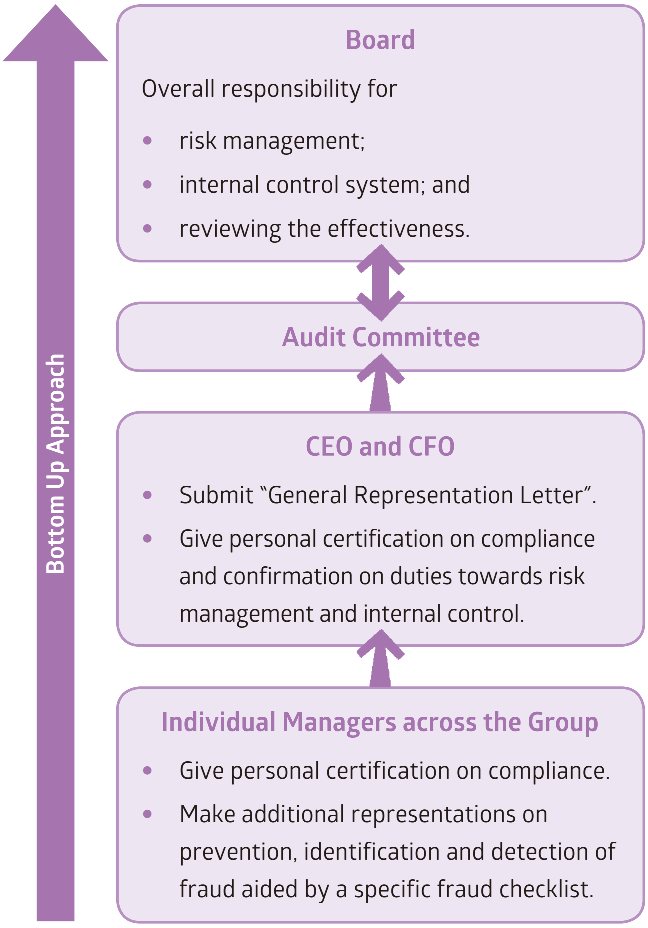
GIA provides independent assurance to the Board on the adequacy and effectiveness of internal controls for CLP. They adopt a risk-based approach, concentrating on areas with significant risks or where significant changes have been made. GIA is equipped with well qualified and capable staff with access to all the data and operations of the Group. Audit issues identified are followed up for proper implementation and the progress is reported to the Audit Committee periodically.

The external auditor also tests the key controls to the extent that they will be relied on for the audit. The Board is regularly informed of significant risks that may have an impact on CLP's performance.

Management Representation

The process of General Representation Letters reinforces personal responsibility for good governance and controls at all levels within CLP. It involves a procedure whereby individual managers across the Group are requested to verify compliance with internal controls in their particular businesses, departments and activities.

CLP's General Representation Letter Process – compliance verification



Effectiveness of Risk Management and Internal Control Systems

Through the Audit Committee's review, the Board is responsible for the Company's risk management and internal control systems and for reviewing their effectiveness.

The review process

Five times a year, the Audit Committee reviews the management's findings and opinion of GIA on the effectiveness of the Company's risk management and internal control systems. The reviews cover management's assessment of the internal controls of key business operations, changes in material risks, internal control and compliance issues (both financial and non-financial) and significant issues arising from internal and the external audit reports.

For the year ended 31 December 2016, the Board considered the risk management and internal control systems of the Group to be effective and adequate. No significant areas of concern that might affect shareholders were identified.

Inside Information

We have our own Continuous Disclosure Obligation Procedures which set out the procedures and controls for handling and dissemination of inside information. The Procedures are on the CLP website. We have further enhanced our procedures in 2016 with the establishment of a continuous disclosure committee to conduct regular assessment of potential inside information. The members of the committee include the CEO, CFO, the Company Secretary and the Director — Investor Relations. Please also see page 96 on "Our disclosure".

Corporate Governance — Continuing Evolution and Disclosure

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 comprehensive view of our practices and policies and how these are developing. 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 our experience, regulatory requirements and international developments.

By Order of the Board

David Simmonds
Company Secretary
Hong Kong, 27 February 2017

Risk Management Report

We are committed to continually improving our risk management framework, capabilities, and culture across the Group to ensure the long-term growth and sustainability of our business.

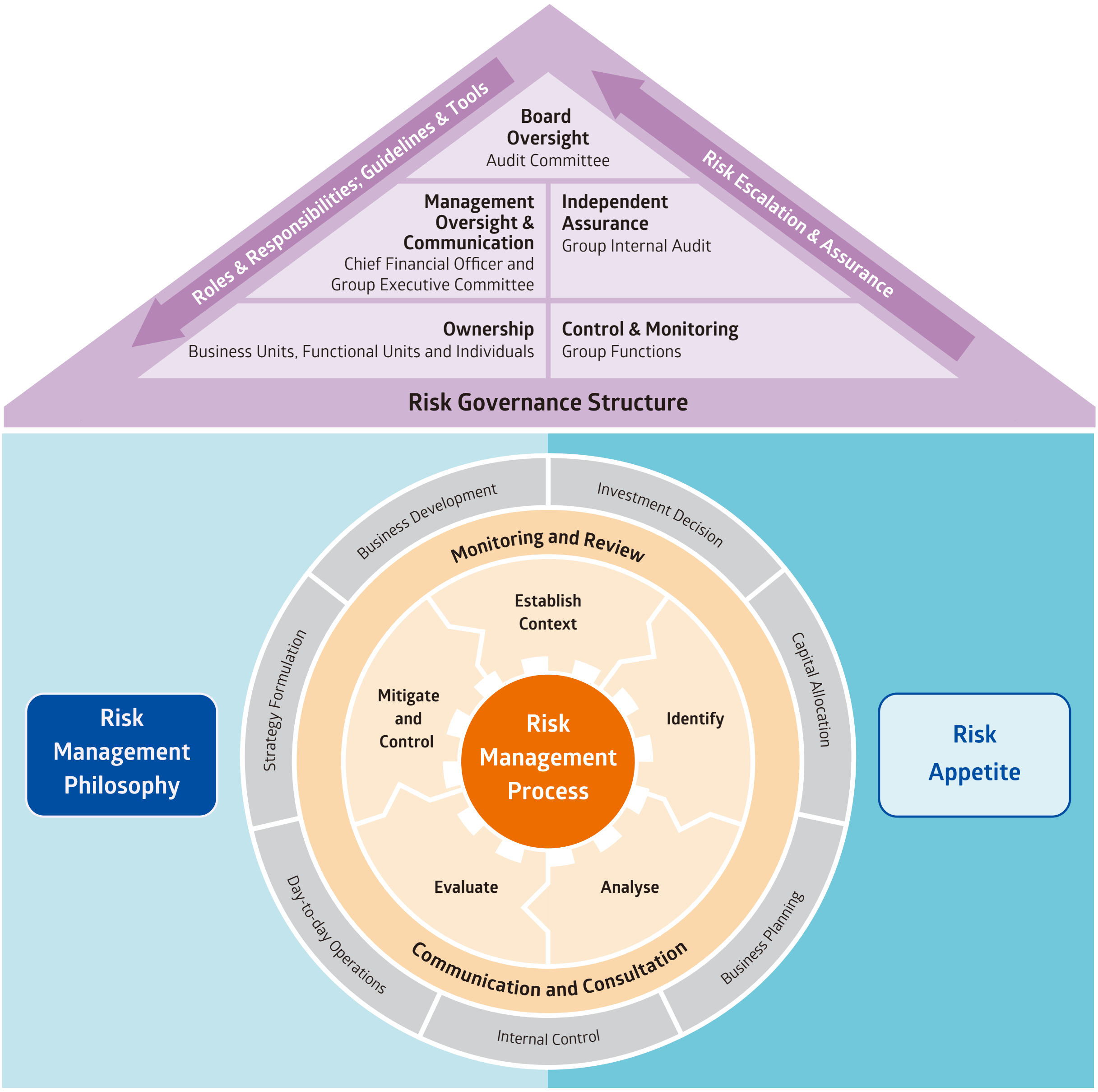
CLP's Risk Management Framework

Risk is inherent in CLP's business and the markets in which we operate. We aim to identify risks early on so that they can be understood, managed, mitigated, transferred or avoided. This demands a proactive approach to risk management and an effective Group-wide risk management framework.

CLP's risk management framework comprises four key elements:

1. Risk management philosophy;
2. Risk appetite;
3. Risk governance structure; and
4. Risk management process.

These elements are described in more detail in the table below and the content that follows:



CLP Risk Management Philosophy

CLP's overall risk management process is overseen by the Board through the Audit Committee. CLP recognises that risk management is the responsibility of everyone within the Group, and hence throughout the company risk management is integrated into business and decision-making processes including strategy formulation, business development, business planning, capital allocation, investment decisions, internal control and day-to-day operations.

In this light, we have set two-tier objectives:

- At a **strategic level**, CLP focuses on the identification and management of material risks inherently associated with the pursuit of the Group's strategic and business objectives. In pursuing growth opportunities, CLP aims to optimise risk / return decisions as defined and quantified through diligent and independent review and challenge processes.
- At an **operational level**, CLP aims to identify, assess, evaluate and mitigate operational hazards and risks in order to create a safe, healthy, efficient and environmentally-friendly workplace for its employees and contractors while ensuring public safety and health, minimising environmental impact, and securing asset integrity and adequate insurance.

CLP's Risk Appetite

CLP's risk appetite represents the nature and extent of the risks the Group is willing to undertake in pursuit of its strategic and business objectives. In line with CLP's Value Framework and expectations of our stakeholders, CLP will only take reasonable risks that (a) fit our strategy and capability, (b) can be understood and managed, and (c) do not expose the Group to:

- hazardous conditions affecting safety and health of our staff, contractors and / or the general public;
- material financial loss impacting financial viability and strategy execution of the Group;
- material breach of external regulations leading to loss of critical operational / business licence and / or substantial fine;
- damage of the Group's reputation and brand name;
- business / supply interruption leading to severe impact on the community, and
- severe environmental incidents.

CLP's Risk Profiling Criteria

Based on our risk appetite, CLP has established a risk assessment matrix to help rank risks and prioritise risk management efforts at the Group level. Business units are required to adopt the same risk matrix structure in order to establish their own specific risk profile, determine consequence and likelihood of identified risks, as well as establish risk mitigation strategies.

CLP's Risk Governance Structure

- Facilitates risk identification and escalation while providing assurance to the Board.
- Assigns clear roles and responsibilities and facilitates implementation with guidelines and tools.
- Consists of multiple layers of roles and responsibilities as explained below.

Board Oversight

The Audit Committee, acting on behalf of the Board

- Evaluates and determines the nature and extent of the risks the Board is ready to endorse in pursuit of the Group's strategic objectives.
- Ensures an appropriate and effective risk management framework is established and maintained.
- Monitors the design and implementation of the risk management framework.
- Oversees management of risk identification, reporting and mitigation efforts.

Independent Assurance

The Group Internal Audit

- Carries out independent appraisal of the effectiveness of the risk management framework.

Management Oversight & Communication

The Chief Financial Officer and Group Executive Committee

- Provide leadership and guidance for the balance of risk and return.
- Assess the Group's risk profile and material risks at the Group level.
- Report to the Board through the Audit Committee on the material risks affecting the Group as well as their potential impact, their evolution and the mitigating measures.
- Ensure that a review of the effectiveness of the risk management framework has been conducted at least annually and provide such confirmation to the Board through the Audit Committee.

Control & Monitoring

Group Functions: Finance, Risk Management, Internal Control, Tax, Operations, Information Technology, Legal, Human Resource, Sustainability

- Establish relevant Group-wide policies, standards, procedures, guidelines where appropriate.
- Oversee the risk and control activities of business units relevant to their respective functions.

Ownership

Business Units, Functional Units and Individuals

- Are responsible for identifying and assessing key risks in their areas of responsibility, making effective risk management decisions, establishing risk mitigation strategies as well as promoting a risk-aware culture.
- Carry out risk management activities and reporting in their day-to-day operations and ensure that risk management processes and mitigation plans follow good practices and guidelines established by the Group.
- Ensure that a review of the effectiveness of the risk management framework for their areas of responsibility has been conducted at least annually and provide such confirmation to the Group Executive Committee.
- Appoint risk managers or coordinators to facilitate communication, experience sharing and risk reporting.

CLP's Risk Management Process

The process is integrated into business and decision-making processes and involves:

- establishing the context;
- identifying risks, assessing their potential consequences and likelihood;
- evaluating the risk level, control gaps and priorities; and
- developing control and mitigation plans.

It is a continuous and interactive process with stakeholder communication and consultation as well as subject to regular monitoring and review.

Group Risk Management

Group Risk Management function is tasked with:

- Implementing the Group's Risk Management Framework, and assisting business units in implementing their own frameworks;
- Managing regular risk review and risk reporting processes of the Group;
- Facilitating independent risk appraisal for projects seeking endorsement by the CLP Holdings Investment Committee; and
- Facilitating risk communication, experience sharing and risk reporting.

Quarterly Risk Review Process at Group Level
– An integrated top-down and bottom-up risk review process

CLP adopts an integrated top-down and bottom-up risk review process to enable:

(1) comprehensive identification and prioritisation of all material risks throughout the Group;

(2) escalation of material risks at the right managerial level;

(3) effective risk dialogue among the management team; and

(4) proper governing of risk mitigation efforts.

Top-down Process

- In the Group Risk Management quarterly meetings, members of the Group Executive Committee discuss the top-tier risks escalated through the bottom-up process and deliberate on any other risk issues that they consider important. This kind of risk dialogue offers an opportunity for the management to identify and respond to emerging risks early on, voice risk concerns, share risk insights and seek risk management guidance.
- Group Risk Management facilitates the review of emerging risks by compiling relevant information from both internal and external sources.
- Emerging risks that are identified and considered material are further assessed and monitored by relevant business units or group functions.

Bottom-up Process

- Our business units and group functions are required to submit their list of material risks identified through their risk management process to Group Risk Management on a quarterly basis.
- Through a diligent process of aggregation, filtering, prioritising and consultation, Group Risk Management compiles a Quarterly Group Risk Management Report for review and discussion by the Group Executive Committee.
- Upon approval, the Report is submitted to the Audit Committee on a quarterly basis. "Deep dive" presentations on selected risks are made to the Audit Committee for more detailed, ad hoc reviews.

Risk Review Process for Investment Decisions

- All new material investments must be endorsed by the CLP Holdings Investment Committee, chaired by the CEO, before seeking approval from the Board or Finance & General Committee.
- CLP adopts a multi-gated system of periodic project appraisals during their development and investment cycles both prior to and after a final investment decision is made.
- CLP requires independent multi-disciplinary review of any investment proposal before submission to the Investment Committee. Independent risk appraisal by Group Risk Management is part of the investment review process.
- Group Risk Management ensures for each investment project a detailed project risk assessment is carried out with proper documentation. Detailed checklists and worksheets are used to identify risks / mitigations and in assessing risk level. Material risks and associated mitigations are highlighted and discussed at the Investment Committee.

Risk Management Integrated with Internal Control Systems

- Risk management is closely linked to CLP's Integrated Framework of Internal Control. Key controls are subject to testing in order to assess their effectiveness. Details on Internal Control are set out in the Corporate Governance Report on pages 113 to 114.

Risk Management in the Business Planning Process

- As part of the annual business planning process, business units are required to identify all material risks that may impact the delivery of their business objectives. Overarching strategic risks to the Group are also reviewed. Identified risks are evaluated based on the same set of risk profiling criteria as the quarterly risk review process and plans to mitigate the identified risks are developed. The material risks listed on pages 120 to 122 have been laid out in our 2016 business planning process.

Material Risks to the Group

As an investor and operator in the energy sector of the Asia-Pacific region, CLP categorises our risk profile into five key risk areas, namely Regulatory, Financial, Market, Commercial, and Industrial & Operational. Our 2016 business planning process has identified the following as material risks to the Group.

Regulatory Risk

CLP operates in a heavily regulated industry and regulatory risk remains the key challenge for us.

In Hong Kong, the Scheme of Control (SoC) Agreement is due to expire in 2018. There are calls to lower the level of the permitted rate of return as well as expectations for more renewable energy and energy efficiency initiatives.

Our Australian business continues to face regulatory uncertainty on numerous fronts, including carbon, renewable energy target, spot market rule changes, regulatory obligations of assets, emissions reduction scheme and retail pricing re-regulation.

The Chinese Government is undertaking power sector reforms with the aim of introducing greater competition. The practical implications of this are still difficult to assess. The Government also regularly intervenes in the market, influencing prices and volumes.

We manage by:

a) Working constructively with governments to advocate our position on regulatory changes.

b) Implementing comprehensive stakeholder engagement plans to facilitate sensible and informed discussion on regulatory matters.

c) Mobilising internal resources to ensure timely response to regulatory changes and maintaining regulatory compliance.

d) Communicating and highlighting the importance of a balance between reliable and safe supply, care for the environment and reasonable tariffs.

e) Reinforcing CLP's efforts in caring for the community and promoting energy efficiency.

Specific Top Tier Risk – Regulatory	Changes in 2016	Additional References
Changes in Hong Kong regulatory regime		Page 37
Uncertain regulatory changes impacting EnergyAustralia		Page 58
Uncertain impacts of China power sector reforms	*New*	Page 47

Market Risk

Market risk is another driver of earnings volatility facing the Group.

The supply / demand balance in the wholesale generation market as well as strong retail competition contribute to potential volatility in EnergyAustralia's earnings.

In China, lower economic growth, changes in the structure of the economy and tighter environmental rules have led to a reduction in the output and lower tariffs for the thermal power plants, notably Fangchenggang, amid an increase in coal prices resulting from supply side intervention.

We manage by:

a) Focusing on restoring value to EnergyAustralia's business through four strategic objectives 1) becoming a world-class energy retailer, 2) leading in NextGen products & services, 3) developing a sustainable low-cost operating model, and 4) optimising centralised generation.

b) Managing actively our wholesale energy portfolio and implementing strategies to align wholesale and retail positions.

c) Implementing an approved energy risk policy, with energy market transactions subject to approved limits and controls.

d) Exploring different revenue streams and value-added services for our customers.

e) Reviewing regularly our operations, fuel procurement and development strategy while closely monitoring our operating cash flow in view of market volatility.

Specific Top Tier Risk – Market	Changes in 2016	Additional References
Energy market volatilities and retail competition impacting EnergyAustralia		Page 61
Demand and market risk affecting China portfolio		Pages 43 — 45

Commercial Risk

Commercial risk refers to potential losses arising from inadequate gross margins and / or non-performance of trading partners or counterparties. It is important to ensure that our trading partners or counterparties are reliable, financially healthy and willing to pay.

Currently, the key commercial risks facing CLP are commercial disputes with offtakers over the implementation of power purchase agreements (PPAs), the financial health of our counterparties, fuel supply security, reduced energy margins and price volatility.

We manage by:

a) Diligently pursuing resolution of payment delays and / or disputes with offtakers.

b) Monitoring the financial health of our counterparties including offtakers, fuel suppliers, equipment suppliers, engineering, procurement, construction (EPC), and operation and maintenance contractors.

c) Collaborating with our fuel suppliers to mitigate ongoing sources of environmental, economic, operational, delivery and credit risks affecting fuel supply security; contingency planning for potential supply disruptions.

d) Diversifying our fuel sources and fuel procurement strategy in order to secure a stable supply of fuel while attaining a lower average fuel cost for our customers.

e) Reviewing the merit order of our plants and ensuring their competitiveness in the long run.

Specific Top Tier Risk – Commercial	Changes in 2016	Additional References
EnergyAustralia's Mount Piper coal supply risk		Page 58
Major commercial disputes with offtakers over PPAs in India		See contingent liability disclosure on pages 223 to 224
Counterparty risk of Indian distribution companies		Page 52
Counterparty risk of Indian EPC and O&M contractors	*New*	Page 50
Risk of PPA extension at Paguthan Power Station		—
Volatility of fuel costs for Hong Kong business and challenge of tariff adjustments		Page 37

Financial Risk

CLP's investments and operations, which are long term in nature, are exposed to various financial risks including cash flow & liquidity risks, credit & counterparty risks, interest rate risks and foreign currency risks.

Group-level earnings may also be impacted by marked-to-market fair value gains / losses as some of our economic hedges are classified as "ineffective" according to the Hong Kong Financial Reporting Standards.

The weakening of the Renminbi, and the highly volatile foreign exchange and equity markets have further increased the challenge for CLP to secure financing for development projects on competitive terms.

We manage by:

a) Maintaining strong investment grade credit ratings and preserving a healthy capital structure.

b) Soliciting adequate and cost-effective funding in advance of usage.

c) Securing debt funding diversity (source, instrument, currency and tenor) and maintaining an appropriate mix of committed credit facilities.

d) Maximising the use of local funding options.

e) Hedging most transactional foreign currency exposures (debt and payments) in line with CLP's Treasury Policy.

f) Pursuing "natural hedge" by matching currency of revenue, cost and debt; and project level debt financing should be denominated in and / or swapped into functional currency where possible.

g) Controlling financial counterparty exposure by transacting only with creditworthy and pre-approved financial institutions, allocating exposure limits based on bank's credit standing, and ensuring non-recourse to CLPH for counterparties of CLPH's subsidiaries and affiliates.

h) Maintaining good, trustworthy relationships with lenders.

i) Ensuring transparency in financial communications and disclosures.

Specific Top Tier Risk – Financial	Changes in 2016	Additional References
Foreign currency risk associated with the Group's investments		Pages 64 – 68
Group's liquidity risk of adequate funding at competitive terms		Pages 64 – 68
Default of Group's financial counterparties		Pages 64 – 68

Industrial & Operational Risk

CLP's operations are exposed to various industrial and operational risks relating to Health, Safety, Security and Environment (HSSE) incidents, emissions compliance, plant performance, human capital, data privacy, cyber-attacks, IT controls and extreme weather events as a result of climate change.

In particular, climate change and cyber security are two key emerging risks which may have material impact on the Group over a longer timeframe.

We manage by:

a) Planning and implementing operations and system reinforcements where necessary in order to maintain high operational and emissions performance.

b) Enhancing our operational efficiency and reliability by strengthening our asset and fleet management.

c) Maintaining emergency response and crisis management plans with regular drills.

d) Implementing the CLP Group Health, Safety, Security and Environment (HSSE) Management System to enhance the awareness of both employees and contractors.

e) Implementing the Project Management Governance System to facilitate a consistently safe, timely and cost-effective delivery of high quality projects.

f) Raising staff awareness through cyber security programmes and applying different technologies to mitigate cyber security risks, in particular to avoid fraud victim and disruption to energy supply.

Specific Top Tier Risk – Industrial & Operational	Changes in 2016	Additional References
Major Health, Safety, Security and Environment (HSSE) incidents at construction or operating plants	⬅ ➡	Pages 46 & 75 – 76
Potential creep damage of high pressure steam pipework at Yallourn Power Station	*New*	–
Hong Kong gas supply security	⬅ ➡	Pages 37 – 38
Uncertainty in Jhajjar's plant performance	⬅ ➡	Page 50
Performance risk of wind power projects across the Group	⬅ ➡	Pages 44 & 50
Extreme weather events adversely affect the Group	⬅ ➡	Page 39
Cyber-attack on business and power systems of the Group	⬅ ➡	Page 125

⬆ Risk level increased

⬇ Risk level decreased

⬅ ➡ Risk level remains broadly the same

Effectiveness Review of Risk Management and Internal Control Systems

The Audit Committee, on behalf of the Board, has reviewed the effectiveness of the Group's risk management and internal control systems during the period covered by this annual report. The details of the effectiveness review are described in the Corporate Governance Report on page 114 and the Audit Committee Report on page 125.

It should be acknowledged that our risk management and internal control systems are designed to manage rather than eliminate the risk of failure in achieving our strategic and business objectives, and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

Continuous Improvement

While CLP is already in compliance with the Stock Exchange of Hong Kong's amended Corporate Governance Code and Corporate Governance Report, effective 1 January 2016, relating to risk management, further improvements have been made to the relevant processes.

CLP is facing a wide range of current and emerging risks which demand continuous and close attention by management. In 2016, we revised our Group Risk Matrix and the risk profiling criteria to improve their clarity and applicability. We also revised the Quarterly Risk Management Report to facilitate the effective risk dialogue and the review of potential risk scenarios by Group Executive Committee.

Geert Peeters
Executive Director & Chief Financial Officer
Hong Kong, 27 February 2017

Audit Committee Report

Members

The Audit Committee is appointed by CLP Holdings' Board of Directors. All four members of the Committee are Independent Non-executive Directors, namely:

- Mr Vernon Moore as the Chairman;
- Mr Nicholas C. Allen;
- Mrs Fanny Law; and
- Ms Irene Lee.

Full biographies of the members are set out on pages 90 and 91.

Meetings and Attendance

The Committee held six meetings during 2016 and another two meetings were held in 2017 up to the date of this Report. Individual attendance of members at the meetings of the Audit Committee held in 2016 is set out in the Corporate Governance Report on page 102.

EnergyAustralia

CLP's subsidiary, EnergyAustralia, has its own board of directors that includes independent non-executive directors.

The EnergyAustralia board has established an Audit and Risk Committee (ARC) that carries out the functions of an audit committee for EnergyAustralia's business.

The CLP Audit Committee's function as an audit committee with respect to the operations of EnergyAustralia is strengthened and supplemented by EnergyAustralia ARC. There is an open invitation between the CLP Audit Committee and the EnergyAustralia ARC for members to attend the other committee's meetings.

Between 1 January 2016 and the date of this Report, the Chairman of the Committee participated in two EnergyAustralia ARC meetings and the Chairman of EnergyAustralia ARC participated in one meeting of the Committee. The Chairman of the Committee also had the opportunity of meeting with members of the EnergyAustralia ARC informally.

Responsibilities

Terms of reference

The Committee's terms of reference were prepared following international best practice. They include compliance with the HKICPA's "A Guide for Effective Audit Committees" and the Stock Exchange Code. Full terms of reference can be found on CLP's and the Stock Exchange's websites.

Accountability

The Committee is accountable to the Board. The Chairman reports to the Board on the Committee's review of significant internal control and risk management issues and the Company's annual / interim results. In addition, the Chairman reports to the Board annually on the Committee's activities.

Primary responsibilities

The Committee's primary responsibilities are to:

- assure that adequate risk management and internal control systems are in place and followed;
- assure that appropriate accounting principles and reporting practices are followed;
- review, and to make sure that the assurance of the sustainability data in the Sustainability Report is appropriate;
- satisfy itself that the scope and direction of external and internal auditing are adequate;
- satisfy itself that good accounting, audit principles, risk management, internal controls and ethical practices are applied on a consistent basis throughout the CLP Group (without limiting the responsibilities of the boards of CLP subsidiaries); and
- perform the corporate governance duties described further in this Report and fulfil the functions conferred on the Committee by the CLP Code.

The next section of the Report highlights the key focus areas of the Committee in the period under review, and illustrates the manner in which the Committee discharges its responsibilities.

Summary of Work Done

The Committee's key areas of focus for the full year 2016 and in 2017 up to the date of this Report are set out below:

Areas of Focus	Commentary
Risk Management, Internal Control and Compliance	
Risk Management and Internal Control	The Committee received and reviewed management's periodic internal control review update and the Group's risk management report. Enhancements to the risk management and internal control framework made during the year were reported to, and considered by the Committee; these included changes in key risks and controls, and management assessment on the effectiveness of risk management and internal control systems. From the Group's risk management report, the Committee noted and supported management's revision of the risk management objectives for "regulatory risk", from "compliance with legal and regulatory requirements" to "adapting business and operating models to ongoing regulatory changes and turning regulation as a value driver". This reflected the importance of the changing regulatory environment in which the Group operates in. In 2016, the Committee noted that the Group's risk profile remained relatively steady compared to 2015, continuing with only one top tier risk rated as Extreme (regulatory and political risk of HK business). Risks rated High have also been relatively stable along the year, with some likelihood decreases due to the confirmation of some market changes in Mainland China and advances achieved in the process of guaranteeing long-term coal supply for the Mount Piper power plant in Australia. The Committee also noted the mitigation actions for the top tier risks as detailed in the risk management reports. The Committee's monitoring of the risk management and internal control systems were also supplemented by the Group Internal Audit (GIA) and by the external auditor's report and testing of the control environment of the Group. During the period, no material internal control issues were identified. To provide further assurance to the Committee regarding the effectiveness of the risk management and internal control systems, the CEO and CFO provided to the Committee General Representation Letters prior to the publication of the interim and annual financial statements (see page 114 for further details regarding the General Representation Letters). The Committee was satisfied that the Group's risk management and internal control systems were effective for the period and that these continue to be effective and adequate as at the date of the Report.
Compliance	The Committee reviewed the Group's compliance with applicable legal and regulatory requirements including the CLP Code, the Stock Exchange Code, the Listing Rules, the Companies Ordinance and the Securities and Futures Ordinance. The Committee noted that the only exception was that CLP does not publish quarterly financial results. The Committee agrees with management that quarterly financial results would not be of value to shareholders and the quarterly statements published by the Company is sufficient. Please refer to the Corporate Governance Report, Compliance with Stock Exchange Code and the ESG Reporting Guide, pages 96 and 97 for an explanation as to the considered reasons for the approach taken.
Cyber security	Cyber security was identified as a significant risk to the Group and is recorded and tracked in the Group's Risk Heat Map. In 2016, the Committee received regularly updates on the status of the Group's cyber security initiatives from management, and on physical security too. Some of the key principles that the Committee took note of included the following: cyber security risk mitigation is constantly evolving; management will continue to perform vulnerability and third party assessments regularly; cyber security standards will need to be adjusted from time to time to address global incidents and attacks affecting the industry. While CLP is among the leaders, it was acknowledged that there is no room for complacency.

Areas of Focus	Commentary
Interim and Annual Financial Statements	
Annual Reports and Interim Report	As a recurring item, the Committee reviewed the 2015 and 2016 Annual Reports and the 2016 Interim Report and on the recommendations from the Committee, these were approved by the Board.
2016 Financial Statements – adoption of accounting standards	For the 2016 Financial Statements, the Committee reviewed the adoption of amendments to standards and a new accounting standard. In particular, the Committee considered the implications of the early adoption of HKFRS 9 Financial Instruments and its corresponding disclosure in the Financial Statements.
2016 Financial Statements – Judgmental Issues	Management and the external auditor presented to the Committee the key judgmental issues with material accounting impact. These included the review of the carrying values of Group's generation assets and goodwill, and the disclosures and accounting treatment of certain litigations and disputes within the Group. The Committee was satisfied with the judgements made for these issues and their corresponding presentations and disclosures in the Financial Statements.
Sustainability Report data assurance	The Committee considered and took note of the external auditor's report on the sustainability assurance in respect of the 2015 and 2016 Sustainability Reports. SR
Internal and External Auditing	
Internal audit	The Committee received and considered reports from GIA on the Internal Audit Review. Two reports out of a total of 30 submitted by GIA carried an unsatisfactory audit opinion. The Committee and management had detailed discussions on the matters covered by the reports and, in particular, the items which carried unsatisfactory opinions and the measures proposed by management to address these matters. These included EnergyAustralia's payroll system access weaknesses and certain operational and maintenance procedures at CLP India Jhajjar's plant that were not followed. None of these had a material impact on the financial statements.
Internal audit function	In 2015, an external review of the GIA function was undertaken and a number of recommendations were made. In 2016, the Committee reviewed and approved the proposed recommendations by GIA which included an increased focus on top emerging risks and thematic reviews, engagement with key stakeholders in the risk assessment and planning process and closer collaboration between GIA and Group Internal Control on the follow-up process for audit related issues. The Committee also reviewed the adequacy of resources, staff qualifications and experience, training programmes and budget of the GIA function as well as the accounting and financial reporting functions of the Group.
2016 Financial Statements – Auditor's Opinion	The external auditor presented the new form of the auditor's opinion on the financial statements; these relate to the key audit matters that were most significant in the audit process. The Committee considered, at length, with management and the external auditor, the key audit matters of concern to the auditor and the Committee.
External audit related	The Committee reviewed following fees payable to PwC: • audit fees for 2015 and 2016 for approval by the Board; and • permissible audit related and non-audit services provided by PwC for 2015 and 2016 (please see page 112 for further details). PwC was reappointed as external auditor for 2016 at the 2016 Annual General Meeting and the re-appointment was approved by over 99.6% of the shareholder votes. The Committee having considered and satisfied with PwC's performance and independence as external auditor, recommended to the Board that PwC be re-appointed. The Company's shareholders will consider this at the forthcoming 2017 Annual General Meeting. PwC had issued a letter of independence to the Audit Committee and for further details on the assessment of their independence, please see page 112. The Committee considers that regular change to the lead audit partner is a better assurance of independence than changing the audit firm. The current lead audit partner has served for three years.

Areas of Focus	Commentary
Corporate Governance	
Corporate Governance practices	The Committee received and reviewed a report on the Corporate Governance Policies and Practices Review. In the review, the Committee took note of the updates regarding shareholders' communication policy, code of conduct, whistleblowing policy, and policy and guidelines on the provision of gifts and entertainment as well as the new Listing Rules requirements on the assessment of the effectiveness of the risk management and internal control systems. These included the following: • shareholders' communication policy – recommendations from the Committee regarding the Annual Report's presentation; • shareholders' communication policy – support from the Committee Chairman and members for broadening the shareholder base to the younger generation for the shareholders' visit programme; • whistleblowing policy – changes to the policy that were reviewed by the Committee included the requirement of written complaints and enhancing the communications policies with respect to the complainant; and • effectiveness of the risk management and internal control systems – the Committee's assessment of this was based on the work carried out as highlighted in the above section "Risk Management and Internal Control".
Continuing connected transactions	The Committee considered and discussed the Listing Rules required review work by the external auditor regarding the continuing connected transactions. The members recommended that the external auditor undertake additional agreed upon procedures work on certain selected continuing connected transactions. These transactions are subject to the annual reporting and confirmation requirements under the Listing Rules.
Code of conduct	The Committee received and considered the periodic updates on the breaches of the Code of Conduct. None of the 21 breaches in 2016 were material to the Group's financial statements or overall operation. The breaches were mainly related to issues of work place behaviour. Compared to the previous year, the relatively higher number of breaches in 2016 reflected the improved identification and stricter enforcement of work place behaviour requirements. Of the reported Code of Conduct violation cases, there was one case that involved a senior manager; in this context senior manager refers to staff graded at Hay Reference level 20 and above and this case did not involve any member of our Senior Management as disclosed in this Annual Report.

Audit Committee Effectiveness

The Company Secretary evaluated the performance and effectiveness of the Audit Committee during 2016 and the Committee was pleased to note that the Company Secretary concluded that the Committee was performing its responsibilities in an effective manner and in accordance with its terms of reference.

The evaluation was reviewed and the conclusion was confirmed by internal and external auditors. The CLP Holdings Board endorsed the Company Secretary's evaluation.

Vernon Moore

Vernon Moore
Chairman, Audit Committee
Hong Kong, 27 February 2017

Sustainability Committee Report

Members

The Sustainability Committee (Committee) is appointed by CLP Holdings' Board of Directors and the members of the Committee are:

- Mr Richard Lancaster (Chief Executive Officer) as the Chairman;
- Mr Nicholas C. Allen (Independent Non-executive Director);
- Mrs Fanny Law (Independent Non-executive Director);
- Ms Irene Lee (Independent Non-executive Director);
- Mr Andrew Brandler (Non-executive Director); and
- Ms Quince Chong (Chief Corporate Development Officer).

Full biographies of the members are set out on pages 90 to 93.

Meetings and Attendance

The Committee meets as frequently as required but not less than twice a year and any Committee member may call a meeting. Between 1 January 2016 and the date of this Report, the Committee met four times (including three times in 2016 and once in 2017).

Responsibilities

Terms of reference

The current terms of reference were adopted in February 2015 and are set out on the CLP's and the Stock Exchange's websites.

Accountability

The Committee is accountable to the Board. The Committee is authorised by the Board, at CLP's expense, to investigate all matters that fall within the Terms of Reference. The objectives of the Committee are to oversee management and advise the Board on matters required to enable:

(a) the CLP Group to operate on a sustainable basis for the benefit of current and future generations;

(b) sustainable growth by maintaining and enhancing CLP Group's economic, environmental, human, technological and social capital in the long term; and

(c) the effective management of CLP Group's sustainability risks.

Primary responsibilities

The Committee's primary responsibilities include:

- reviewing, endorsing and reporting to the Board on CLP's sustainability frameworks, standards, priorities and goals and overseeing CLP group-level strategies, policies and practices on sustainability matters to attain those standards and goals;
- reviewing and reporting to relevant Board Committees on key international sustainability trends, benchmarking against peers, sustainability risks and opportunities and other emerging issues;
- overseeing, reviewing and evaluating CLP Group's sustainability performance in terms of internationally-recognised metrics relevant to the industry, as well as the requirements of sustainability stock indices and the desirability of CLP's inclusion in those indices;
- reviewing and advising the Board on CLP's public reporting with regard to its performance on sustainability matters; and
- overseeing CLP's community, charitable and environmental partnerships, strategies and related group-level policies and making recommendations to the Board on any changes to those partnerships, strategies and policies.

Summary of Work Done

The work performed by the Committee during this period is summarised below.

Areas of Focus	Commentary
Sustainability goals, priorities, policies & frameworks	
Sustainability Principles and Goals	In 2015, CLP's new Sustainability Principles were established under the four focus areas of environment, community, people and economic sustainability. In 2016, the Committee deliberated on the 17 UN Sustainable Development Goals (SDGs) with a view to exploring how some of these principles could be incorporated into our medium or longer term sustainability goals.
Operational Health, Safety, Security & Environment Standards	The Committee was briefed on the newly established Operational Health, Safety, Security & Environment (HSSE) Coordination Committee. The Committee also considered and reviewed the HSSE framework, including its governance structure and its major new initiatives.
Carbon Metrics	Recognising that an evolution of CLP's business model would potentially increase the proportion of earnings contribution from non-generation business, the Committee discussed the relevance of the carbon intensity measurement of our generation assets. A preview of how CLP's carbon metrics might need to be developed in line with the evolution of the business, the Group investment strategy and external changes was presented to and considered by the Committee.
Sustainability trends	
Environmental, Social and Governance (ESG)	The Committee devoted time in reviewing the potential drivers and trends behind emerging sustainability-related business risks and opportunities including the following: • longer term ESG trends, such as the continuing increase in expectations on reporting and transparency; and • prospective risks and opportunities which might arise from the UN SDGs.
Technology, disruption and innovation opportunities	The Committee took note of the potential impact of the recent developments in technology and innovation on our industry and business and the Committee considered the related potential opportunities and challenges for CLP.
Climate change-related developments	The Committee reviewed and discussed updates on climate change-related developments and the implications for CLP, with particular attention paid to: • the speed of the ratification and implementation of the Paris Agreement; • the global trends in terms of political and government actions on climate change issues; and • the growing focus of certain investor groups on companies with carbon exposure.
Sustainability performance	
Sustainability performance against external sustainability indices	The Committee reviewed CLP's sustainability performance against external sustainability indices with the ultimate objective of improving our sustainability performance. The Committee also analysed and acknowledged the achievements of our 2015 sustainability performance. Our DJSI score increased by 28% to an all-time high of 73, securing CLP's position on the DJSI Asia Pacific Index. CLP received the top CDP score of "A-" for companies in Hong Kong, while our Hang Seng Corporate Sustainability Index score in 2016 remained unchanged at "AA", similar to previous years. Further details of selected 2016 sustainability ratings for CLP's 2015 sustainability performance is shown in the following table. The scores reflect the performance of the year before.

Index Name	2016 Score	2015 Score	2014 Score
Dow Jones Sustainability Index (DJSI)	73	57	63
CDP – Climate	A-*	96 (C)	95 (B)
Hang Seng Corporate Sustainability Index	AA	AA	AA

* There was a change in scoring methodology for the 2016 Score from the previous letter and numerical scores for performance and disclosure, respectively, to a combined letter score.

Areas of Focus	Commentary
Sustainability Reporting	
Sustainability Reporting Standards	The Committee considered the evolving approach in preparing the Sustainability Report both in terms of industry standards and regulatory compliance. The Committee endorsed the preparation of the 2016 Sustainability Report in accordance with the Core level of the new GRI Sustainability Reporting Standards. The Committee also reviewed the 2016 In Essence Sustainability Report. The Committee noted the related Sustainability Assurance findings and the increase in the number of KPIs assured from 31 data points in 2015 to 35 in 2016. The Committee also considered and endorsed the presentation of the contents of the 2016 Sustainability Report and how it meets the Stock Exchange's ESG Reporting Guide "comply or explain" and "recommended disclosure" requirements, as well as the GRI Sustainability Reporting Standards. The Committee also took note of the inclusion of the Five-year Summary of statistics on the Group's environmental and social performance in this Annual Report (pages 242 and 243) which contains cross-references to the KPIs suggested in the Stock Exchange's ESG Reporting Guide.
Sustainability data assurance	The continuing practice of commissioning independent assurance of selected KPIs was reported to and acknowledged by the Committee. The oversight of the assurance of the metrics and reporting is the responsibility of the Audit Committee.
Community, charitable and environmental partnerships and initiatives	
Community initiatives	The Committee reviewed management's report on the community initiatives undertaken by CLP in 2015 and supported the proposed overall strategy for 2016 as well as the specific initiatives in terms of the following: • spending by country, theme and programme; • volunteering contributions; and • the number of programmes and beneficiaries.

Looking Ahead

The Committee will continue to review its role of supporting the Board and overseeing management in the development, implementation, measurement and reporting of the Group's social, environmental and ethical performance. This will ultimately enable the CLP Group to operate on a sustainable basis for the benefit of current and future generations.

Richard Lancaster
Chairman, Sustainability Committee
Hong Kong, 27 February 2017

Sustainability Report

Human Resources & Remuneration Committee Report

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 Report has been reviewed and endorsed by the HR&RC.

> The contents of the following sections in the highlighted boxes below comprise the "auditable" part of the HR&RC Report and have been audited by the Company's Auditor: "Non-executive Directors – Remuneration in 2016", "Change of Remuneration – Executive Directors and Senior Management", "Executive Directors – Remuneration in 2016", "Total Directors' Remuneration in 2016" and "Senior Management – Remuneration in 2016".

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 Vernon Moore, Mr Nicholas C. Allen and Mrs Zia Mody.

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 Remuneration Committee.

The HR&RC held three meetings during 2016 and one meeting in 2017 up to 27 February 2017 (the date of this Report). Between 1 January 2016 and the date of this Report, the HR&RC approved the 2015 and 2016 HR&RC Reports, and reviewed the following:

Performance and Remuneration Review

- Group performance for 2015 and 2016 and Group targets for 2016 and 2017.
- 2015 and 2016 organisation performance for CLP Power Hong Kong and CLP India and targets for 2016 and 2017.
- Base pay for 2016 and 2017 for Hong Kong payroll staff, CLP India and China.
- Non-executive Directors' Fees.
- CEO's remuneration.
- Remuneration of direct reports to the CEO, including annual incentive payments for 2015 and 2016 and pay review for 2016 and 2017.

Training and Benefits Review

- Training and continuous professional development of Senior Management.
- Hong Kong provident fund.

Succession Planning and Organisational Evolution

- Senior Management succession plan, update on talent development initiatives and organisational evolution in the face of disruptive change.
- Update on gender diversity initiatives.

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:

- No individual or any of his or her close associates should determine his or her own remuneration.
- Remuneration should be broadly aligned with companies with whom CLP competes for human resources.
- 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.

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 employees of the Company.

In considering the level of remuneration payable to Non-executive Directors, we have referred to:

- Report of the Committee on the Financial Aspects of Corporate Governance of December 1992;
- "Review of the Role and Effectiveness of Non-executive Directors" of January 2003 as subsequently codified in the Financial Reporting Council's "The UK Corporate Governance Code" published in September 2014 (2014 UK Code); and
- The Stock Exchange Code and associated Listing Rules.

In light of these considerations, CLP's Non-executive Directors are paid fees in line with market practice, based on a formal independent review undertaken no less frequently than every three years. Those fees were reviewed at the beginning of 2016 (the 2016 Review). The methodology adopted in the 2016 Review is the same as that used in the previous reviews and as explained to shareholders in the CLP Code, save for the adoption of an average of total working hours of Non-executive Directors over three review periods in order to smooth out the effect of short-term fluctuations in their workload. The methodology is aligned with the recommendations of the 2014 UK Code and includes:

- the application of an hourly rate of HK$5,000 as an average of the hourly rates at partner level charged by legal, accounting and consulting firms in providing professional services to CLP;
- a 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).

Having regard to the principle that levels of remuneration should be sufficient to attract and retain high-calibre candidates needed to run a company successfully, but no more than is necessary for this purpose, CLP then reviews the level of fees produced by the above methodology, by benchmarking them against the levels of fees paid to non-executive directors of other leading Hong Kong listed companies included within the HSI and other Hong Kong indices, as well as fees paid to non-executive directors of utility companies listed on exchanges in London, Hong Kong, Australia and New Zealand.

While the methodology takes into account past and present data, rather than any forward-looking projections, as in the case of the 2013 review, the Board recommended that, instead of implementing the increase under the 2016 Review at once, 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 or any of his or her close associates should determine his or her own remuneration, the levels of fees set out in the table on page 133 were proposed by management, reviewed by J.S. Gale & Co and approved by our shareholders at the AGM on 5 May 2016. In this respect, CLP's approach goes beyond that required by law or regulation in Hong Kong or the provisions of the Stock Exchange Code. Further to CLP's commitment to the adoption of a transparent methodology for determining Non-executive Directors' remuneration, the 2016 Review and the opinion of J.S. Gale & Co on that 2016 Review are placed on CLP's website.

Fees for Non-executive Directors[1]

	Fees per annum (before 6 May 2016) HK$	Fees per annum (w.e.f. 6 May 2016) HK$	Fees per annum (w.e.f. 6 May 2017) HK$	Fees per annum (w.e.f. 6 May 2018) HK$
Board				
Chairman	666,900	698,300	731,200	765,600
Vice Chairman	524,000	548,600	574,500	601,500
Non-executive Director	476,400	498,800	522,300	546,900
Audit Committee				
Chairman	463,800	468,200	472,600	477,100
Member	334,700	336,100	337,600	339,100
Finance & General Committee				
Chairman	397,500	414,200	431,700	449,900
Member	287,400	297,700	308,400	319,400
Human Resources & Remuneration Committee				
Chairman	85,300	85,800	86,300	86,800
Member	58,800	60,200	61,600	63,100
Sustainability Committee				
Chairman	106,100	108,200	110,300	112,500
Member	78,400	78,600	78,800	79,000
Nomination Committee[2]				
Chairman	14,000	14,000	14,000	14,000
Member	10,000	10,000	10,000	10,000
Provident & Retirement Fund Committee[2]				
Chairman	14,000	14,000	14,000	14,000
Member	10,000	10,000	10,000	10,000

Notes:

1 Executive Directors and management serving on the Board and Board Committees are not entitled to any Directors' fees.

2 A nominal fee has been maintained for the Chairman and Member of the Nomination Committee and the Provident & Retirement Fund Committee.

Non-executive Directors – Remuneration in 2016

The fees paid to each of our Non-executive Directors in 2016 for their service on the CLP Holdings Board and, where applicable, on its Board Committees are set out below. There was a small increase in total Directors' fees compared to 2015. This was primarily due to an increase in the levels of Non-executive Directors' fees which took effect on 6 May 2016.

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 2016	Total 2015
Non-executive Directors									
The Hon Sir Michael Kadoorie	687,490.16(C)	-	14,000.00(C)	-	-	-	-	701,490.16	668,505.47
Mr William Mocatta[1]	540,131.15(VC)	-	-	408,450.81(C)	59,718.03	14,000.00(C)	-	1,022,299.99	980,590.41
Mr J. A. H. Leigh	491,088.53	-	-	-	-	-	-	491,088.53	467,523.29
Mr Andrew Brandler	491,088.53	-	-	294,154.10	-	-	78,531.14	863,773.77	829,608.22
Dr Y. B. Lee	491,088.53	-	-	-	-	-	-	491,088.53	467,523.29
Mr Ronald J. McAulay[2]	365,707.11	-	-	-	-	-	-	365,707.11	467,523.29
Independent Non-executive Directors									
Mr Vernon Moore	491,088.53	466,685.24(C)	-	294,154.10	59,718.03	-	-	1,311,645.90	1,255,167.13
Sir Rod Eddington	491,088.53	-	-	294,154.10	-	-	-	785,242.63	754,101.37
Mr Nicholas C. Allen	491,088.53	335,618.04	10,000.00	294,154.10	59,718.03	-	78,531.14	1,269,109.84	1,216,373.97
Mr Vincent Cheng	491,088.53	-	10,000.00	294,154.10	85,627.87(C)	-	-	880,870.50	844,009.59
Mrs Fanny Law	491,088.53	335,618.04	-	-	-	-	78,531.14	905,237.71	864,086.30
Ms Irene Lee	491,088.53	335,618.04	-	294,154.10	-	-	78,531.14	1,199,391.81	1,150,664.38
Mrs Zia Mody	491,088.53	-	-	-	59,718.03	-	-	550,806.56	268,333.15
Dr Rajiv Lall[3]	-	-	-	-	-	-	-	-	461,136.98
							Total	10,837,753.04	10,695,146.84

Notes:

1 Mr William Mocatta also received HK$300,000.00 as fee for his service on the board of CLP Power Hong Kong Limited. In 2015, he received HK$300,000.00 as fee for his service on the board of CLP Power Hong Kong Limited.

2 Mr Ronald J. McAulay resigned as a Non-executive Director with effect from 1 October 2016. The fee paid to Mr McAulay was made on a pro rata basis in respect of his service up to 30 September 2016.

3 The fee paid to Dr Rajiv Lall (a former Director) is included in the table, solely for the purpose of comparing the total fees paid to Non-executive Directors in 2015 with those in 2016.

Change of Remuneration – Executive Directors and Senior Management

Details of the remuneration of Executive Directors and Senior Management prepared in accordance with the Hong Kong Financial Reporting Standards for the 12 months ended 31 December 2016 are set out in the tables on page 136 (Executive Directors) and pages 142 to 143 (Senior Management).

The amounts disclosed consist of remuneration accrued or paid for service in 2016 and, for the annual and long-term incentives, service and performance in previous years.

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

To provide a clear picture of remuneration, amounts are shown as recurring or non-recurring items. Recurring items are the normal annual remuneration of Executive Directors and Senior Management, while non-recurring items relate primarily to the appointment or termination of Executive Directors and Senior Management.

In the tables on page 136 and pages 142 to 143 the "total remuneration" column for 2016 includes the following recurring items:

(i) base compensation, allowances & benefits paid;

(ii) 2016 annual incentive accrued based on previous year of Company performance. Additionally, as the Company performance actually achieved in 2015 was higher than the annual incentive accrual for 2015, the difference was added in the current period;

(iii) the 2013 long-term incentive award paid in January 2016 when the vesting conditions were satisfied (the comparative figures are the long-term incentive for 2012 paid in 2015). About 10% of the increase in the value of the phantom shares portion of 2013 long-term incentive payments results from the change in CLP Holdings' share price between 2013 and 2015, with dividends reinvested; and

(iv) provident fund contribution made.

The "other payments" column includes the following non-recurring items:

(i) sign-on payments accrued or paid in accordance with the Company's contractual obligation for newly hired Senior Management in consideration of income foregone with their previous employer on joining CLP; and

(ii) relocation payments for newly hired Senior Management.

Executive Directors – Remuneration in 2016

The remuneration paid to the Executive Directors of the Company in 2016 was as follows:

	Recurring Remuneration Items					Non-recurring Remuneration Items	
		Performance Bonus[2]					
	Base Compensation, Allowances & Benefits[1] HK$M	Annual Incentive HK$M	Long-term Incentive HK$M	Provident Fund Contribution HK$M	Total Remuneration HK$M	Other Payments HK$M	Total HK$M
2016							
CEO (Mr Richard Lancaster)	**8.8**	**8.0**	**3.0**	**1.6**	**21.4**	**–**	**21.4**
Executive Director & Chief Financial Officer (Mr Geert Peeters)[3]	**6.6**	**6.1**	**–**	**1.2**	**13.9**	**–**	**13.9**
	15.4	**14.1**	**3.0**	**2.8**	**35.3**	**–**	**35.3**

		Performance Bonus[2]					
	Base Compensation, Allowances & Benefits[1] HK$M	Annual Incentive HK$M	Long-term Incentive HK$M	Provident Fund Contribution HK$M	Total Remuneration HK$M	Other Payments HK$M	Total HK$M
2015							
CEO (Mr Richard Lancaster)	8.7	8.3	3.1	1.0	21.1	–	21.1
	8.7	8.3	3.1	1.0	21.1	–	21.1

Notes:

1 The value of non-cash benefits is included under the "base compensation, allowance & benefits" column of the above table. The nature of these benefits includes electricity allowance, the availability of a company vehicle for personal use, any approved personal club memberships entered into primarily for business entertainment purposes and consequently paid by the Company, life insurance and medical benefits.

2 Performance bonus consists of (a) annual incentive (2016 accrual and 2015 adjustment) and (b) long-term incentive (payment for 2013). The annual incentive payments and long-term incentive awards were approved by the HR&RC.

Payment of the annual incentive and granting of the long-term incentive awards relating to 2016 performance will be made in March 2017. These payments and awards are subject to the prior approval of the HR&RC after 31 December 2016. Details of these will be published on the CLP website at the time that the 2016 Annual Report is published.

3 Mr Geert Peeters joined the Company on 1 February 2014. He was appointed as Executive Director & Chief Financial Officer on 1 January 2016.

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.

Total Directors' Remuneration in 2016

The total remuneration of Non-executive and Executive Directors in 2016 was:

	2016 HK$M	2015 HK$M
Fees	**11**	11
Recurring Remuneration Items		
Base Compensation, Allowances & Benefits[1]	**15**	9
Performance Bonus[2]		
– Annual Incentive	**14**	8
– Long-term Incentive	**3**	3
Provident Fund Contribution	**3**	1
Non-recurring Remuneration Item		
Other Payments	**–**	–
	46	32

Notes:

1 Refer to Note 1 on Base Compensation, Allowances & Benefits on page 136.

2 Refer to Note 2 on Performance Bonus on page 136.

Of the total remuneration paid to Directors, HK$11 million (2015: HK$7 million) has been charged to the SoC operation.

Senior Management – Principles of Remuneration

For the purposes of this section, Senior Management means the managers whose details are set out on page 93.

CLP's Senior Management Remuneration Policy is an important element of the Group's strategy and an expression of its culture. It is designed to attract, retain and motivate high performing executives – who for their technical and managerial skills and their diversity in terms of origin and experience – are a key factor in support of CLP's long-term business success and the creation of value for our stakeholders.

The design of our Senior Management remuneration programmes and the pay opportunities are influenced by the characteristics of our business and the market from which we compete for executive talent.

Given the scale and life-span of CLP's investments, and the array of stakeholders impacted by our operations, CLP takes a long-term view to remunerating its executives for their contributions to the Company's sustainable, profitable growth.

Our Senior Managers are, depending on their role, responsible for a mix of businesses: a vertically-integrated regulated business in Hong Kong, a competitive wholesale and retail energy provider in Australia, and an independent power producer in Mainland China, India, Southeast Asia and Taiwan. Hence, the structure of our remuneration packages is assessed in terms of appropriateness to the role and alignment with the reference market.

The labour market for our CEO and most other Senior Managers extends beyond the local market. Hence, we use both local and international reference markets for purposes of competitive remuneration assessments.

We emphasise strong management development, succession planning and job mobility to fill vacancies for executive positions, as we believe that a long-term career with the Group is an important asset to CLP. Consequently external competitiveness of remuneration has to be balanced with internal equity.

Our policy is based on the following principles that guide our remuneration programmes and decisions:

- appropriateness and fairness of remuneration in relation to the assigned job responsibilities and capabilities demonstrated;
- alignment with Company strategy and shareholder interests;
- competitive with respect to pay levels in the relevant reference market;
- performance based in terms of sustained results, behaviours and values; and
- governed by and compliant with the relevant regulatory frameworks.

In order to make informed decisions on competitive Total Remuneration as well as its individual components, the HR&RC takes reference from remuneration data for comparable positions at relevant local and, as appropriate, international companies that are representative of CLP's industry, size and operational characteristics and against which CLP competes for executive talent.

To assess appropriate remuneration levels for Senior Management positions, the HR&RC may give different weight to local and international company remuneration data. The comparative analysis is carried out by taking into account specific groups of comparator companies to ensure alignment with the reference market.

The competitive assessment against comparator companies is used both for assessing CLP's relative performance and for assessing the competitiveness of the remuneration packages.

As publicly disclosed comparator information is available for only a limited number of Senior Management positions, we supplement peer data from published remuneration surveys.

Our Senior Management pay structure consists of fixed pay, annual incentives, long-term incentives and a retirement arrangement. The ratio between these components reflects CLP's risk management framework that does not induce excessive risk taking and is designed to promote commitment in contributing to the achievement of sustainable results.

In determining incentive payments and Total Remuneration, the HR&RC takes into account a broad range of performance indicators including financial (e.g. long-term growth in the share price and dividends), operational, safety, environmental, social, governance and compliance related factors (see page 141). The determination of performance outcomes is not formulaic, as the Committee believes their overriding responsibility is to exercise judgement and responsibility.

In determining overall Total Remuneration, the HR&RC applies a balanced overall judgement, with the intention to align Total Remuneration between the median and the upper quartile of the reference market, with overall positioning consistent with business performance and with individual positioning based on an assessment of performance, potential and the strategic impact of the individual.

An independent external remuneration consultant provides the HR&RC with relevant market information and analysis, with special reference to current practices among our comparator companies at the local and international level.

The four components of remuneration of members of Senior Management are explained on the following pages.

Senior Management's Remuneration (excluding Managing Director – EnergyAustralia)

Base Compensation

Base Compensation for each member of Senior Management is reviewed annually and takes into consideration the competitive position against the relevant labour market, the scope and responsibility of the role and individual performance. The Base Compensation accounts for 35% of his / her potential total remuneration in 2016.

Pension Arrangement

The members of Senior Management are eligible to join the Group's defined contribution retirement fund. The employer's contribution to the retirement fund ranges from 10 – 12.5% of Base Compensation plus target annual incentive. To receive the maximum 12.5% employer contribution the employee is required to contribute 5% of Base Compensation. A 12.5% employer contribution accounts for 7% of his / her potential total remuneration in 2016.

Effective 1 January 2017, the existing company matching contribution scale has been extended for all Hong Kong based staff including Senior Management. Eligibility for the extended scale is based on completed service thresholds of 5 and 10 years, and is subject to a matching contribution from the employee.

Annual Incentive

Each member of Senior Management has a maximum annual incentive opportunity of 100% of Base Compensation, which accounted for 35% of his / her potential total remuneration in 2016. The maximum annual incentive opportunity may be exceeded in exceptional cases where a discretionary additional annual incentive is awarded by the Committee. The actual amount awarded is determined by the Committee's assessment of organisational performance.

The annual incentive award depends on the performance of the CLP Group for the CEO and Hong Kong based members of Senior Management. For the Managing Director of India it is based on the performance of India.

Long-term Incentive

Awards under the Long-term Incentive (LTI) plan are based on organisational performance and support the retention of Senior Management. Each member of Senior Management has a maximum LTI opportunity of 66.6% of Base Compensation, which accounts for 23% of his / her potential total remuneration in 2016. The composition of the LTI award:

LTI opportunity set at the beginning of 2016 (50% of maximum)

X

Performance multiplier (Organisational performance for the year preceding that in which the award is made)

=

Actual LTI award:

a) A minimum of 75% of the award is allocated to CLP Holdings phantom shares based on average closing share price for the December preceding the making of the LTI award
b) At the choice of the individual, up to 25% of the award can be allocated to either a notional cash deposit or to CLP Holdings phantom shares

Payment of LTI award will be made in 2019

Of the long-term incentive, a minimum of 75% of the long-term incentive ("LTI") payment for Senior Management is allocated to CLP Holdings phantom shares based on the average closing share price for the December preceding the making of the LTI award. The payment of which is subject to a three-year vesting period. The final value of the award, at the vesting date, is based on the initial allocation choices made and the subsequent impact of changes in share price, dividend reinvestment, exchange rate movements, and interest earned over the three-year vesting period. Senior Management have the choice of allocating 100% of the LTI to phantom shares.

The remuneration components for Ms Catherine Tanna are explained below:

Remuneration for Catherine Tanna, Managing Director – EnergyAustralia

Fixed Annual Remuneration (FAR)
FAR includes base salary and employer contribution to the Australian statutory superannuation scheme, it accounts for 29% of her potential total remuneration in 2016. It is reviewed annually taking into consideration the competitive market position compared to ASX 100 companies, market practice and individual performance.

Annual Incentive
Ms Tanna has a maximum annual incentive opportunity of 150% of FAR, which accounted for 43% of her potential total remuneration in 2016. The actual annual incentive payment depends upon the performance of EnergyAustralia against a balanced scorecard of financial, operational and strategic measures. The actual payout of Ms Tanna's annual incentive will be approved by the Board of EnergyAustralia. 70% of her actual annual incentive for 2016 will be paid in 2017 with the remainder of the actual annual incentive deferred for two years, payable in 2019.

Long-term Incentive
Ms Tanna was assigned an initial LTI Award of 100% of FAR which accounts for 28% of her potential total remuneration in 2016. The final value of the 2016 LTI award will be decided by the EnergyAustralia Board, depending on the achievement of the LTI Performance Conditions. Upon determination of the Final Award Value, 100% of that value (subject to the discretion of the Remuneration Committee of EnergyAustralia) will be paid to Ms Tanna in April 2019 (the Vesting Date).

In assessing organisational performance the Committee takes into account a balanced scorecard of measures. Given the scale and complexity of our Group there are a large number of such measures, including both quantitative and qualitative factors.

Given this there is not a formulaic mathematical determination of performance, rather it is a balanced judgement of the Committee taking all relevant factors into account.

In reaching their decision the Committee consider two questions:

- How well did Senior Management manage performance this year?
- How well are they managing the strategic positioning the business for the future and ensuring it's sustainability?

The quantitative financial and operational targets considered by the Committee include the following:

Area of performance	Targets
Financial	• Operating EPS • Operating earnings • ROE
Safety	• LTIR • TRIR • Fatalities
Environmental	• Regulatory non-compliance cases • CO_2 intensity • Emissions • Renewable Energy capacity as a % of new generation portfolio
Internal control	• Number of Not Satisfactory Audits • Number of Code of Conduct cases

In addition to these financial and operational measures the Committee also set a small number of specific qualitative targets each year reflecting the strategic priorities of the Group. In 2016 these targets included:

- review of Group strategy and the implications of COP21;
- progress on organisational development and capability building to meet the challenges presented by digital disruption; and
- progression of long-term growth opportunities outside of Hong Kong.

Finally, the Committee consider the performance of Senior Management in ensuring the long-term sustainability of the organisation in relation to four dimensions:

- Business Model
- People and Organisational Capability
- Environmental Impact
- Community Acceptance

Senior Management – Remuneration in 2016

Details of the remuneration of the Senior Management are set out below (except for the Executive Directors, that are set out in "Executive Directors – Remuneration in 2016").

	Recurring Remuneration Items					Non-recurring Remuneration Items	
		Performance Bonus[2]					
	Base Compensation, Allowances & Benefits[1] HK$M	Annual Incentive HK$M	Long-term Incentive HK$M	Provident Fund Contribution HK$M	Total Remuneration HK$M	Other Payments HK$M	Total HK$M
2016							
Chief Operating Officer (Mr Derek Parkin)	4.9	4.2	–	0.9	10.0	–	10.0
Group Director & Vice Chairman – CLP Power Hong Kong (Mrs Betty Yuen)[3]	4.1	4.7	–	0.8	9.6	–	9.6
Managing Director – CLP Power (Mr Paul Poon)	5.3	4.8	2.1	1.0	13.2	–	13.2
Managing Director – EnergyAustralia (Ms Catherine Tanna)[4]	11.4	12.9	–	0.1	24.4	6.7	31.1
Managing Director – India (Mr Rajiv Mishra)[5]	3.6	2.7	1.4	0.6	8.3	–	8.3
Managing Director – China (Mr Chan Siu Hung)	3.8	3.4	1.5	0.7	9.4	–	9.4
Group General Counsel & Chief Administrative Officer (Mr David Simmonds)	4.7	4.3	1.9	0.9	11.8	–	11.8
Chief Corporate Development Officer (Ms Quince Chong)	4.7	4.3	2.1	0.8	11.9	–	11.9
Chief Human Resources Officer (Mr Roy Massey)	3.5	3.2	1.5	0.6	8.8	–	8.8
Total	46.0	44.5	10.5	6.4	107.4	6.7	114.1

Notes 1 to 5 are set out on page 143.

Of the total remuneration paid to Senior Management, HK$32.7 million (2015: HK$33.2 million) has been charged to the SoC operation.

	Recurring Remuneration Items					Non-recurring Remuneration Items	
		Performance Bonus[2]					
	Base Compensation, Allowances & Benefits[1] HK$M	Annual Incentive HK$M	Long-term Incentive HK$M	Provident Fund Contribution HK$M	Total Remuneration HK$M	Other Payments HK$M	Total HK$M
2015							
Group Director & Chief Financial Officer (Mr Geert Peeters)	6.3	6.4	–	0.8	13.5	–	13.5
Chief Operating Officer[6]	1.3	1.1	–	0.1	2.5	3.5	6.0
Group Director & Vice Chairman – CLP Power Hong Kong[3]	4.0	5.0	–	0.5	9.5	–	9.5
Managing Director – CLP Power	5.0	5.1	2.0	0.6	12.7	–	12.7
Managing Director – EnergyAustralia[4]	10.9	11.8	–	0.1	22.8	4.7	27.5
Managing Director – India[5]	3.5	3.2	2.0	0.4	9.1	–	9.1
Managing Director – China	3.6	3.7	1.6	0.4	9.3	–	9.3
Group General Counsel & Chief Administrative Officer	4.4	4.6	1.9	0.5	11.4	–	11.4
Chief Corporate Development Officer	4.4	4.6	0.4	0.6	10.0	–	10.0
Chief Human Resources Officer	3.0	3.1	1.7	0.4	8.2	–	8.2
Total	46.4	48.6	9.6	4.4	109.0	8.2	117.2

Notes:

1 Refer to Note 1 on Base Compensation, Allowances & Benefits on page 136.

2 Refer to Note 2 on Performance Bonus on page 136. For Ms Catherine Tanna, the annual incentive payment was approved by the Board of EnergyAustralia following consultation between the CEO, the Chairman of the EnergyAustralia Remuneration Committee and members of the HR&RC.

3 The annual incentives paid to Mrs Betty Yuen in 2016 and 2015 included additional discretionary annual incentives of HK$1.0 million for 2015 and HK$1.0 million for 2014 performance years respectively.

4 Ms Catherine Tanna joined the Company on 1 July 2014. According to her employment contract, the sign-on award of HK$14 million was paid in September 2016 to compensate her for income lost as a result of forfeiture of incentive awards with her previous employer on joining CLP. This payment was fully accrued under non-recurring remuneration items: 2014 HK$2.6 million, 2015 HK$4.7 million and final balancing payment of HK$6.7 million in 2016. The remuneration of Ms Catherine Tanna is denominated in Australian dollars. The month end exchange rates prevailing at the month of payment were adopted for conversion to Hong Kong dollars.

5 The remuneration of Mr Rajiv Mishra is denominated in Indian Rupees. There is a temporary currency relief arrangement for Mr Rajiv Mishra where 50% of his base salary and annual incentive payment in Rupees were converted to pay in Hong Kong dollars at an exchange rate of 1 HKD = 7.4 Rupees from 1 October 2013 to 30 September 2015 and 1 HKD = 8.3 Rupees from 1 October 2015 to 30 September 2017. For the remaining payments in Rupees, the month end exchange rates prevailing at the month of payment were adopted for conversion to Hong Kong dollars.

6 Mr Derek Parkin joined the Company on 22 September 2015. The Other Payments of HK$3.5 million included (a) a relocation payment of HK$0.2 million, (b) a special payment of HK$3.1 million accrued in 2015 in accordance with a contractual obligation to pay that was paid in March 2016 and (c) accommodation costs of HK$0.2 million related to his relocation was directly settled by CLP for Mr Derek Parkin to the service provider. The special payment is to compensate for his foregone end of contract bonus with his previous employer on joining CLP.

The five highest paid individuals in the Group included two Directors (2015: one Director) and three members of Senior Management (2015: four members of Senior Management). The total remuneration of the five highest paid individuals in the Group is shown below:

	2016 HK$M	2015 HK$M
Recurring Remuneration Items		
Base Compensation, Allowances & Benefits[1]	**37**	35
Performance Bonus[2]		
– Annual Incentive	**36**	36
– Long-term Incentive	**7**	7
Provident Fund Contribution	**5**	3
Non-recurring Remuneration Item		
Other Payments	**7**	5
	92	86

Notes:

1 Refer to Note 1 on Base Compensation, Allowances & Benefits on page 136.

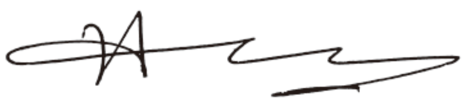
2 Refer to Note 2 on Performance Bonus on page 136.

The remuneration paid to these five individuals is within the following bands:

	Number of Individuals	
	2016	2015
HK$11,000,001 – HK$11,500,000	**–**	1
HK$11,500,001 – HK$12,000,000	**1**	–
HK$12,500,001 – HK$13,000,000	**–**	1
HK$13,000,001 – HK$13,500,000	**1**	1
HK$13,500,001 – HK$14,000,000	**1**	–
HK$21,000,001 – HK$21,500,000	**1**	1
HK$27,000,001 – HK$27,500,000	**–**	1
HK$31,000,001 – HK$31,500,000	**1**	–

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 2017

Directors' Report

The Directors have pleasure in submitting their Report together with the audited Financial Statements for the year ended 31 December 2016.

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 27 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 and associates. Details of the joint ventures and associates are provided under Notes 11 and 12 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$1.71 (2015: HK$1.65) per share totalling HK$4,320 million (2015: HK$4,169 million) during the year.

The Directors declared the fourth interim dividend of HK$1.09 (2015: HK$1.05) per share totalling HK$2,754 million (2015: HK$2,653 million).

This fourth interim dividend will be paid on 23 March 2017.

Business Review and Performance

A fair review of the business of the Group and a discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position, including analysis using financial key performance indicators are provided in the Financial Highlights, CEO's Strategic Review, Financial Review, Financial Capital and the Business Performance and Outlook sections respectively on page 5, from pages 15 to 19, pages 24 to 33, pages 64 to 68 and pages 34 to 61 of this Annual Report. Description of the principal risks and uncertainties facing the Group can be found throughout this Annual Report, particularly in the Risk Management Report from pages 115 to 123. Particulars of important events affecting the Group that have occurred since the end of the financial year 2016, if applicable, can also be found in the above-mentioned sections and the Notes to the Financial Statements. The outlook of the Group's business is discussed throughout this Annual Report including in the Chairman's Statement, the CEO's Strategic Review and the Business Performance and Outlook sections respectively from pages 12 to 14, pages 15 to 19 and pages 34 to 61 of this Annual Report. An account of the Group's relationships with its key stakeholders is included in the Capitals section from pages 62 to 87 of this Annual Report.

In addition, more details regarding the Group's performance by reference to environmental and social-related key performance indicators and policies, as well as compliance with relevant laws and regulations which have a significant impact on the Group, are provided in this Annual Report in the Capitals and Governance sections, and the Five-year Summary: CLP Group Statistics – Environmental and Social.

This discussion forms part of this Directors' 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$28,340 million as at 31 December 2016 (2015: HK$28,138 million).

Bank Loans and Other Borrowings

The total borrowings of the Group as at 31 December 2016 amounted to HK$51,646 million (2015: HK$55,483 million). Particulars of borrowings are set out in Note 19 to the Financial Statements and details of debentures are set out on page 66 of the Financial Capital section of the Annual Report.

Financial Assistance and Guarantees to Affiliated Companies

The financial assistance given to affiliated companies and the guarantees given for facilities granted to affiliated companies aggregated to 0.4% of the Group's total assets as at 31 December 2016.

Equity-linked Agreements

For the year ended 31 December 2016, the Company has not entered into any equity-linked agreement.

Donations

Donations by the Group for charitable and other purposes amounted to HK$12,645,000 (2015: HK$14,519,000).

Five-year Summary

A summary of the results for the year and of the assets and liabilities of the Group as at 31 December 2016 and for the previous four financial years are on pages 240 and 241 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 93 of this Annual Report. Details of their remuneration are set out in the Human Resources & Remuneration Committee Report on page 131 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 41.92% of the Group's total purchases during the year and a breakdown of the purchases from each of the five largest suppliers are set out below in descending order:

1. 12.11% 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.
2. 10.00% from Guangdong Nuclear Power Joint Venture Company, Limited (GNPJVC) which is 25% owned by the Group. GNPJVC owns Guangdong Daya Bay Nuclear Power Station (GNPS), and CLP Power Hong Kong, a wholly-owned subsidiary of the Company and the largest electricity supplier in Hong Kong, purchases approximately 80% of GNPS's output for supply of electricity to its customers in Hong Kong.
3. 8.97% from PetroChina International Guangdong Co., Ltd. (PCIGD) in which the Group has no interest. CAPCO purchases natural gas from PCIGD for its electricity generation.
4. 8.48% from Ausgrid in which the Group has no interest. EnergyAustralia pays the distribution charges to Ausgrid which owns and operates the electricity distribution network that provides services to customers located in Sydney, the Central Coast and Hunter regions of NSW.
5. 2.36% from Ausnet Electricity Service Pty Ltd (Ausnet) in which the Group has no interest. EnergyAustralia pays the distribution charges to Ausnet which owns and operates the electricity distribution network that provides services to customers located in the outer northern and eastern suburbs of Melbourne as well as eastern Victoria.

As at 31 December 2016, none of the Directors or substantial shareholders of the Company had any interest in those suppliers other than their indirect interests in GNPJVC, which interests arose from the Group's interest in GNPJVC.

Directors

The Directors of the Company as at the date of this Report, whose names appear on pages 90 and 91 of this Annual Report, were Directors for the whole year ended 31 December 2016. 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 on page 131 of this Annual Report.

Mr Peeters was appointed as an Executive Director of the Company with effect from 1 January 2016.

Mr Ronald J. McAulay resigned as a Non-executive Director of the Company with effect from 1 October 2016. After having served on the Company's Board for over 48 years, Mr McAulay decided that it was an appropriate time for him to step down from the Board. At the time of his resignation, Mr McAulay confirmed that there was no disagreement with the Board and that he was not aware of any matter in relation to his resignation that needs to be brought to the attention of the shareholders of the Company.

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 119 of the Company's Articles of Association, Sir Rod Eddington, Dr Y. B. Lee, Mr William Mocatta, Mr Vernon Moore and Mr Vincent Cheng will retire by rotation at the 2017 AGM. All the retiring Directors, being eligible, offer themselves for re-election. None of the Directors offering themselves for re-election at the AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation.

Directors' Interests in Transactions, Arrangements or Contracts

During the year ended 31 December 2016, none of the Directors had directly or indirectly any material interest in transactions, arrangements or contracts of significance entered into by the Group.

Alternate Directors

During the year ended 31 December 2016 and up to the date of this Report, Mr Andrew Brandler is alternate to Mr William Mocatta.

During the period from 1 January 2016 to 30 September 2016, Mr Andrew Brandler was alternate to Mr Ronald J. McAulay.

Directors of Subsidiaries

The names of all directors who have served on the boards of the subsidiaries of the Company during the year ended 31 December 2016 or during the period from 1 January 2017 to the date of this Report are available on the CLP website.

Permitted Indemnity Provisions

During the financial year and up to the date of this Report, the Company has in force indemnity provisions as permitted under the relevant statutes for the benefit of the Directors (including former Directors) of the Company or its associated companies. The permitted indemnity provisions are provided for in the Company's Articles of Association and in the directors and officers liability insurance maintained for the Group in respect of potential liability and costs associated with legal proceedings that may be brought against such Directors.

Continuing Connected Transactions

China Southern Power Grid International (HK) Co., Limited (CSG HK) (effectively China Southern Power Grid Co., Ltd. and its subsidiaries (collectively the CSG Group)) is a connected person of CLP Holdings (at its subsidiary level) by virtue of CSG HK being a substantial shareholder of CAPCO, a subsidiary of CLP Holdings. Accordingly, transactions entered into between members of the CSG Group and members of the Group constitute connected transactions for CLP Holdings under Chapter 14A of the Listing Rules.

Under the Listing Rules, the Group's continuing connected transactions with the CSG Group (CCTs) relating to the power purchases by the CSG Group are required to be subject to an annual aggregate cap determined by the Company, and for 2016, this was HK$4.46 billion. The annual aggregate cap was approved by the Board of Directors and disclosed in the announcement dated 29 April 2016. The project level caps of the CCTs for 2016 set out in the table on pages 148 to 155 are for reference only and were used to derive the annual aggregate cap of HK$4.46 billion.

Other details of the CCTs, which are required to be disclosed pursuant to Rules 14A.49 and 14A.71 of the Listing Rules, are also set out in the table on pages 148 to 155. The considerations for 2016 represented the actual transaction values of the relevant CCTs in the full 12 months of 2016.

	Name, date and term of the agreement	Transaction party within the CLP Group	Transaction party within the CSG Group
CLP Power Hong Kong electricity sales to Mainland China			
1.	Power Sales Contract Original arrangement entered into on 10 February 2012 and extended by way of supplemental agreements. The immediate preceding term was from 31 December 2015 to 31 December 2016. On 15 December 2016, a supplemental agreement was entered into to further extend the term to 31 December 2017.	CLP Power Hong Kong	Guangdong Power Grid Co., Ltd., a subsidiary of CSG (CSG-GPG) Guangdong Guang-hua Industry Import and Export Co., Ltd, as payment agent of CSG-GPG
2.	Energy Economy Interchange Agreement Agreement entered into on 25 December 2015 for a two year period to 24 December 2017.	CLP Power Hong Kong	CSG-GPG
	Aggregated total consideration for CLP Power Hong Kong electricity sales to Mainland China *(Project level cap for 2016 was HK$533.00 million)*		
The Huaiji hydro project			
3.	Zelian Hydro Station power purchase agreement (PPA) Agreement entered into on 28 September 2015 for a one year period and was renewed for another one year period to 27 September 2017.	Guangdong Huaiji Xinlian Hydro-electric Power Company Limited, a subsidiary of the Company (CLP-GHX)	Zhaoqing Power Bureau of CSG-GPG, a subsidiary of CSG (CSG-ZPB)
4.	Longzhongtan Hydro Station PPA Agreement entered into on 28 September 2015 for a one year period and was renewed for another one year period to 27 September 2017.	CLP-GHX	CSG-ZPB
5.	Jiaoping Hydro Station PPA Agreement entered into on 28 September 2015 for a one year period and was renewed for another one year period to 27 September 2017.	CLP-GHX	CSG-ZPB
6.	Xiazhu Hydro Station PPA Agreement entered into on 28 September 2015 for a one year period and was renewed for another one year period to 27 September 2017.	CLP-GHX	CSG-ZPB
7.	Shuixia Hydro Station PPA Agreement entered into on 28 September 2015 for a one year period and was renewed for another one year period to 27 September 2017.	Guangdong Huaiji Weifa Hydro-electric Power Company Limited, a subsidiary of the Company (CLP-GHW)	CSG-ZPB
8.	Baishuihe Four Hydro Stations PPA Agreement entered into on 28 September 2015 for a one year period and was renewed for another one year period to 27 September 2017.	Guangdong Huaiji Changxin Hydro-electric Power Company Limited (CLP-GHC) Guangdong Huaiji Gaotang Hydro-electric Power Company Limited (CLP-GHG) CLP-GHW CLP-GHX All of the above companies are subsidiaries of the Company.	CSG-ZPB

Nature and description of the transaction	Basis for determining the consideration	Consideration for 2016 HK$M
CLP Power Hong Kong sells electricity to CSG-GPG.	Payment is based on the number of GWh sold multiplied by an arm's length tariff agreed between the parties. The tariff is determined after taking into account available market information and the relevant cost.	135.20
Economic interchange of electricity from, on the one side, CLP Power Hong Kong to CSG-GPG and, on the other, from CSG-GPG to CLP Power Hong Kong, depending on which party is affected by an emergency incident resulting in interruption of normal electricity supply to its customers.	As in item 1 above	–
		135.20
CLP-GHX sells electricity to CSG-ZPB.	Payment is based on the number of GWh sold multiplied by a state pre-determined tariff, determined by the Zhaoqing City Price Bureau. This tariff is published at Zhaoqing Price Bureau Document ZhaoJia [2012] No. 67 and is updated from time to time. The above pricing also applies to items 4–9.	4.84
As in item 3 above	As in item 3 above	3.22
As in item 3 above	As in item 3 above	2.48
As in item 3 above	As in item 3 above	8.18
CLP-GHW sells electricity to CSG-ZPB.	As in item 3 above	43.22
CLP-GHC, CLP-GHG, CLP-GHW and CLP-GHX sell electricity to CSG-ZPB.	As in item 3 above	198.34

	Name, date and term of the agreement	Transaction party within the CLP Group	Transaction party within the CSG Group
9.	Niuqi Hydro Station PPA Agreement entered into on 28 September 2015 for a one year period to 27 September 2016. A new PPA was subsequently signed on 26 July 2016 for a one year period to 25 July 2017.	CLP-GHX	CSG-ZPB
	Aggregated total consideration for the Huaiji hydro project *(Project level cap for 2016 was HK$262.56 million)*		
The Yang_er hydro project			
10.	Yang_er Hydro Project PPA Agreement entered into on 14 October 2016 for a one year period from 1 January 2016 to 31 December 2016 and was renewed for another one year period to 31 December 2017.	Dali Yang_er Hydropower Development Co., Ltd., a wholly-owned subsidiary of the Company (CLP Dali Yang_er)	Yunnan Power Grid Company Limited, a subsidiary of CSG (CSG-YPG)
11.	High Voltage Electricity Supply Contract Original agreement entered into on 1 September 2009 with continuing validity. A replacement agreement was signed on 23 June 2016 for the period from 10 May 2016 to 9 May 2019.	CLP Dali Yang_er	Yangbi Electricity Supply Co., Ltd., a subsidiary of CSG (CSG Yangbi)
12.	High Voltage Electricity Supply Contract Original agreement entered into on 1 September 2009 with continuing validity. A replacement agreement was signed on 23 June 2016 for the period from 10 May 2016 to 9 May 2019.	CLP Dali Yang_er	CSG Yangbi
13.	High Voltage Electricity Supply Contract Continuingly valid since 4 November 2009 (being the date of the agreement).	CLP Dali Yang_er	Dali Power Bureau of CSG-YPG, a subsidiary of CSG (CSG-DPB)
	Aggregated total consideration for the Yang_er hydro project *(Project level cap for 2016 was HK$50.41 million)*		
The Fangchenggang coal-fired project (Phases I and II)			
14.	Fangchenggang Coal-fired Project PPA Agreement entered into on 29 April 2016 for a one year period from 1 January 2016 to 31 December 2016. A new PPA was signed on 30 December 2016 for a one year period from 1 January 2017 to 31 December 2017.	CLP Guangxi Fangchenggang Power Company Limited, a majority-owned joint venture of the Company (CLP-FCG)	Guangxi Power Grid Company Limited, a subsidiary of CSG (CSG Guangxi)
15.	Fangchenggang High Voltage Electricity Supply Contract Agreement entered into on 27 September 2015 for a two year period to 26 September 2017.	CLP-FCG	Fangchenggang Power Bureau of CSG Guangxi, a subsidiary of CSG (CSG-FPB)
16.	Fangchenggang High Voltage Electricity Supply Contract Original arrangement entered into on 1 June 2009 with automatic renewal on 1 June 2015 for a two year period to 31 May 2017.	CLP-FCG	CSG Guangxi
	Aggregated total consideration for the Fangchenggang coal-fired project (Phases I and II) *(Project level cap for 2016 was HK$2,721.52 million)*		

	Nature and description of the transaction	Basis for determining the consideration	Consideration for 2016 HK$M
	As in item 3 above	As in item 3 above	30.94
			291.22
	CLP Dali Yang_er sells electricity to CSG-YPG.	Payment is based on the number of GWh sold multiplied by a state pre-determined tariff, determined by the Yunnan Provincial Development and Reform Commission (Yunnan PDRC) and subject to adjustment in accordance with the Implementation Scheme for Trading in Yunnan Electricity Market issued by Yunnan Provincial Industry and Information Technology Commission in 2016 (Yunnan Implementation Scheme Document).	29.73
	CSG Yangbi supplies electricity to CLP Dali Yang_er for use by the facilities at the main dam.	Payment is based on the number of kWh sold multiplied by the industrial use tariff for bulk industrial users determined by the Yunnan PDRC. This tariff is updated from time to time.	0.01
	CSG Yangbi supplies electricity (10kV) to CLP Dali Yang_er during overhaul related outages.	As in item 11 above	0.01
	CSG-DPB supplies electricity (110kV) to CLP Dali Yang_er during overhaul related outages.	As in item 11 above	–
			29.75
	CLP-FCG sells electricity to CSG Guangxi.	Payment is based on the number of GWh sold multiplied by a state pre-determined tariff, determined by the Guangxi Price Bureau. This tariff is published at Guangxi Price Bureau Document GuiJiaGe [2016] No. 2 and is updated from time to time.	826.36[1]
	CSG-FPB supplies standby electricity to CLP-FCG.	As in item 14 above	12.76
	CSG Guangxi supplies standby electricity to CLP-FCG.	As in item 14 above	–
			839.12

	Name, date and term of the agreement	Transaction party within the CLP Group	Transaction party within the CSG Group
The Xicun solar project (Phases I and II)			
17.	Xicun Solar Project PPA Agreement entered into on 14 October 2016 for a one year period from 1 January 2016 to 31 December 2016 and was renewed for another one year period to 31 December 2017.	CLP Dali (Xicun) Solar Power Co., Ltd, a wholly-owned subsidiary of the Company (CLP Xicun)	CSG-YPG
18.	Xicun Solar Project Electricity Supply Contract (10kV) Agreement entered into on 11 December 2014 for a three year period to 10 December 2017.	CLP Xicun	Binchuan Electricity Supply Company Limited, a subsidiary of CSG (CSG Binchuan)
19.	Xicun Solar Project High Voltage Electricity Supply Contract[2] Original agreement entered into on 27 January 2015. A replacement agreement was signed on 23 June 2016 for the period from 25 January 2016 to 24 January 2019.	CLP Xicun	CSG-DPB
20.	Xicun Solar Project High Voltage Power Supply Contract (for pump station) Agreement entered into on 31 July 2015 for a three year period to 30 July 2018.	CLP Xicun	CSG Binchuan
	Aggregated total consideration for the Xicun solar project (Phases I and II) *(Project level cap for 2016 was HK$185.24 million)*		
The Xundian wind project			
21.	Xundian Wind Project PPA Agreement entered into on 14 October 2016 for a one year period from 1 January 2016 to 31 December 2016 and was renewed for another one year period to 31 December 2017.	CLP (Kunming) Renewable Energy Co., Ltd., a wholly-owned subsidiary of the Company (CLP Xundian)	CSG-YPG
22.	Xundian Wind Project Electricity Supply Contract[3] Agreement entered into on 30 November 2015 for a three year period to 29 November 2018.	CLP Xundian	Kunming Power Bureau of CSG-YPG, a subsidiary of CSG (CSG-KPB)
23.	Xundian Wind Project Electricity Supply Contract (Interim) Agreement entered into on 27 October 2015 for a three year period to 26 October 2018.	CLP Xundian	Xundian Power Supply Company Limited, a subsidiary of CSG (CSG-XPSC)
24.	Xundian Wind Project 110kV Transmission Line Maintenance Agreement New agreement entered into on 3 March 2016 for the period from 1 January 2016 to 31 December 2016.	CLP Xundian	Yunnan Electricity Transmission and Transformation Engineering Company, a subsidiary of CSG (CSG Yunnan ETTE)
	Aggregated total consideration for the Xundian wind project *(Project level cap for 2016 was HK$96.95 million)*		

	Nature and description of the transaction	Basis for determining the consideration	Consideration for 2016 HK$M
	CLP Xicun sells electricity to CSG-YPG.	Payment is based on the number of GWh sold multiplied by a state pre-determined tariff, determined by the National Development and Reform Commission (NDRC) and subject to adjustment in accordance with the Yunnan Implementation Scheme Document.	136.81
	CSG Binchuan supplies electricity to CLP Xicun (for power consumption at the project site).	As in item 11 above	0.02
	CSG-DPB supplies electricity to CLP Xicun (for power consumption at the project site including auxiliary power and power supply during outage and overhaul).	As in item 11 above	0.56
	CSG Binchuan supplies electricity to CLP Xicun (for watering facilities).	Payment is based on the number of kWh sold multiplied by the agricultural tariff for agricultural users determined by the Yunnan PDRC. This tariff is updated from time to time.	0.07
			137.46
	CLP Xundian sells electricity to CSG-YPG.	As in item 17 above	79.06
	CSG-KPB supplies electricity via a 110kV line to CLP Xundian (for start up purposes).	As in item 11 above	0.11
	CSG-XPSC supplies electricity to CLP Xundian (for power consumption at the project site during project construction).	Payment is based on the number of kWh sold multiplied by the commercial and industrial use tariff determined by the Yunnan PDRC. This tariff is updated from time to time.	–
	CSG Yunnan ETTE provides regular inspection and maintenance services to CLP Xundian for the 110kV transmission line of the project.	The payment under this agreement comprises a fixed fee of RMB80,094 (HK$93,299) and a contingency fee calculated at approximately RMB28,302 (HK$32,968).	0.10
			79.27

	Name, date and term of the agreement	Transaction party within the CLP Group	Transaction party within the CSG Group
The Sandu wind project			
25.	Sandu I Wind Project Electricity Supply Contract (220kV) Agreement entered into on 8 December 2015 for a three year period to 7 December 2018.	CLP (Sandu) Renewable Energy Limited, a wholly-owned subsidiary of the Company (CLP Sandu)	Sandu Power Bureau, a subsidiary of CSG (CSG-SPB)
26.	Sandu I Wind Project Interim PPA New agreement entered into on 31 March 2016 with the term commencing from 31 March 2016 until the signing of a formal PPA which is expected to be around September 2017.	CLP Sandu	Guizhou Power Grid Company Limited, a subsidiary of CSG (CSG Guizhou)
	Aggregated total consideration for the Sandu wind project *(Project level cap for 2016 was HK$107.88 million)*[4]		

Notes:

1 The 2016 consideration of Fangchenggang Coal-fired Project PPA set out in the table was the actual transaction value of the agreement as a CCT and this excludes the 2016 sales revenue from the direct sales arrangements for this project, which was approximately HK$373.20 million. The direct sales arrangements for the Fangchenggang coal-fired project commenced in 2016 and do not constitute CCTs for the Company as CSG Guangxi and CLP-FCG do not assume commercial roles with respect to each other under these arrangements (please refer to the Company's announcement dated 29 April 2016 for further details).

2 The agreement replaced the previous agreement which was known as Xicun Solar Project Electricity Supply Contract (110kV) that was entered into on 27 January 2015 for the period from 15 December 2014 to 14 December 2017 and was disclosed in the Company's announcement dated 4 January 2016.

3 In connection with the Xundian Wind Project Electricity Supply Contract (ESC), an electricity charging and payment agreement was entered into on 26 October 2016 between CLP Xundian and CSG-KPB for the implementation of pre-payment arrangement which will have no effect on the ultimate transaction value of the ESC.

4 Prior to the entering into of Sandu I Wind Project Interim PPA, the project level cap of the Sandu wind project for 2016 was HK$0.19 million as disclosed in the Company's announcement dated 4 January 2016. The project level cap of the Sandu wind project for 2016 was then increased to HK$107.88 million due to the entering into of the Sandu I Wind Project Interim PPA on 31 March 2016 with an estimated annual cap of HK$107.69 million. The relevant disclosure had been made in the Company's announcement dated 29 April 2016.

	Nature and description of the transaction	Basis for determining the consideration	Consideration for 2016 HK$M
	CSG-SPB supplies electricity to CLP Sandu (for power consumption at the project site).	Payment is based on the number of kWh sold multiplied by the industrial use tariff for bulk industrial users determined by the Guizhou Provincial Development and Reform Commission. This tariff is updated from time to time.	0.27
	A temporary arrangement for the sale of electricity by CLP Sandu to CSG Guizhou until the signing of a formal PPA.	Payment is based on the number of GWh sold multiplied by a state pre-determined tariff, determined by the NDRC. The tariff is published in the NDRC Document FaGaiJiaGe [2014] No. 3008 and is updated from time to time.	112.82
			113.09
		Total Consideration for 2016	**1,625.11**

Pursuant to Rule 14A.55 of the Listing Rules, all the Independent Non-executive Directors of the Company have reviewed the CCTs and confirmed that the CCTs have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or better; and

(iii) according to the relevant agreement governing each of the CCTs on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

The Company's external auditor, PwC, was engaged to report on the CCTs in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

PwC has reviewed these transactions and, pursuant to Rule 14A.56 of the Listing Rules confirmed to the Board of the Company that nothing has come to their attention that causes them to believe: that they have not been approved by the Board of the Company; that they were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group; that they were not entered into, in all material respects, in accordance with the relevant agreements governing the transactions; and that they have exceeded the annual aggregate cap.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Related Party Transactions

Details of the significant related party transactions undertaken in the normal course of business are provided under Note 29 to the Financial Statements. None constitutes a discloseable connected transaction as defined under the Listing Rules.

Interests of Directors and Chief Executive Officer

The interests / short positions of each of the Directors and Chief Executive Officer in the shares, underlying shares and debentures of the Company or any of the Company's associated corporations (within the meaning of the Securities and Futures Ordinance) as at 31 December 2016, 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 below and explanatory notes on page 157.

1. Aggregate long position in the shares, underlying shares and debentures of the Company and its associated corporations

The interests of Directors and Chief Executive Officer in the shares of the Company (other than pursuant to equity derivatives such as share options, warrants to subscribe or convertible bonds) as at 31 December 2016 were as follows:

Directors	Capacity	Total Interests in Number of Ordinary Shares of the Company	% of the Issued Share Capital of the Company
The Hon Sir Michael Kadoorie	Note 1	480,672,780	19.02562
Mr William Mocatta	Note 2	400,000	0.01583
Mr J. A. H. Leigh	Note 3	224,349,077	8.88001
Mr Andrew Brandler	Note 4	10,600	0.00042
Dr Y. B. Lee	Note 5	15,806	0.00063
Mrs Fanny Law	Personal	16,800	0.00066
Mr Nicholas C. Allen	Note 6	12,000	0.00047
Mr Richard Lancaster (Chief Executive Officer)	Personal	600	0.00002

Notes:

1 The Hon Sir Michael Kadoorie was deemed (by virtue of the Securities and Futures Ordinance) to be interested in 480,672,780 shares in the Company. These shares were held in the following capacity:

(a) 1,243 shares were held by his spouse, Lady Kadoorie in a personal capacity.

(b) 70,146,655 shares were ultimately held by discretionary trusts, of which The Hon Sir Michael Kadoorie is one of the discretionary objects.

(c) 233,044,212 shares were ultimately held by a discretionary trust, of which The Hon Sir Michael Kadoorie is one of the beneficiaries and the founder.

(d) 170,180,670 shares were ultimately held by a discretionary trust, of which The Hon Sir Michael Kadoorie is one of the beneficiaries and the founder.

(e) 1,300,000 shares were ultimately held by a discretionary trust, of which The Hon Sir Michael Kadoorie is one of the beneficiaries and the founder.

(f) 2,000,000 shares were ultimately held by each of three discretionary trusts, all of which The Hon Sir Michael Kadoorie is one of the beneficiaries and the founder.

For the purpose of the Securities and Futures Ordinance, the spouse of The Hon Sir Michael Kadoorie was taken to have a discloseable duty in Hong Kong in relation to the shares referred to in (b) to (f) above. The spouse of The Hon Sir Michael Kadoorie was therefore deemed to be interested in 480,672,780 shares in the Company representing approximately 19.03% 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 480,671,537 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 480,671,537 shares attributed to her for disclosure purposes.

2 Mr William Mocatta was deemed (by virtue of the Securities and Futures Ordinance) to be interested in 400,000 shares in the Company. These shares were held in the following capacity:

(a) 250,000 shares were held in the capacity as the founder of a discretionary trust.

(b) 150,000 shares were held by a trust of which Mr William Mocatta is one of the beneficiaries.

3 Mr J. A. H. Leigh was deemed (by virtue of the Securities and Futures Ordinance) to be interested in 224,349,077 shares in the Company. These shares were held in the following capacity:

(a) 135,000 shares were held in a beneficial owner capacity.

(b) 5,562,224 shares were ultimately held by a discretionary trust. Mr J. A. H. Leigh was deemed to be interested in such 5,562,224 shares in his capacity as one of the trustees of a trust which was deemed to be interested in such 5,562,224 shares.

(c) 218,651,853 shares were ultimately held by a discretionary trust. Mr J. A. H. Leigh was deemed to be interested in such 218,651,853 shares in his capacity as one of the trustees of a trust which was deemed to be interested in such 218,651,853 shares.

4 600 shares were held in a personal capacity and 10,000 shares were held in a beneficial owner capacity.

5 600 shares were held in a personal capacity and 15,206 shares were held jointly with spouse.

6 12,000 shares were held in a beneficial owner capacity and jointly with spouse.

Each of the other Directors, namely, Mr Vernon Moore, Mr Vincent Cheng, Ms Irene Lee, Sir Rod Eddington, Mrs Zia Mody and Mr Geert Peeters have confirmed that they had no interests in the shares of the Company or any of its associated corporations as at 31 December 2016.

None of the Directors or the Chief Executive Officer had interests in debentures or under equity derivatives, interests in underlying shares of the Company or its associated corporations as at 31 December 2016.

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 or under equity derivatives, interests in underlying shares of the Company or its associated corporations as at 31 December 2016.

At no time during the year was the Company or its subsidiaries 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 2016, as recorded in the register required to be kept under Section 336 of Part XV of the Securities and Futures Ordinance, are set out in the table and explanatory notes below:

1. Aggregate long position in the shares and underlying shares of the Company

The Company had been notified of the following substantial shareholders' interests in the shares of the Company as at 31 December 2016:

Substantial Shareholders (Note 8)	Capacity	Total Interests in Number of Ordinary Shares of the Company		% of the Issued Share Capital of the Company
Bermuda Trust Company Limited	Trustee / Interests of controlled corporations	544,198,166	Note 1	21.54
Guardian Limited	Beneficiary / Interests of controlled corporations	224,214,077	Note 7	8.87
Harneys Trustees Limited	Interests of controlled corporations	418,160,706	Note 3	16.55
Lawrencium Holdings Limited	Beneficiary	170,180,670	Note 2	6.74
Lawrencium Mikado Holdings Limited	Beneficiary	233,044,212	Note 2	9.22
The Magna Foundation	Beneficiary	233,044,212	Note 2	9.22
Mikado Investments (PTC) Limited	Trustee / Interest of controlled corporation	233,044,212	Note 1	9.22
The Mikado Private Trust Company Limited	Trustee / Interests of controlled corporations	410,524,882	Note 2	16.25
New Mikado Holding Inc.	Trustee	233,044,212	Note 1	9.22
Oak CLP Limited	Beneficiary	218,651,853	Note 4	8.65
Oak (Unit Trust) Holdings Limited	Trustee	218,651,853	Note 1	8.65
The Oak Private Trust Company Limited	Trustee / Interests of controlled corporations	233,371,475	Note 4	9.24
The Hon Sir Michael Kadoorie	Note 5	480,672,780	Note 5	19.03
Mr J. A. H. Leigh	Notes 6 & 7	224,349,077	Notes 6 & 7	8.88
Mr R. Parsons	Trustee	224,214,077	Note 7	8.87

Notes:

1 Bermuda Trust Company Limited was deemed to be interested in the shares in which New Mikado Holding Inc., Mikado Investments (PTC) Limited, Oak (Unit Trust) Holdings Limited, The Oak Private Trust Company Limited and other companies were deemed to be interested, either in the capacity as trustee of various discretionary trusts and / or by virtue of having direct or indirect control over such companies. The interests of Bermuda Trust Company Limited in the shares of the Company include the shares held by discretionary trusts of which The Hon Sir Michael Kadoorie is one of the discretionary objects as disclosed in "Interests of Directors and Chief Executive Officer" and in this table.

2 The Mikado Private Trust Company Limited was deemed to be interested in the shares in which Lawrencium Holdings Limited, Lawrencium Mikado Holdings Limited and other companies were deemed to be interested, either in the capacity as trustee of various discretionary trusts and / or by virtue of having direct or indirect control over such companies. The Magna Foundation was also deemed to be interested in the shares in which Lawrencium Mikado Holdings Limited was deemed to be interested. The interests of The Mikado Private Trust Company Limited in the shares of the Company include the shares held by discretionary trusts of which The Hon Sir Michael Kadoorie is one of the beneficiaries and a founder as disclosed in "Interests of Directors and Chief Executive Officer".

3 Harneys Trustees Limited controlled The Mikado Private Trust Company Limited and another company and was therefore deemed to be interested in the shares in which such companies were deemed to be interested.

4 The Oak Private Trust Company Limited was deemed to be interested in the shares in which Oak CLP Limited and other companies were deemed to be interested, either in the capacity as trustee of various discretionary trusts and / or by virtue of having direct or indirect control over such companies.

5 See Note 1 under "Interests of Directors and Chief Executive Officer".

6 See Note 3 under "Interests of Directors and Chief Executive Officer".

7 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.

8 As a former Director of the Company, Mr McAulay was deemed to be interested in the shares of the Company which arose by virtue of his discretionary interests in various trusts. Mr McAulay resigned as a Director with effect from 1 October 2016, and accordingly he was no longer deemed to be a substantial shareholder of the Company thereafter.

As at 31 December 2016, the Company had not been notified of any long positions being held by any substantial shareholder in the underlying shares of the Company through equity derivatives such as share options, warrants to subscribe or convertible bonds.

2. **Aggregate short position in the shares and underlying shares of the Company**
   As at 31 December 2016, 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 2016, the Company had not been notified of any persons other than the substantial shareholders who had interests or short positions in the shares or underlying shares of the Company, which are required to be recorded in the register required to be kept under Section 336 of Part XV of the Securities and Futures Ordinance.

Corporate Governance

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on page 94 of this Annual Report, while our Sustainability Report available online describes the Company's actions and initiatives with particular emphasis on the social and environmental aspects of our activities.

Auditor

The Financial Statements for the year have been audited by PwC who will retire and, being eligible, offer themselves for reappointment, at the AGM of the Company.

On behalf of the Board

William Mocatta
Vice Chairman
Hong Kong, 27 February 2017

Financials

We present an accounting view of our 2016 financial performance and where we stood at the end of the year 2016

Approaching Our Financial Statements

Financial Statements Decoded

The purpose of financial statements is to communicate the Group's financial information to its stakeholders, especially shareholders, investors and lenders. In this section we try to help readers who are not familiar with accounting rules and financial expressions to understand our financial information, by explaining the functions and relationships between the essential financial statements: the statement of profit or loss and other comprehensive income, the statement of financial position and the statement of cash flows. For comprehensive and authoritative definitions and explanations, readers should turn to the relevant accounting standards, but we hope this section offers useful guidance.

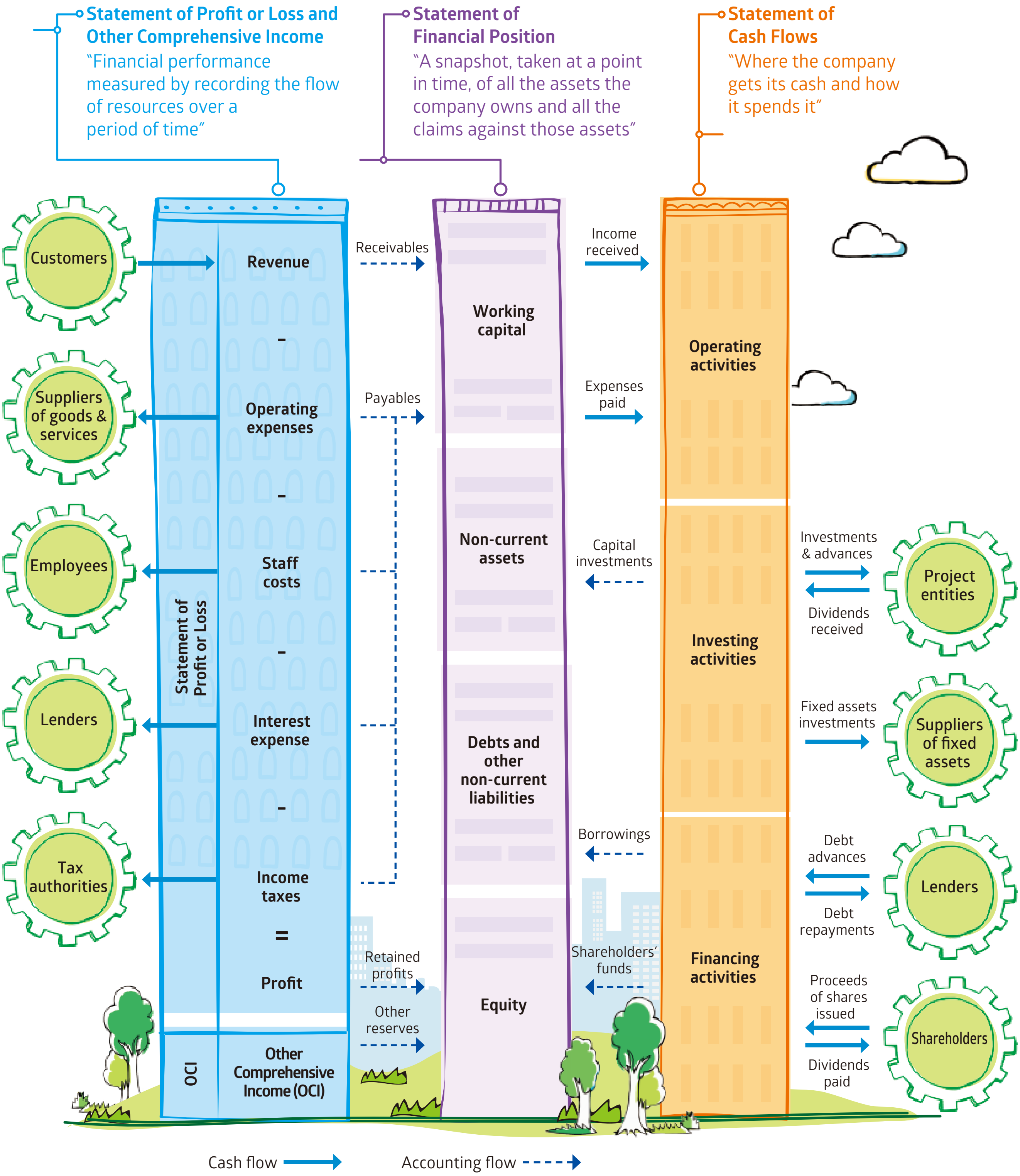
Statement	Description
Statement of Profit or Loss and Other Comprehensive Income "Financial performance measured by recording the flow of resources over a period of time"	This statement comprises (a) profit or loss and (b) other comprehensive income ("OCI"). The objective of this statement is to present all income or expenses (transactions with non-owners) in a performance statement. OCI represents certain income and expenses which are not recognised in profit or loss as required or permitted by the relevant accounting standards. An example of OCI in CLP is the exchange losses arising from the translation of our investments in Mainland China in 2016. 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 2016. 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 explains the functions and the relationships between the three essential financial statements, 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

HKFRS 9 – New Hedge Accounting Model

In the 2008 Annual Report, our accounting mini-series talked about hedging and how CLP used derivatives to hedge its foreign currency, interest rate and energy price risks. Accounting for these hedging transactions is complicated and has not yet been covered in that accounting mini-series.

Recently, the International Accounting Standard Board issued a new accounting standard, IFRS 9 (equivalent to HKFRS 9) Financial Instruments. HKFRS 9 includes some fundamental changes to HKAS 39 Financial Instruments: Recognition and Measurement which allows an entity to apply hedge accounting where they would not be allowed to do so under HKAS 39. HKFRS 9 has an effective date of 1 January 2018. CLP elects to early adopt this new standard in 2016.

This accounting mini-series will explain hedge accounting and the benefits for early adoption of HKFRS 9.

What is hedging? What benefits can we achieve by applying hedge accounting?

Hedging is a risk management tool with an objective to eliminate or reduce an entity's exposure to a particular risk by entering into a derivative transaction (i.e. a hedging instrument). Risk is reduced because the value or cash flows of the hedging instrument will move inversely and therefore offset, wholly or partly, changes in the value or cash flows of the hedged item. Two hedge accounting models are used in CLP. They are cash flow hedge and fair value hedge.

The accounting standard requires derivatives to be accounted for as if they are trading instruments which have their price movements reported in profit or loss. If the price movements of hedged items do not fall into the same accounting period, this leads to volatility in an entity's profit or loss.

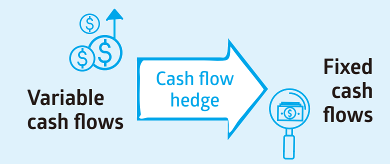
The objective of hedge accounting is to reflect more closely a company's risk management strategies to its financial statements. To achieve this, hedge accounting results in gains or losses arising from the hedging instrument and the hedged item affecting profit or loss in the same accounting period. This reduces volatility in profit or loss and thus, can better reveal the underlying performance of an entity.

Cash Flow Hedge

An entity is exposed to variability in the cash flows of a specific asset or liability, or of a forecasted transaction.

How can I avoid paying more or getting less cash flows in future?

Cash flow hedge can lock in the cash flows that you will get or pay.

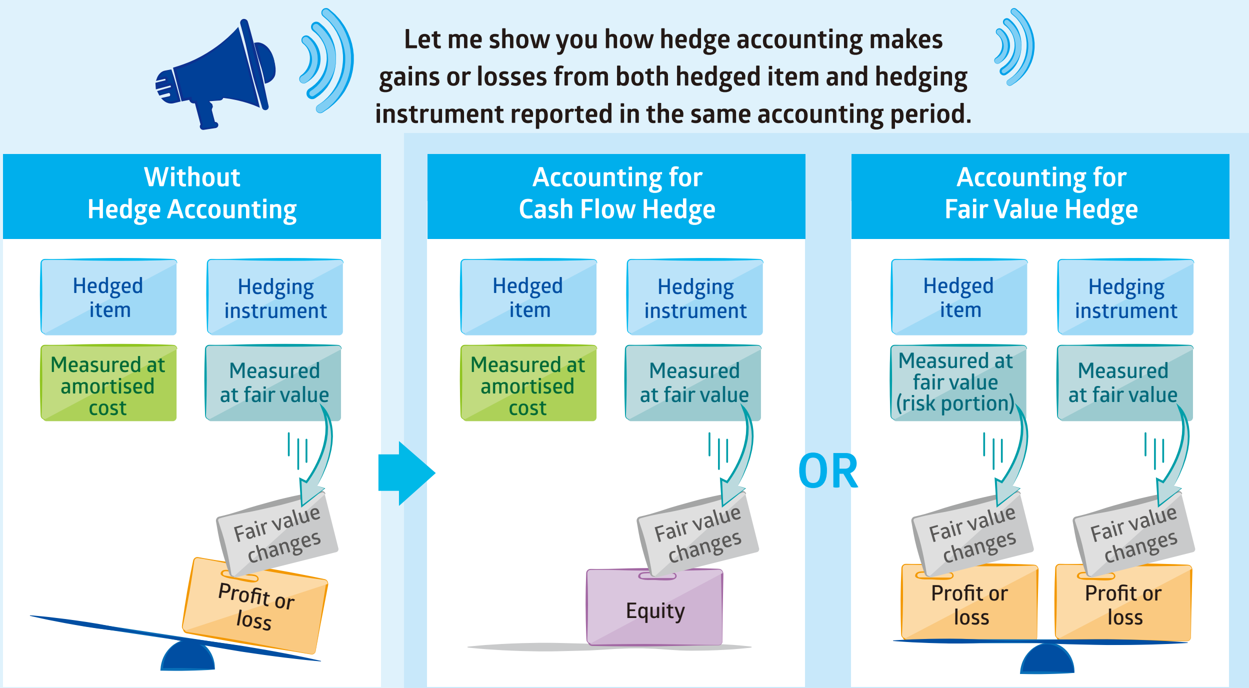


Fair Value Hedge

An entity is exposed to changes in fair market value in relation to recognised asset or liability or unrecognised firm commitment with fixed contractual terms.

How can I avoid paying or receiving a different amount from fair market price in future?

Fair value hedge can unlock the fixed terms so as the amount to be paid or received in future is in line with the market.



Hedging instrument is required to have its fair value changes recorded to profit or loss, but not the hedged item. The hedging activity creates volatility in profit or loss due to the timing mismatch.

Fair value gains or losses of hedging instrument are deferred to equity and will affect profit or loss when and only when the hedged item affects profit or loss.

Both hedged item (the risk portion) and hedging instrument have their fair value gains or losses recorded to profit or loss in the same accounting period, therefore the effects offset in profit or loss.

Why do we early adopt HKFRS 9?

Hedge accounting under HKAS 39 is regarded as being complex and ruled-based, thus leading to an entity's risk management activities not qualifying for hedge accounting. The purpose of replacing HKAS 39 by HKFRS 9 is to reflect the effect of an entity's risk management activities to the financial statements. The changes include replacing some of the arbitrary rules by more principle-based requirements. As a result, more risk management activities are now eligible to apply hedge accounting.

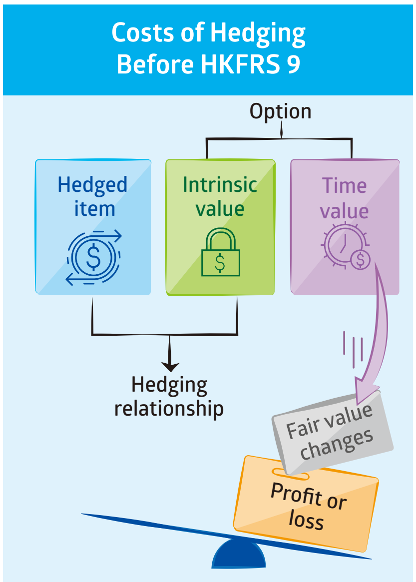
CLP has carefully reviewed and assessed the new hedge accounting model and considers it will bring benefits to the Group by applying new hedge accounting on hedging activities. In particular, the introduction of 'costs of hedging' and 'risk component hedge' will bring us the most value.

Costs of hedging

Certain components of a hedging instrument bear no economic relationship with a hedged item, which lead to an accounting mismatch in changes in the value or cash flows of the hedging instrument with those of the hedged item. These components include time value of options, forward element of forward contracts and foreign currency basis spread of financial instruments. They result in hedging ineffectiveness or no hedge designation which impact profit or loss.

Let us use an option for illustration. A purchased option can be used to hedge against foreign currency exchange risk of a foreign currency debt. The fair value of an option consists of two elements: the intrinsic value and the time value. The intrinsic value is the difference between the underlying price and the strike price. It limits foreign currency exposure of the foreign currency debt and is qualified for hedge accounting. The time value, however, is unrelated to the hedged risk and therefore, is usually excluded from the hedge designation.

Under HKAS 39, fair value changes of the time value impact profit or loss immediately. This leads to fluctuations in profit or loss. This accounting treatment does not reflect the economic substance of the time value which could be considered as a premium for protection against risk (similar to an insurance premium).



Under the costs of hedging approach set out in HKFRS 9, fair value movements of the time value are recorded in other comprehensive income (part of equity). The initial time value will either be included in the initial cost of the transacted asset or released to profit or loss in a systematic manner depending on the nature of the transaction. The costs of hedging approach can also be applied to forward element of forward contracts and foreign currency basis spread.

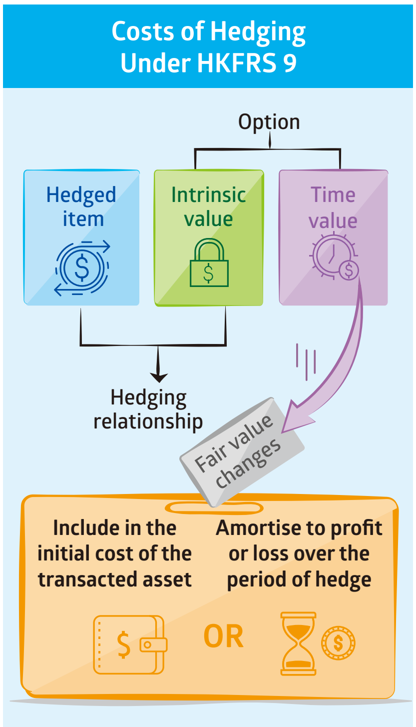
Because of the financial market structure and its maturity, option is a more cost effective derivative in hedging foreign currency exposure in India. As at 31 December 2016, CLP India purchased foreign exchange options with a carrying value of HK$37 million to hedge its foreign currency debts. By applying the costs of hedging approach, it will substantially reduce the volatility in profit or loss of CLP India.

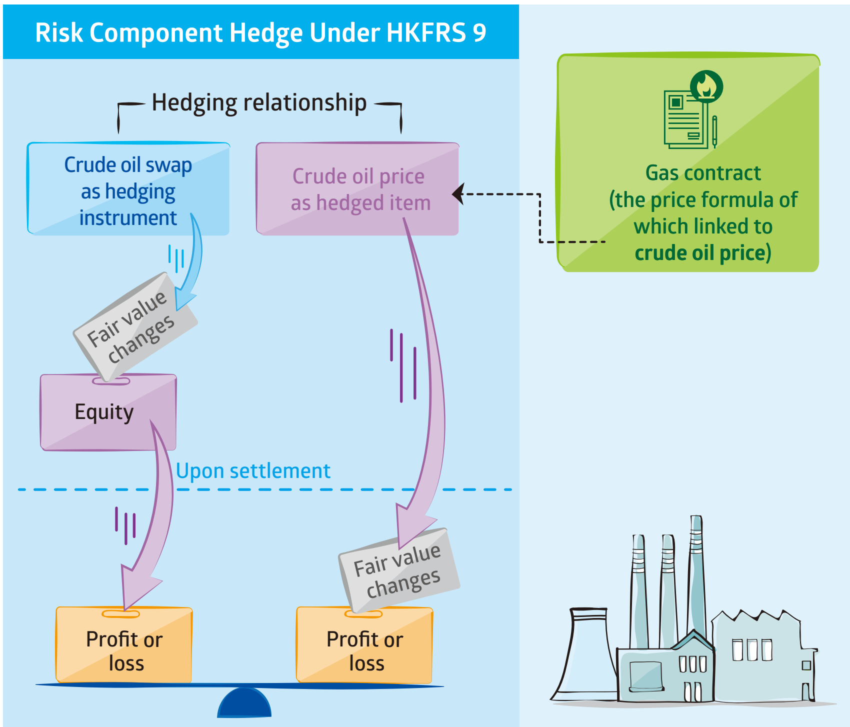
Risk component hedge

HKFRS 9 permits an entity to designate a risk component of a non-financial item as a hedged item in a hedging relationship, provided that it is separately identifiable and reliably measurable.

In power industry, purchase or sales agreements of an entity sometimes contain clauses that link the contract price to a benchmark price of a commodity. One typical example is natural gas contract, the price formula of which usually contains a component linked to a crude oil benchmark price. As the crude oil price is identified in the price formula, the exposure is separately identifiable. There is also a market for crude oil and therefore, the crude oil price component can be reliably measured. As such, the crude oil price is a risk component of the natural gas contract and is eligible for designation as a hedged item. The hedging instrument is crude oil swap which fixes the price. Once the hedging activity is qualified for hedge accounting, unrealised fair value movements of the hedging instrument are recorded in other comprehensive income and affect profit or loss when and only when the hedged item affects profit or loss.

In Australia, we operate a retail business supported by our generation portfolio including coal, gas and renewables. To balance the portfolio position between generation and purchases from a central electricity pool and retail sales, we have entered into energy contracts and fuel supply contracts to minimise exposure to fluctuations in the spot prices. HKFRS 9 has given us potential opportunity to hedge designate derivative types that does not qualify for hedge accounting under HKAS 39.





Independent Auditor's Report

pwc

To the Members of CLP Holdings Limited

(incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of CLP Holdings Limited ("the Group Financial Statements") and its subsidiaries ("the Group") set out on pages 172 to 236, which comprise the consolidated statement of financial position as at 31 December 2016, 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 notes to the Group Financial Statements (including financial risk management), which include a summary of significant accounting policies.

In our opinion, the Group Financial Statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

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

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

Independence

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

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgment, were of most significance in our audit of the Group Financial Statements of the current period. These matters were addressed in the context of our audit of the Group Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	***How our audit addressed the Key Audit Matter***
Fixed asset accounting and the carrying value of EnergyAustralia's generation assets and energy retail business Refer to critical accounting estimates and judgments numbers 1, 2 and 4 and notes 9 and 10 in the Group Financial Statements	
Fixed asset accounting	
Consolidated fixed assets, leasehold land and land use rights were HK$135.6 billion at 31 December 2016. This includes fixed assets relating to CLP Power Hong Kong and CAPCO (together the SoC Companies) which are the base used in the calculation of the permitted return under the Scheme of Control (SoC) Agreement.	Our procedures related to the Group's fixed assets and the SoC included: • Assessing the control environment and testing controls over additions, disposals and depreciation charges and substantively testing these on a sample basis; • Assessing the estimated useful lives of the fixed assets for compliance with the SoC;

Key Audit Matter	How our audit addressed the Key Audit Matter
Fixed asset accounting (continued)	
The SoC provides for a permitted return of 11.00% and 9.99% on the average net fixed asset value attributable to renewable energy investments and other energy investments respectively (the SoC fixed assets). Any difference between the actual profit earned by the SoC Companies and the permitted return for the year is transferred to or from the Tariff Stabilisation Fund (TSF) by way of an adjustment to revenue. The TSF was a liability in the Statement of Financial Position at 31 December 2016. The completeness and accuracy of SoC fixed asset additions, disposals and depreciation charges is important to ensure the permitted return is calculated correctly.	• Testing the depreciation charges through reperformance of a sample of depreciation calculations and assessing the useful lives of assets; • Reconciling the fixed asset records from the beginning of the financial year to the end of the financial year; • Recalculating the permitted return for the year; and • Recalculating the adjustment to revenue for the year. Based on the work performed, we found that the Group's fixed asset accounting and the SoC permitted return calculation are supported by the available evidence.
The carrying value of EnergyAustralia's generation assets and energy retail business	
EnergyAustralia has goodwill of HK$15,269 million relating to the energy retail business in Australia and HK$8,746 million of generation fixed assets. Management has assessed the recoverable amount of EnergyAustralia's energy retail business and its generation assets at 31 December 2016 and concluded that the carrying values remain appropriate. These conclusions were based on value in use models requiring significant management judgment over the key assumptions as set out in critical accounting estimates and judgments number 1 and 2 and note 10 in the Group Financial Statements.	Our procedures in respect of management's assessment of the carrying value of the generation assets (where required) and the energy retail business included: • Assessing the appropriateness of the valuation methodology; • Reconciling input data to supporting evidence, such as approved business plans; • Considering the accuracy of the prior year forecasts against past results; • Challenging the reasonableness of the key assumptions based on our knowledge of the business and the industry; • Assessing the potential impact of reasonably possible downside changes in these key assumptions; and • Checking that the key assumptions used in the value in use calculations have been appropriately disclosed. Based on the work performed, we found that the carrying value of EnergyAustralia's energy retail business and generation assets were supported by the available evidence and the key assumptions have been appropriately disclosed in the critical accounting estimates and judgments number 1 and 2 and note 10 in the Group Financial Statements.

Key Audit Matter	*How our audit addressed the Key Audit Matter*
Recoverability of trade receivables Refer to critical accounting estimates and judgments number 7 and note 16 in the Group Financial Statements	
CLP Power Hong Kong and EnergyAustralia have significant retail businesses with many individual customers. The offtakers for the Group's other generation businesses are mainly a small number of state grid operators. Provisions are made for expected credit losses when the Group will not collect all amounts due. Management judgment is required in assessing the expected credit losses. Expected credit losses in CLP Power Hong Kong are close to zero as the trade receivables are mostly secured by cash deposits or bank guarantees from customers and have no recent history of default. EnergyAustralia has trade receivables of HK$6,236 million at 31 December 2016 against which provisions for expected credit losses of HK$912 million are held. Management estimated the level of expected losses, with reference to historical observed default rates and forward looking economic factors. CLP India's renewable projects have trade receivables of HK$596 million of which HK$563 million are past due. Management has assessed the recoverability of past-due amounts and concluded no credit loss provision is required.	Our procedures on trade receivables included: • Testing controls on a sample basis over the billing and collection cycle in EnergyAustralia; • Assessing the appropriateness of the credit loss provisioning methodology; • Testing the trade receivables aging analysis; • Challenging the information used to determine the expected credit losses by considering cash collection performance against historical trends and the level of credit loss charges over time; • Reviewing the accuracy of management's judgment by comparing historical provisions against actual write-offs; • Reviewing minutes of the board of directors relating to the recoverability of trade receivables; and • Understanding the nature of trade receivables from the state grid operators of CLP India's renewable projects and reading correspondence with the customers and reviewing Court Orders. We found management's assessment of the recoverability of trade receivables to be supported by the available evidence.
Asset retirement obligations (ARO) Refer to critical accounting estimates and judgments number 3 in the Group Financial Statements	
Provisions of HK$415 million are held for estimated remediation costs, discounted to present value, where the Group has a legal or constructive obligation for remediation. Estimating the amount and timing of the obligation requires significant judgment. Management has assessed the Group's obligations for each asset based on the local regulatory environment and expected closure dates. Management considers that the land currently used for the transmission and distribution network and generation facilities in Hong Kong will continue to be used for electricity supply for the foreseeable future. As such, no ARO has been recognised. The provisions mainly relate to land remediation of generation assets in Australia, which includes the Group's brown coal mine site in Yallourn. Significant judgment is required in determining the quantum of the provision which reflects the expected remediation method for the mine site.	Our procedures on AROs included: • Assessing the appropriateness of the Group's accounting policy; • Evaluating management's conclusion that it is remote that the Hong Kong transmission and distribution network and power stations would be removed from the existing land sites; • Assessing management's judgments as to whether a contractual or constructive obligation exists based on the respective Power Purchase Agreements, lease agreements, local laws and regulations and past practice; and • Testing the appropriateness of management's estimates of costs, timing and discount rates. Based on the work performed, the provisions recorded and disclosures made are supported by the available evidence.

Key Audit Matter	*How our audit addressed the Key Audit Matter*
Legal matters Refer to critical accounting estimates and judgments number 8 and note 30 in the Group Financial Statements	
Provisions are recognised for legal matters when it is probable that a material outflow of resources will be required. When a material outflow of resources is not probable, the matter is disclosed unless the probability of outflow of resources is remote. From time-to-time the Group experiences legal disputes with offtakers, service providers and other third parties. Significant management judgment is required to assess each such matter and based on legal advice whether the probability of a material outflow of economic resources will occur and that a provision should be recognised or a disclosure made. There is a dispute between CLP India and its offtaker — Gujarat Urja Vikas Nigam Limited in relation to the deemed generation incentive payment and interest on deemed loans. The total claim plus interest and tax with respect to the "deemed generation incentive" amounted to Rs.8,543 million (HK$975 million) at 31 December 2016. On the basis of legal advice obtained, the Directors are of the opinion that CLP India has a strong case and no provision has been made.	Our procedures on management's assessment of legal matters included: • Assessing the processes and controls over legal matters; • Reviewing the Group's significant legal matters and other contractual claims; • Reviewing board of directors' minutes on discussions relating to legal matters; • Obtaining written confirmation from external legal counsel on the status of legal claims; • Challenging management's judgments and assessments whether provisions are required; • Considering management's assessment of those matters that are not disclosed as the probability of material outflow is considered to be remote; and • Reviewing the adequacy and completeness of the Group's disclosures. Based on the work performed, we found the provisions recorded and disclosures made are supported by the available evidence.

Other Information

The directors of the Company are responsible for the Other Information. The Other Information comprises all the information in the Group's 2016 annual report (other than the Group Financial Statements and our auditor's report thereon) ("Other Information").

Our opinion on the Group Financial Statements does not cover the Other Information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Group Financial Statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the Group Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

Responsibilities of Directors and the Audit Committee for the Group Financial Statements

The directors of the Company are responsible for the preparation of the Group Financial Statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of the Group Financial Statements that are free from material misstatement, whether due to fraud or error.

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

The Audit Committee is responsible for overseeing the Group's financial reporting process on behalf of the Board of Directors.

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

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

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

- Identify and assess the risks of material misstatement of the Group Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Group Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Group Financial Statements, including the disclosures, and whether the Group Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Group Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the Group Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Sean William Tuckfield.

PricewaterhouseCoopers

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 27 February 2017

Consolidated Statement of Profit or Loss

for the year ended 31 December 2016

	Note	2016 HK$M	2015 HK$M (Restated)*
Revenue	3	**79,434**	80,700
Expenses			
Purchases of electricity, gas and distribution services		**(31,743)**	(31,280)
Staff expenses		**(3,892)**	(3,649)
Fuel and other operating expenses		**(19,744)**	(25,886)
Depreciation and amortisation		**(6,909)**	(6,765)
		(62,288)	(67,580)
Other gain		**–**	8,900
Operating profit	4	**17,146**	22,020
Finance costs	5	**(2,261)**	(4,106)
Finance income	5	**137**	170
Share of results, net of income tax			
Joint ventures	11	**737**	1,357
Associates	12	**904**	888
Profit before income tax		**16,663**	20,329
Income tax expense	6	**(2,855)**	(3,580)
Profit for the year		**13,808**	16,749
Earnings attributable to:			
Shareholders		**12,711**	15,656
Perpetual capital securities holders		**247**	247
Other non-controlling interests		**850**	846
		13,808	16,749
Earnings per share, basic and diluted	8	**HK$5.03**	HK$6.20

* Comparative figures have been restated in accordance with the transitional provisions of HKFRS 9 (2014) Financial Instruments (HKFRS 9) about certain requirements of hedge accounting. Details are set out in Note 3 of Significant Accounting Policies.

The notes and disclosures on pages 178 to 236 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 2016

	2016 HK$M	2015 HK$M (Restated)*
Profit for the year	**13,808**	16,749
Other comprehensive income		
Items that can be reclassified to profit or loss		
Exchange differences on translation	**(1,443)**	(3,728)
Cash flow hedges	**838**	(37)
Costs of hedging	**(187)**	(127)
Fair value changes on equity investments	**–**	(63)
Share of other comprehensive income of joint ventures	**20**	16
	(772)	(3,939)
Items that cannot be reclassified to profit or loss		
Fair value changes on equity investments	**(115)**	–
Share of other comprehensive income of joint ventures	**34**	79
	(81)	79
Other comprehensive income for the year, net of tax	**(853)**	(3,860)
Total comprehensive income for the year	**12,955**	12,889
Total comprehensive income attributable to:		
Shareholders	**11,865**	11,800
Perpetual capital securities holders	**247**	247
Other non-controlling interests	**843**	842
	12,955	12,889

* Comparative figures have been restated in accordance with the transitional provisions of HKFRS 9 about certain requirements of hedge accounting. Details are set out in Note 3 of Significant Accounting Policies.

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 162. Further details of other comprehensive income attributable to shareholders are presented in Note 24.

The notes and disclosures on pages 178 to 236 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

as at 31 December 2016

	Note	2016 HK$M	2015 HK$M
Non-current assets			
Fixed assets	9	**130,189**	127,801
Leasehold land and land use rights under operating leases	9	**5,444**	5,542
Investment properties	9	**3,788**	2,669
Goodwill and other intangible assets	10	**27,653**	28,257
Interests in and loan to joint ventures	11	**9,971**	11,250
Interests in associates	12	**813**	785
Finance lease receivables	13	**713**	799
Deferred tax assets	20	**981**	1,690
Derivative financial instruments	14	**1,519**	1,078
Equity investments	15	**1,528**	1,644
Other non-current assets		**181**	174
		182,780	181,689
Current assets			
Inventories – stores and fuel		**2,565**	3,110
Renewable energy certificates		**1,424**	902
Trade and other receivables	16	**13,799**	13,812
Finance lease receivables	13	**51**	52
Derivative financial instruments	14	**692**	600
Bank balances, cash and other liquid funds	17	**4,667**	3,799
		23,198	22,275
Current liabilities			
Customers' deposits	16(a)	**(4,999)**	(4,829)
Trade and other payables	18	**(19,921)**	(19,023)
Income tax payable		**(792)**	(651)
Bank loans and other borrowings	19	**(10,651)**	(13,189)
Derivative financial instruments	14	**(977)**	(595)
		(37,340)	(38,287)
Net current liabilities		**(14,142)**	(16,012)
Total assets less current liabilities		**168,638**	165,677

	Note	2016 HK$M	2015 HK$M
Financed by:			
Equity			
Share capital	*23*	**23,243**	23,243
Reserves	*24*	**74,767**	69,875
Shareholders' funds		**98,010**	93,118
Perpetual capital securities	*25*	**5,791**	5,791
Other non-controlling interests		**1,972**	2,023
		105,773	100,932
Non-current liabilities			
Bank loans and other borrowings	*19*	**40,995**	42,294
Deferred tax liabilities	*20*	**13,819**	13,476
Derivative financial instruments	*14*	**1,580**	2,802
Fuel clause account	*21*	**2,867**	2,226
Scheme of Control (SoC) reserve accounts	*22*	**860**	1,009
Asset decommissioning liabilities	*22(A)*	**916**	1,025
Other non-current liabilities		**1,828**	1,913
		62,865	64,745
Equity and non-current liabilities		**168,638**	165,677

The more familiar name for the Statement of Financial Position is "Balance Sheet".

The Company's statement of financial position is presented in Note 31.

William Mocatta
Vice Chairman
Hong Kong, 27 February 2017

Richard Lancaster
Chief Executive Officer

Geert Peeters
Chief Financial Officer

The notes and disclosures on pages 178 to 236 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2016

	Attributable to Shareholders					
	Share Capital HK$M	Reserves HK$M	Total HK$M	Perpetual Capital Securities HK$M	Other Non-controlling Interests HK$M	Total Equity HK$M
Balance at 1 January 2015	23,243	64,770	88,013	5,791	2,155	95,959
Profit for the year, as restated*	–	15,656	15,656	247	846	16,749
Other comprehensive income for the year, as restated*	–	(3,856)	(3,856)	–	(4)	(3,860)
Dividends paid						
2014 fourth interim	–	(2,526)	(2,526)	–	–	(2,526)
2015 first to third interim	–	(4,169)	(4,169)	–	–	(4,169)
Distributions to perpetual capital securities holders	–	–	–	(247)	–	(247)
Dividends paid to other non-controlling interests of subsidiaries	–	–	–	–	(974)	(974)
Balance at 31 December 2015	23,243	69,875	93,118	5,791	2,023	100,932
Balance at 1 January 2016	23,243	69,875	93,118	5,791	2,023	100,932
Profit for the year	–	12,711	12,711	247	850	13,808
Other comprehensive income for the year	–	(846)	(846)	–	(7)	(853)
Acquisition of a subsidiary (Note 9(b))	–	–	–	–	53	53
Contribution from other non-controlling interest of a subsidiary	–	–	–	–	9	9
Dividends paid						
2015 fourth interim	–	(2,653)	(2,653)	–	–	(2,653)
2016 first to third interim	–	(4,320)	(4,320)	–	–	(4,320)
Distributions to perpetual capital securities holders	–	–	–	(247)	–	(247)
Dividends paid to other non-controlling interests of subsidiaries	–	–	–	–	(956)	(956)
Balance at 31 December 2016	**23,243**	**74,767**	**98,010**	**5,791**	**1,972**	**105,773**

* Comparative figures have been restated in accordance with the transitional provisions of HKFRS 9 about certain requirements of hedge accounting. Details are set out in Note 3 of Significant Accounting Policies.

The notes and disclosures on pages 178 to 236 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2016

	Note	2016 HK$M	2016 HK$M	2015 HK$M	2015 HK$M
Operating activities					
Net cash inflow from operations	26(A)	**25,353**		20,994	
Interest received		**137**		161	
Income tax paid		**(1,814)**		(1,987)	
Net cash inflow from operating activities			**23,676**		19,168
Investing activities					
Capital expenditure		**(9,756)**		(10,871)	
Capitalised interest and other finance costs paid		**(244)**		(278)	
Proceeds from disposal of fixed assets		**848**		46	
Additions of other intangible assets		**(308)**		(166)	
Acquisitions of subsidiaries	9(b)	**(236)**		–	
Deposit paid for acquisition of an associate	28(B)	**(568)**		–	
Proceeds from sale of subsidiaries	4(d)	**–**		9,991	
Proceeds from sale of a joint venture		**–**		202	
Deposits for sale of subsidiaries refunded		**–**		(283)	
Increase in equity investments		**(1)**		(1)	
Repayment of advances from / (investments in and advances to) joint ventures and associates		**2**		(930)	
Dividends received from					
Joint ventures		**1,035**		2,440	
Associates		**889**		796	
Equity investments		**43**		120	
Net cash (outflow) / inflow from investing activities			**(8,296)**		1,066
Net cash inflow before financing activities			**15,380**		20,234
Financing activities					
Proceeds from long-term borrowings		**12,226**		41,405	
Repayment of long-term borrowings		**(15,651)**		(50,384)	
(Decrease) / increase in short-term borrowings		**(764)**		210	
Interest and other finance costs paid		**(1,901)**		(3,841)	
(Decrease) / increase in advances from other non-controlling interests		**(31)**		21	
Contribution from other non-controlling interest of a subsidiary		**9**		–	
Distributions paid to perpetual capital securities holders		**(247)**		(247)	
Dividends paid to shareholders		**(6,973)**		(6,695)	
Dividends paid to other non-controlling interests of subsidiaries		**(956)**		(974)	
Net cash outflow from financing activities			**(14,288)**		(20,505)
Net increase / (decrease) in cash and cash equivalents			**1,092**		(271)
Cash and cash equivalents at beginning of year			**3,565**		4,036
Effect of exchange rate changes			**(190)**		(200)
Cash and cash equivalents at end of year	26(B)		**4,467**		3,565

The notes and disclosures on pages 178 to 236 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 consolidated 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 properties which are carried at fair value.

The preparation of the consolidated 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 186 to 188.

2. Changes in Accounting Policies

(A) Amended standards effective from 1 January 2016

The Group has adopted the following amendments to standards effective from 1 January 2016. The adoption of these amendments has had no significant impact on the results and financial position of the Group.

- Amendments to HKAS 1 Disclosure Initiative. This is the IASB project to improve presentation and disclosure in the financial statements. The amendments clarify materiality requirements and are explicit that companies have flexibility as to the order in which they present the notes to the financial statements. Line items should be disaggregated on primary statements if this provides helpful information to users and can be aggregated on the statement of financial position if the line items specified by HKAS 1 are immaterial. Shares of other comprehensive income of associates and joint ventures are split between those items that will and will not be reclassified to profit or loss, and presented in aggregate as single line items within those two groups.
- Annual Improvements to HKFRS 2012-2014 Cycle. The improvements include clarifications of changes in method of disposal under HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations; continuing involvement for services contracts under HKFRS 7 Financial Instruments: Disclosures; and discount rates applied in HKAS 19 Employee Benefits.

(B) New standard effective after 2016 that has been early adopted in 2016

The Group has early adopted HKFRS 9 with the date of initial application on 1 January 2016 which resulted in changes in accounting policies and adjustments to certain amounts recognised in the financial statements. The new accounting policies replace the provisions of HKAS 39 Financial Instruments: Recognition and Measurement (HKAS 39) in relation to (i) recognition, classification and measurement of financial assets and financial liabilities; (ii) derecognition of financial instruments; (iii) impairment of financial assets; and (iv) hedge accounting. HKFRS 9 also significantly amends other standards dealing with financial instruments such as HKFRS 7 Financial Instruments: Disclosures. The new accounting policies provide more reliable and relevant information for users to assess the amounts, timing and uncertainty of future cash flows.

Details of impact on the adoption of HKFRS 9 are set out in Note 3 below.

(C) New and amended standards effective after 2016 and have not yet been adopted

The following new standards and amendments to standards have been issued and are effective after 2016. The Group has not early adopted them for the year ended 31 December 2016.

- HKFRS 15 Revenue from Contracts with Customers establishes a new framework for revenue recognition. It introduces a five-step model in order to determine when and how to recognise revenue. Revenue is recognised when a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. The standard is not expected to have any material impact to the revenue recognition of the Group. The Group is yet to finalise the assessment of the full impact of HKFRS 15. The mandatory effective date is 1 January 2018, with early application allowed.

2. Changes in Accounting Policies (continued)

(C) New and amended standards effective after 2016 and have not yet been adopted (continued)

- HKFRS 16 Leases introduces a substantial change to lease accounting. The standard requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under the current accounting standard. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Recognition for the lessor will remain essentially unchanged. The standard will bring an increase in both assets and liabilities to the Group for lease contracts currently classified as operating leases. As the lease expense is front-loaded, it will also have impact on profit or loss. The Group's operating leases include leases for land and buildings and power purchase contracts. The Group is yet to assess the full impact of HKFRS 16. The mandatory effective date is 1 January 2019, with early application allowed if HKFRS 15 Revenue from Contracts with Customers is also applied.
- Amendments to HKAS 7 Disclosure Initiative require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. One way to meet this new disclosure requirement is to provide a reconciliation between the opening and closing balances for liabilities arising from financing activities. Amendments to HKAS 12 Recognition of Deferred Tax Assets for Unrealised Losses clarify that a company needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. These two amendments are not expected to have impact on the results and financial position of the Group. The mandatory effective date is 1 January 2017.

3. Effect on Adoption of HKFRS 9

The general principle of HKFRS 9 is to apply the standard retrospectively in accordance with HKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, except for hedge accounting, which is to be applied prospectively apart from certain limited retrospective application. For the new classification and measurement requirements, the Group has elected for the exception from the requirement to restate comparative information as set out in the transitional provisions. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy. For hedge accounting, except for the costs of hedging as described in (B)(c) below which are applied retrospectively, the general hedge accounting requirements are applied prospectively. Accordingly, comparative information is adjusted for the retrospective application of costs of hedging.

(A) Changes in accounting policies

The changes in the accounting policies and the effects of the resulting changes are summarised below:

At initial recognition, for financial assets not carried at fair value through profit or loss, the Group measures them at their fair values plus transaction costs that are directly attributable to the acquisition of the financial assets. For financial assets carried at fair value through profit or loss, transaction costs are expensed in profit or loss.

(a) Debt instruments

Debt instruments that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are subsequently measured at amortised cost. A gain or loss on a debt instrument that is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

(b) Equity investments

Equity investments are subsequently measured at fair value through profit or loss. However, at initial recognition, the Group is permitted to make an irrevocable election (on an instrument-by-instrument basis) to present in other comprehensive income subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination. For those elected equity investments, there is no subsequent reclassification of fair value gains and losses to profit or loss.

3. Effect on Adoption of HKFRS 9 (continued)

(A) Changes in accounting policies (continued)

(c) Impairment of financial assets

The impairment of financial assets has changed from the incurred loss model under HKAS 39 to the expected credit loss model under HKFRS 9. Under the new expected loss approach, it is no longer necessary for a loss event to occur before an impairment loss is recognised. Impairment is made on the expected credit losses, which are the present value of the cash shortfalls over the expected life of the financial assets. The Group assesses on a forward looking basis the expected credit losses associated with its financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables and finance lease receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(d) Costs of hedging

When a forward contract is used in a hedge transaction, the Group may designate the full change in fair value of the forward contract (including forward points) as the hedging instrument. In such cases, the gains and losses relating to the effective portion of the change in fair value of the entire forward contract are recognised in other comprehensive income if it is designated as a cash flow hedge or are recognised in profit or loss if it is designated as a fair value hedge. The Group may also elect to designate only the change in fair value of the forward contract related to the spot component as the hedging instrument. In such cases, the gains or losses relating to the effective portion of the change in the spot component of the forward contract are recognised in other comprehensive income if it is designated as a cash flow hedge or are recognised in profit or loss if it is designated as a fair value hedge. The change in fair value of the forward element of the contract that relates to the hedged item (aligned forward element) is recognised in other comprehensive income and is accumulated in a separate component of equity. The aligned forward element at the date of designation of the forward contract as a hedging instrument is amortised on a systematic and rational basis to profit or loss over the period.

When an option contract is used in a time-period related hedge transaction, the Group designates only the intrinsic value of the option contract as the hedging instrument. Gains or losses relating to the effective portion of the change in intrinsic value of the option contract are recognised in other comprehensive income if it is designated as a cash flow hedge or are recognised in profit or loss if it is designated as a fair value hedge. The change in fair value of the time value of the option contract that relates to the hedged item (aligned time value) is recognised in other comprehensive income and is accumulated in a separate component of equity. The aligned time value at the date of designation of the option as a hedging instrument is amortised on a systematic and rational basis to profit or loss over the period.

When a financial instrument that involves exchanges of cash flows that are denominated in different currencies is used in a hedge transaction, the foreign currency basis spread of the instrument is separated and excluded from the designated hedging instrument. The change in fair value of this excluded portion (to the extent it relates to the hedged item) is recognised in other comprehensive income and is accumulated in a separate component of equity. For time-period related hedged items, the excluded portion at the date of designation (to the extent that it relates to the hedged item) is amortised on a systematic and rational basis to profit or loss over the period. For transaction related hedged items, the cumulative change of excluded portion is included in the initial carrying amount of non-financial asset recognised when the hedged transaction occurs or is recognised in profit or loss if the hedged transaction affects profit or loss.

Effect on adoption of HKFRS 9 by CLP is summarised below:

(1) Classification and measurement – equity investments of the Group are reclassified from available-for-sale to fair value through other comprehensive income;

(2) Impairment on financial assets – the new expected credit loss model has had no material impact to the Group's financial assets; and

(3) Hedge accounting – the retrospective application of costs of hedging has resulted in reclassification of opening balances of reserves of 2015 and 2016 and immaterial adjustments to 2015 profit or loss and other comprehensive income.

3. Effect on Adoption of HKFRS 9 (continued)

(B) Effects of changes in accounting policies

(a) Classification and measurement of financial instruments

All classes of financial assets and financial liabilities had the same carrying amounts in accordance with HKAS 39 and HKFRS 9 on 1 January 2016. The Group elected to present changes in the fair value of all its equity investments (previously classified as available-for-sale investments) in other comprehensive income as they are long-term and strategic investments. As a result, available-for-sale investments with an aggregated fair value of HK$1,644 million were reclassified to equity investments at fair value through other comprehensive income on 1 January 2016. Other than the change in the classification of equity investments, the classification of other financial assets and liabilities remained unchanged.

(b) Impairment of financial assets

The Group's significant financial assets which are subject to the new expected credit loss model include: (i) loan to a joint venture; (ii) trade receivables; and (iii) finance lease receivables.

The Group has revised its impairment methodology in accordance with HKFRS 9 for each of these classes of assets. The results of the revision at 1 January 2016 are described below.

(i) Loan to a joint venture

For loan to a joint venture, management consider that its credit risk has not increased significantly since initial recognition as the joint venture has a low risk of default and a strong capacity to meet contractual cash flows. The impairment provision is determined based on the 12-month expected credit losses which are close to zero.

(ii) Trade receivables

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected losses for all trade receivables. The adoption of the simplified expected loss approach under HKFRS 9 has not resulted in any material impact to the carrying value of trade receivables as at 1 January 2016.

(iii) Finance lease receivables

Finance lease receivables relate to a power purchase agreement under which CLP India Private Limited (CLP India) sells all of its electricity output to an offtaker are assessed individually and measured at an amount equal to lifetime expected credit losses. By considering both historical and forward looking elements, the Group considers that lifetime expected credit losses are close to zero.

(c) Hedge accounting

The Group applies the new hedge accounting model prospectively from 1 January 2016. All hedge accounting relationships designated under the previous HKAS 39 have continued to be valid hedge accounting relationships in accordance with HKFRS 9. The impact of changes in hedge effectiveness testing and in accounting for cash flow hedges was not material.

Under HKAS 39, changes in fair value of the time value of an option are required to be recognised in profit or loss, giving rise to volatility. However, HKFRS 9 allows the change in fair value of the time value to be deferred in other comprehensive income. Retrospective adjustment for the time value of options is required on transition to HKFRS 9, resulting in a reclassification adjustment to the Group's reserves at 1 January 2015.

Upon transition to HKFRS 9, the Group has elected the option to exclude forward elements of forward contracts and foreign currency basis spreads of financial instruments from the designation of hedging relationships. This change in accounting policy is applied retrospectively, resulting in a reclassification adjustment to the Group's reserves at 1 January 2015.

3. Effect on Adoption of HKFRS 9 (continued)

(B) Effects of changes in accounting policies (continued)

(c) Hedge accounting (continued)

The tables below summarise the adjustments made to reflect the adoption of HKFRS 9:

	1 January 2016			1 January 2015		
	Retained Profits HK$M	Cash Flow Hedge Reserve HK$M	Costs of Hedging Reserves HK$M	Retained Profits HK$M	Cash Flow Hedge Reserve HK$M	Costs of Hedging Reserves HK$M
As previously reported under HKAS 39 (Note 24)	72,953	360	–	63,994	561	–
Reclassification of costs of hedging						
Time value of options	(4)	–	4	(6)	–	6
Forward element of forward contracts	–	(19)	19	–	29	(29)
Foreign currency basis spread	(66)	(179)	245	(50)	(368)	418
Restated under HKFRS 9 (Note 24)	72,883	162	268	63,938	222	395

	For the year ended 31 December 2015		
	As previously reported under HKAS 39	Adjustments	Restated under HKFRS 9
Consolidated Statement of Profit or Loss			
Finance costs (HK$M)	(4,090)	(16)	(4,106)
Income tax expense (HK$M)	(3,582)	2	(3,580)
Earnings attributable to shareholders (HK$M)	15,670	(14)	15,656
Earnings per share, basic and diluted (HK$)	6.20	–	6.20
Consolidated Statement of Profit or Loss and Other Comprehensive Income			
Cash flow hedges (HK$M)	(178)	141	(37)
Costs of hedging (HK$M)	–	(127)	(127)

4. 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 on the basis set out in (B) below.

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

The financial statements of subsidiaries acquired during the year are included in the consolidated financial statements from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group entities are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary to ensure consistency with the policies adopted by the Group, adjustments are made to the financial statements of subsidiaries, joint ventures and associates.

(B) 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 obligations 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.

4. Consolidation (continued)

(B) Joint ventures and associates (continued)

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.

(C) 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. Gains or losses on disposals are recognised in profit or loss.

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
Significant Influence → Associate
Less than Significant Influence → Equity Investment

5. Impairment of Non-Financial Assets

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

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units (CGUs)). Goodwill arising from a business combination is allocated to CGUs 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 CGU exceeds its recoverable amount. The recoverable amount is the higher of the fair value of an asset or a CGU 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.

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

Renewable energy and energy efficiency schemes operate through the creation, trade and surrender of energy products. Renewable energy certificates are recognised upon the risks and rewards transferring to the Group and are measured at the lower of cost or net realisable value. Cost is calculated on the weighted average basis. The Group's forward obligations under the contracts are classified as future operating commitments.

8. Employee Benefits

(A) Retirement benefits

The Group operates and / or participates in a number of defined contribution plans. The assets of these plans are held in separate trustee-administered funds. The pension plans are funded by payments from employees and by the participating companies 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.

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

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.

9. 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 Hong Kong dollar, which is the Group's presentation currency.

Foreign currency transactions are translated into the relevant functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies by using the exchange rates at the end of the reporting period are recognised in profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges or qualifying net investment hedges.

For subsidiaries, joint ventures and associates that have a functional currency different from the Group's presentation currency for the purpose of consolidation, assets and liabilities for each statement of financial position presented are translated using the closing rate at the end of the reporting period; whilst income and expenses for each statement of profit or loss presented are translated at the average exchange rate for the reporting period (unless this average rate is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the date of the transactions). All resulting exchange differences are recognised in other comprehensive income and as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated using the closing rate at the end of the reporting period.

9. Foreign Currency Translation (continued)

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 amounts. For example, a trade receivable is a monetary asset (the amount to be received is fixed) but a fixed asset is not a monetary asset because it is uncertain how much you will receive if the fixed asset is to be sold.

A company entity can have both functional currency and presentation currency; however, a consolidation group can only have presentation currency but not functional currency. This is because presentation currency is a matter of choice but functional currency is based on the different primary economic environment in which each group entity is operating.

10. Leases

Leases of assets in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under an operating lease is amortised on a straight-line basis over the term of the lease to profit or loss.

Leases of assets where the lessee has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at their commencement at the lower of the fair value of the leased asset and the present value of the minimum lease payments. A fixed asset held under a finance lease is depreciated over the shorter of its useful life or the lease term. The corresponding rental obligations, net of finance charges, are included as obligations under finance leases 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.

CLP believes that understanding financial statements is a right, not a privilege. To help those unfamiliar with accounting terms read our financial statements, we have developed an accounting "mini-series" to explain various accounting concepts which are applicable to the operations of the Group over the years. Readers who are interested in our expanded discussions on the following topics are encouraged to visit our website:

- Lease accounting
- Fair value, derivatives, hedging and CLP
- Impairment
- Provision and contingent liability
- Business combinations
- Deferred tax
- Revenue recognition
- Liability or equity
- Foreign currency transaction and translation
- HKFRS 9 – New hedge accounting model

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 concerning the future. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in future periods are addressed below.

1. 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 or more frequently if events / changes in circumstances indicate that goodwill may have suffered any impairment in accordance with the relevant accounting standards.

Determining whether an asset or a CGU is impaired requires an estimation of the recoverable amount, 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 2016, after reviewing the business environment as well as the Group's strategies and past performance of the investments, management concluded that there were impairment for Beijing Yire Power Station of CSEC Guohua International Power Company Limited (CSEC Guohua) of HK$58 million (2015: HK$243 million) and CLP Guangxi Fangchenggang Power Company Limited (Fangchenggang) of HK$199 million (2015: impairment for EnergyAustralia Holdings Limited (EnergyAustralia)'s generation assets of HK$1,984 million).

Apart from the assets impaired, 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 2016 year end.

2. Assessment of the Carrying Value of Generation Assets and Energy Retail Business in Australia

The Group has assessed that the energy retail business (including goodwill) and generation assets in Australia are separate CGUs, requiring their own independent impairment assessment.

Given the continued structural changes in the National Energy Market (NEM) in Australia and changes in the supply and demand equilibrium, risk is introduced in market modelling which heightens the criticality of this judgment area. As part of making these critical judgments, risks do exist in the assumptions made around supply and demand in regards to the Group's generation assets and energy retail business in Australia. In certain circumstances, where contraction of demand and supply side response vary substantially from the assumptions made, significant changes in the value of the assets could eventuate.

Key estimates and assumptions for the generation assets assessment are as follows:

- Critical judgment exists in estimating forward electricity pool prices (the forward curve), generation volumes, retail volumes and gas prices. The forward curve has a significant impact on the accounting for certain items including value in use calculations for impairment purposes.
- Operating costs are escalated by relevant cost drivers using activity-based costing principles. Non-contracted fuel costs are based on estimate of future fuel prices made by EnergyAustralia's management.

Key estimates and assumptions for the energy retail business (which mainly includes goodwill) impairment assessment are outlined in Note 10. These relate to assumptions around operating the energy retail business, including forecast demand (including the number of customer accounts), forecast pool prices, retail tariffs and costs (including network) and an assessment of future growth within the market.

Changes to the estimates and assumptions and other inputs could impact the assessed recoverable value of assets and CGUs and consequently impact the Group's financial performance and financial position. The Group believes that no reasonably foreseeable change would result in an impairment of generation assets or the energy retail business, in view of the long-term nature of the key assumptions and the margin by which the estimated fair value exceeds the carrying amount.

3. Asset Retirement Obligations

Provisions for asset retirement obligations are recorded for estimated remediation costs when the Group has a legal and / or constructive obligation for remediation. A provision for asset retirement costs is determined by estimating the expected costs associated to remediate the site based on the current legal requirements and technologies and is discounted to its present value with an unwind adjustment recognised in finance costs. An asset is recognised on initial recognition of the provision and is depreciated over the useful life of the facility. The asset retirement costs are reviewed annually and adjustments are made to the carrying amount of the assets to reflect changes made to these estimated discount rates or future costs. Estimating the amount and timing of the obligation to be recorded requires significant judgment. Management have assessed the Group's obligations for each asset based on the local regulatory environment and expected closure dates.

CLP Power Hong Kong Limited (CLP Power Hong Kong) and Castle Peak Power Company Limited (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.

Asset retirement obligations of EnergyAustralia amounted to HK$415 million (2015: HK$367 million) which mainly related to the provision for land remediation of generation assets. The provisions are largely based on estimates by external and internal experts that are discounted using internally determined end of plant lives.

As part of the Board of Inquiry into the Hazelwood Mine (non-CLP mine) Fire undertaken towards the end of 2015, the matters considered included a broad review by EnergyAustralia's Board, the mine operators and the Victorian Government of the cost to remediate brown coal mines in the Latrobe Valley (including the Yallourn mine) and an assessment of the adequacy of the current financial assurance held by the Victorian Government in respect of those remediation costs.

While there is currently limited visibility over the calculations and assumptions behind the remediation provisions of the other mine operators within the Latrobe Valley, the Group recognises that there are points of difference between these sites which are likely to drive significant variations in the costs estimated to rehabilitate, including the size and condition of the mine. The review of the quantum of rehabilitation liability assessments as part of the Victorian Government's implementation of the Board of Inquiry's recommendations is expected to be finalised in the first half of 2017. The view remains that its assessment of the rehabilitation liability for the approved remediation plan is appropriate, and the provision in the financial statements reflects this.

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. CLP Power Hong Kong also has the obligation to maintain the Fuel Clause Account, which represents the difference between an agreed standard cost of fuel and the actual fuel costs. The Group considers that CLP Power Hong Kong is required under the SoC to discharge its obligations arising from the SoC upon the expiry of the SoC Agreement to customers such that these account balances meet the definition of a financial 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 India as lessor for the Power Purchase Agreement (PPA) with its offtaker. In determining whether an arrangement contains a lease, the Group considers the right to use an asset is conveyed if the purchaser has the ability or right to operate the asset or to control physical access to the underlying assets while obtaining or controlling more than an insignificant amount of the output of the asset, or that it is remote that parties other than the purchaser will take more than an insignificant amount of the output and the price paid is neither contractually fixed per unit of output nor equal to the current market price per unit of output as of the time of delivery. In addition, to apply finance lease accounting, a number of assumptions in the lease models have been made, such as the determination of minimum lease payments, implicit interest rates and residual values of the power plants at the end of contract periods. 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 of the Group (included in trade and other receivables) totalled HK$4,039 million at 31 December 2016 (2015: HK$4,376 million).

7. Recoverability of Trade Receivables

Provision for expected credit loss is made when the Group will not collect all amounts due. The provision is determined by grouping together trade debtors with similar risk characteristics and collectively or individually assessing them for likelihood of recovery. The provision reflects lifetime expected credit losses i.e. possible default events over the expected life of the trade receivable, weighted by the probability of that default occurring. Judgment has been applied in determining the level of provision for expected credit losses, taking into account the credit risk characteristics of customers and the likelihood of recovery assessed on a combination of collective and individual bases as relevant. While provisions are considered to be appropriate, changes in estimation basis or in economic conditions could lead to a change in the level of provisions recorded and consequently on the charge or credit to profit or loss. Key judgments on provisions made across businesses are disclosed in Note 16.

8. Contingent Liabilities

The Group is exposed to the risk of litigation, regulatory judgments and contractual disputes in the course of its normal operations. The Group considers each instance separately in accordance with legal advice and will make provision and / or disclose information as appropriate. Changes in the assumptions around the likelihood of an outflow of economic resources or the estimation of any obligation would change the values recognised in the financial statements. Please refer to Note 30 for the Group's contingent liabilities and the judgments made.

9. Fair Value Estimation of Derivative Financial Instruments and Investment Properties

Please refer to Note 3 of "Financial Risk Management" on pages 233 and 234 for fair value estimation of derivative financial instruments. For fair value estimation of investment properties, please refer to Note 9.

Notes to the Financial Statements

1. General Information

The Company is a limited liability company incorporated in Hong Kong and listed on the Stock Exchange of Hong Kong. The principal activity of the Company is investment holding, whilst the principal activities of the subsidiaries are the generation and supply of electricity in Hong Kong, India and Australia, and investment holding of power projects in Mainland China, Southeast Asia and Taiwan.

The financial operations of the Company's major subsidiaries, CLP Power Hong Kong and CAPCO (collectively referred as SoC Companies), are governed by a SoC entered into 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 237 and 238. The SoC Statement on page 239 is unaudited.

These financial statements have been approved for issue by the Board of Directors on 27 February 2017.

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

2. Segment Information (continued)

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

	Hong Kong HK$M	Mainland China HK$M	India HK$M	Southeast Asia & Taiwan HK$M	Australia HK$M	Unallocated Items HK$M	Total HK$M
For the year ended 31 December 2016							
Revenue	37,968	1,197	3,808	13	36,441	7	79,434
EBITDAF of subsidiaries	17,703	951	1,954	(12)	3,796	(678)	23,714
Share of results, net of income tax							
Joint ventures	(12)	461	–	283	5	–	737
Associates	–	907	–	–	(3)	–	904
EBITDAF of the Group	17,691	2,319	1,954	271	3,798	(678)	25,355
Depreciation and amortisation	(4,432)	(583)	(571)	–	(1,284)	(39)	(6,909)
Fair value adjustments	(26)	–	–	–	367	–	341
Finance costs	(1,020)	(200)	(802)	–	(215)	(24)	(2,261)
Finance income	–	44	25	3	8	57	137
Profit / (loss) before income tax	12,213	1,580	606	274	2,674	(684)	16,663
Income tax expense	(1,880)	(67)	(137)	–	(771)	–	(2,855)
Profit / (loss) for the year	10,333	1,513	469	274	1,903	(684)	13,808
Earnings attributable to							
Perpetual capital securities holders	(247)	–	–	–	–	–	(247)
Other non-controlling interests	(831)	(19)	–	–	–	–	(850)
Earnings / (loss) attributable to shareholders	9,255	1,494	469	274	1,903	(684)	12,711
Excluding: Items affecting comparability	(497)	174	–	–	(54)	–	(377)
Operating earnings	8,758	1,668	469	274	1,849	(684)	12,334
Capital additions	8,498	918	115	–	943	27	10,501
Impairment provisions							
Fixed assets and leasehold land and land use rights under operating leases	–	–	–	–	38	–	38
Receivables and others	3	–	20	–	336	–	359
At 31 December 2016							
Fixed assets, leasehold land and land use rights and investment properties	112,014	7,679	10,854	–	8,746	128	139,421
Goodwill and other intangible assets	5,545	4,945	28	–	17,135	–	27,653
Interests in and loan to joint ventures	50	8,127	–	1,764	30	–	9,971
Interests in associates	–	786	–	–	27	–	813
Deferred tax assets	–	86	–	–	895	–	981
Other assets	4,846	5,528	4,839	100	9,584	2,242	27,139
Total assets	122,455	27,151	15,721	1,864	36,417	2,370	205,978
Bank loans and other borrowings	37,814	4,973	7,591	–	1,268	–	51,646
Current and deferred tax liabilities	12,895	1,270	182	–	264	–	14,611
Other liabilities	24,892	1,454	377	2	6,913	310	33,948
Total liabilities	75,601	7,697	8,150	2	8,445	310	100,205

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

Items affecting comparability refer to significant unusual and infrequent events such as acquisition / disposal, impairment of non-current assets, property valuation gain / loss, and change in law or natural catastrophe. They are considered irrelevant for assessing the underlying performance of the Group and are separately disclosed to allow a better understanding and comparison of the financial results. Details of the items affecting comparability can be found on page 29.

2. Segment Information (continued)

	Hong Kong HK$M	Mainland China HK$M	India HK$M	Southeast Asia & Taiwan HK$M	Australia HK$M	Unallocated Items HK$M	Total HK$M
For the year ended 31 December 2015, as restated							
Revenue	38,937	937	5,104	9	35,707	6	80,700
EBITDAF of subsidiaries	16,548	786	1,985	(12)	10,315	(600)	29,022
Share of results, net of income tax							
Joint ventures	1	1,031	–	322	3	–	1,357
An associate	–	888	–	–	–	–	888
EBITDAF of the Group	16,549	2,705	1,985	310	10,318	(600)	31,267
Depreciation and amortisation	(4,201)	(517)	(556)	–	(1,448)	(43)	(6,765)
Fair value adjustments	4	–	–	–	(241)	–	(237)
Finance costs	(1,110)	(206)	(827)	–	(1,928)	(35)	(4,106)
Finance income	2	59	35	2	20	52	170
Profit / (loss) before income tax	11,244	2,041	637	312	6,721	(626)	20,329
Income tax expense	(1,806)	(147)	(23)	–	(1,604)	–	(3,580)
Profit / (loss) for the year	9,438	1,894	614	312	5,117	(626)	16,749
Earnings attributable to							
Perpetual capital securities holders	(247)	–	–	–	–	–	(247)
Other non-controlling interests	(837)	(9)	–	–	–	–	(846)
Earnings / (loss) attributable to shareholders	8,354	1,885	614	312	5,117	(626)	15,656
Excluding: Items affecting comparability	(99)	243	–	–	(4,281)	–	(4,137)
Operating earnings	8,255	2,128	614	312	836	(626)	11,519
Capital additions	7,588	1,648	1,396	–	825	26	11,483
Impairment provisions							
Fixed assets and leasehold land and land use rights under operating leases	–	–	–	–	1,865	–	1,865
Goodwill and other intangible assets	–	–	–	–	138	–	138
Receivables and others	4	–	37	–	418	–	459
At 31 December 2015							
Fixed assets, leasehold land and land use rights and investment properties	108,586	6,576	11,572	–	9,139	139	136,012
Goodwill and other intangible assets	5,545	5,208	28	–	17,476	–	28,257
Interests in and loan to joint ventures	18	9,498	–	1,709	25	–	11,250
Interest in an associate	–	785	–	–	–	–	785
Deferred tax assets	–	90	–	–	1,600	–	1,690
Other assets	5,938	4,496	5,177	71	8,311	1,977	25,970
Total assets	120,087	26,653	16,777	1,780	36,551	2,116	203,964
Bank loans and other borrowings	40,976	4,402	8,835	–	964	306	55,483
Current and deferred tax liabilities	12,408	1,452	215	–	52	–	14,127
Other liabilities	24,232	1,411	540	3	7,005	231	33,422
Total liabilities	77,616	7,265	9,590	3	8,021	537	103,032

Our investments in Mainland China are mainly through joint ventures and an associate, whereby under equity method of accounting, CLP shares its proportionate earnings but not the revenues and expenses.

The difference between total assets and total liabilities represents shareholders' financing.

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:

	2016 HK$M	2015 HK$M
Sales of electricity	**68,053**	68,566
Sales of gas	**7,382**	6,490
Operating lease income under PPA	**2,138**	3,409
Finance lease income under PPA	**117**	134
Lease service income under PPA	**533**	631
Other revenue	**951**	1,289
	79,174	80,519
Transfer for SoC to revenue (Note 22)	**260**	181
	79,434	80,700

The operating lease income under PPA relates to Jhajjar, whose PPA has been accounted for as an operating lease.

The finance lease income and lease service income under PPA relate to Paguthan. In accordance with HK(IFRIC)-Int 4 and HKAS 17, servicing income and fuel costs received by Paguthan from the lessee with respect to the leased assets are not part of the minimum lease payments and are recognised as lease service income.

4. Operating Profit

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

	2016 HK$M	2015 HK$M
Charging		
Retirement benefits costs [(a)]	**334**	302
Auditor's remuneration		
Audit services	**39**	39
Permissible audit related and non-audit services [(b)]	**9**	8
Operating lease expenditure on the agreement with Ecogen	**204**	230
Impairment of		
Fixed assets, leasehold land and land use rights under operating leases [(c)]	**38**	1,865
Goodwill and other intangible asset [(c)]	**–**	138
Inventories – stores and fuel	**10**	7
(Reversal of provision) / provision for onerous contract [(c)]	**(78)**	74
Loss on sale of a joint venture	**–**	42
Net exchange loss	**228**	101
Revaluation losses / (gain) on investment properties	**146**	(99)
Crediting		
Net (gain) / loss on disposal of fixed assets	**(386)**	343
Net fair value (gains) / losses on non-debt related derivative financial instruments		
Reclassified from cash flow hedge reserve and costs of hedging reserves to		
Purchases of electricity, gas and distribution services	**(267)**	(261)
Fuel and other operating expenses	**(36)**	(176)
Transactions not qualifying as hedges	**(341)**	237
Rental income from investment properties	**(35)**	(4)
Dividends from equity investments	**(43)**	(46)
Gain on sale of subsidiaries [(d)]	**–**	8,900

Notes:

(a) Retirement benefits costs for the year amounted to HK$440 million (2015: HK$384 million), of which HK$106 million (2015: HK$82 million) was capitalised.

(b) Permissible audit-related and non-audit services comprised Sustainability Report assurance, Continuing Connected Transactions limited assurance, audits of CLP's provident funds, auditor's attestation and accounting / tax advisory services.

(c) In 2015, the wholesale electricity market in Australia was significantly oversupplied with prices well below the level required to provide adequate long-term returns on generation investments. Therefore, the Group recognised impairments across three of its generation assets in Australia (Yallourn Power Station, Mount Piper Power Station and Tallawarra Power Station) and a provision for onerous contract with respect to Ecogen Master Hedge Agreement (Ecogen), totalling A$363 million (HK$2,058 million) (after tax: A$261 million (HK$1,480 million)). The onerous provision was reversed in 2016 after reassessment.

(d) On 1 December 2015, the Group completed the sale of its interests in EnergyAustralia Gas Storage Holdings Pty Ltd and EnergyAustralia Gas Storage Pty Ltd for a consideration of A$1,780 million (HK$9,991 million) and recognised a gain of A$1,586 million (HK$8,900 million) (after tax and transaction costs: A$1,180 million (HK$6,619 million)).

5. 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.

	2016 HK$M	2015 HK$M (Restated)
Finance costs		
Interest expenses on		
Bank loans and overdrafts	**924**	1,196
Other borrowings	**893**	1,096
Tariff Stabilisation Fund [(a)]	**2**	2
Customers' deposits and fuel clause over-recovery	**151**	116
Finance charges under finance leases	**2**	2
Costs associated with the early termination of debt in Australia [(b)]	**–**	1,226
Other finance charges	**281**	259
Net fair value loss / (gain) on debt related derivative financial instruments		
Reclassified from cash flow hedge reserve and costs of hedging reserves	**34**	(221)
Fair value hedges	**(9)**	(110)
Transactions not qualifying as hedges	**(70)**	45
Ineffectiveness of cash flow hedges	**7**	(16)
Ineffectiveness of fair value hedges	**6**	(7)
Loss on hedged items in fair value hedges	**9**	110
Other net exchange loss on financing activities	**268**	710
	2,498	4,408
Less: amount capitalised [(c)]	**(237)**	(302)
	2,261	4,106
Finance income		
Interest income on short-term investments, bank deposits and loan to a joint venture	**137**	170

Notes:

(a) In accordance with the provisions of the SoC Agreement, 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 (Note 22).

(b) In 2015, following receipt of the sale proceeds of Iona Gas Plant (Note 4(d)), EnergyAustralia reduced its debt. The termination costs of debt together with the costs required to close out associated hedging derivatives (including fair value loss on cash flow hedges reclassified from equity of A$84 million (HK$462 million)) totalled A$222 million (HK$1,226 million) (after tax: A$155 million (HK$858 million)).

(c) Finance costs have been capitalised at average interest rates of 1.13% – 3.03% (2015: 1.13% – 3.22%) per annum.

6. Income Tax Expense

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

	2016 HK$M	2015 HK$M (Restated)
Current income tax	**2,032**	1,818
Deferred tax	**823**	1,762
	2,855	3,580

6. Income Tax Expense (continued)

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 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:

	2016 HK$M	2015 HK$M (Restated)
Profit before income tax	**16,663**	20,329
Less: Share of results of joint ventures and associates, net of income tax	**(1,641)**	(2,245)
	15,022	18,084
Calculated at an income tax rate of 16.5% (2015: 16.5%)	**2,479**	2,984
Effect of different income tax rates in other countries	**460**	718
Income not subject to tax	**(184)**	(70)
Expenses not deductible for tax purposes	**238**	264
Revenue adjustment for SoC not subject to tax (Note 22)	**(43)**	(30)
Over-provision in prior years	**(98)**	(12)
Utilisation of previously unrecognised tax losses	**–**	(276)
Tax losses not recognised	**3**	2
Income tax expense	**2,855**	3,580

7. Dividends

	2016 HK$ per Share	**2016 HK$M**	2015 HK$ per Share	2015 HK$M
First to third interim dividends paid	**1.71**	**4,320**	1.65	4,169
Fourth interim dividend declared	**1.09**	**2,754**	1.05	2,653
	2.80	**7,074**	2.70	6,822

At the Board meeting held on 27 February 2017, the Directors declared the fourth interim dividend of HK$1.09 per share (2015: HK$1.05 per share). The fourth interim dividend is not reflected as dividends payable in the financial statements.

8. Earnings per Share

The earnings per share are computed as follows:

	2016	2015 (Restated)
Earnings attributable to shareholders (HK$M)	**12,711**	15,656
Weighted average number of shares in issue (thousand shares)	**2,526,451**	2,526,451
Earnings per share (HK$)	**5.03**	6.20

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 2016 (2015: nil).

9. Fixed Assets, Leasehold Land and Land Use Rights under Operating Leases and Investment Properties

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.

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. The estimated useful lives of the fixed assets are set out below:

	SoC fixed assets	Non-SoC fixed assets
Freehold land	not applicable	not depreciable
Leasehold land	unexpired term of the lease	unexpired term of the lease
Cable tunnels	100 years	30 years
Buildings and civil structures at power stations	35 years	4 – 50 years
Ash lagoon	35 years	4 – 40 years
Other buildings and civil structures	60 years	4 – 60 years
Generating plants	25 years	15 – 40 years
Overhead lines (33 kV and above)	60 years	20 years
Overhead lines (below 33 kV)	45 years	18 – 20 years
Cables	60 years	10 – 30 years
Switchgear and transformers	50 years	15 – 45 years
Substation miscellaneous	25 years	10 – 20 years
Meters	15 years	10 – 15 years
Other equipment, furniture and fittings, motor vehicles and marine crafts	5 – 10 years	3 – 30 years

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.

9. Fixed Assets, Leasehold Land and Land Use Rights under Operating Leases and Investment Properties (continued)

Accounting Policy (continued)

(B) Investment Properties (continued)

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.

Fixed assets, leasehold land and land use rights under operating leases and investment properties totalled HK$139,421 million (2015: HK$136,012 million) which included assets under construction with book value of HK$12,966 million (2015: HK$14,364 million). Movements in the accounts are as follows:

	Fixed Assets					Leasehold Land and Land Use Rights under Operating Leases	Investment Properties [a]
	Land		Buildings	Plant, Machinery and Equipment	Total		
	Freehold HK$M	Leased HK$M	HK$M	HK$M	HK$M	HK$M	HK$M
Net book value at 1 January 2015	712	486	19,652	107,283	128,133	5,696	2,554
Additions	–	–	955	10,324	11,279	22	16
Revaluation surplus	–	–	–	–	–	–	99
Transfers and disposals	10	–	(107)	(328)	(425)	–	–
Sale of subsidiaries	(10)	–	(15)	(1,109)	(1,134)	–	–
Depreciation / amortisation	–	(13)	(612)	(5,230)	(5,855)	(170)	–
Impairment charge	(19)	–	(60)	(1,786)	(1,865)	–	–
Exchange differences	(51)	–	(207)	(2,074)	(2,332)	(6)	–
Net book value at 31 December 2015	642	473	19,606	107,080	127,801	5,542	2,669
Cost / valuation	741	592	31,258	189,112	221,703	6,272	2,669
Accumulated depreciation / amortisation and impairment	(99)	(119)	(11,652)	(82,032)	(93,902)	(730)	–
Net book value at 31 December 2015	642	473	19,606	107,080	127,801	5,542	2,669
Net book value at 1 January 2016	642	473	19,606	107,080	127,801	5,542	2,669
Acquisition of subsidiaries [b]	31	–	1	1,025	1,057	2	–
Additions	11	–	838	7,910	8,759	81	1,265
Revaluation losses	–	–	–	–	–	–	(146)
Transfers and disposals	77	(43)	(121)	(411)	(498)	–	–
Depreciation / amortisation	–	(13)	(622)	(5,338)	(5,973)	(174)	–
Impairment charge	–	–	–	(38)	(38)	–	–
Exchange differences	(16)	–	(201)	(702)	(919)	(7)	–
Net book value at 31 December 2016	**745**	**417**	**19,501**	**109,526**	**130,189**	**5,444**	**3,788**
Cost / valuation	842	539	31,629	195,507	228,517	6,344	3,788
Accumulated depreciation / amortisation and impairment	(97)	(122)	(12,128)	(85,981)	(98,328)	(900)	–
Net book value at 31 December 2016	**745**	**417**	**19,501**	**109,526**	**130,189**	**5,444**	**3,788**

9. Fixed Assets, Leasehold Land and Land Use Rights under Operating Leases and Investment Properties (continued)

Notes:

(a) During the year, the Group acquired the commercial interest of the retail portion of the Laguna Mall. The acquisition was completed at the end of April 2016. The Group's another investment property is located at Argyle Street, Kowloon. The investment properties were revalued at 31 December 2016 by Knight Frank Petty Limited (Knight Frank). Details of the fair value estimation of the properties are as follows:

- Knight Frank has valued the retail portion of Laguna Mall by using the income capitalisation approach, cross-referenced with comparable market transactions. The income capitalisation approach is based on the capitalisation of the existing rental / licence income and potential reversionary income over the remaining tenure of the property from the date of valuation at appropriate capitalisation rates that by reference to the yields achieved in analysed market sales transactions and as expected by investors. The significant unobservable input is the capitalisation rate adopted for the valuation which is 4.25% in 2016. The fair value measurement is negatively correlated to the capitalisation rate.
- In formulating the optimal development of the Argyle Street site, Knight Frank has taken into account the development constraints stipulated on the covenants of the Government Leases and subsequent modifications as at the valuation date. Knight Frank has adopted the residual valuation method by making reference to the development potential of the property after deduction of costs for completion of development. Comparable transactions of similar development in the locality were gathered for gross development value assessment. The significant unobservable inputs are discount rate, cost of development and estimated return in the future for the property. The discount rate used is 5% (2015: 5%) and the higher the rate, the lower the fair value of the properties.

The recurring fair value measurement of the Group's investment properties is categorised within Level 3 of the fair value hierarchy at 31 December 2016 and 2015.

(b) In June 2016, the Group acquired 49% interest in SE Solar Limited, with an option to acquire the remaining 51% interest one year after commissioning, to develop a 100MW solar farm in Telangana, India. SE Solar Limited is treated as a subsidiary because the Group has control over the company.

In July 2016, the Group acquired the remaining 49% interest in Sihong Tianganghu PV Power Co., Ltd. (Sihong Solar), which owns and operates a 93MW solar farm in Jiangsu, China, from its joint venture partner for a consideration of HK$234 million (RMB201 million). Sihong Solar became the wholly-owned subsidiary of the Group since then.

10. Goodwill and Other Intangible Assets

Accounting Policy

(A) Goodwill

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

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

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

(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 and carried at cost less accumulated amortisation and accumulated impairment losses.

10. Goodwill and Other Intangible Assets (continued)

	Goodwill [(a)] HK$M	Capacity Right [(b)] HK$M	Others [(c)] HK$M	Total HK$M
Net carrying value at 1 January 2015	23,104	5,434	2,591	31,129
Additions	–	11	155	166
Amortisation	–	(272)	(468)	(740)
Impairment charge	(129)	–	(9)	(138)
Exchange differences	(1,888)	–	(272)	(2,160)
Net carrying value at 31 December 2015	21,087	5,173	1,997	28,257
Cost	21,218	5,626	7,569	34,413
Accumulated amortisation and impairment	(131)	(453)	(5,572)	(6,156)
Net carrying value at 31 December 2015	21,087	5,173	1,997	28,257
Net carrying value at 1 January 2016	21,087	5,173	1,997	28,257
Additions	–	13	383	396
Amortisation	–	(273)	(489)	(762)
Disposals	–	–	(1)	(1)
Exchange differences	(213)	–	(24)	(237)
Net carrying value at 31 December 2016	**20,874**	**4,913**	**1,866**	**27,653**
Cost	21,003	5,639	7,845	34,487
Accumulated amortisation and impairment	(129)	(726)	(5,979)	(6,834)
Net carrying value at 31 December 2016	**20,874**	**4,913**	**1,866**	**27,653**

Notes:

(a) Goodwill mostly arose from the previous acquisitions of energy retail business in Australia of HK$15,269 million (2015: HK$15,480 million) and the acquisition of CAPCO under Hong Kong electricity business of HK$5,545 million (2015: HK$5,545 million) in 2014. In accordance with the Group's accounting policies, the Group has assessed the recoverable amount of goodwill for the corresponding CGUs and determined that such goodwill has not been impaired. The recoverable amount of the CGUs 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 2016 based on an approved Business Plan which has a forecast covering a period of ten years and necessary updates. Projections for a period of greater than five years have been used on the basis that a longer projection period represents the long dated nature of our generation and electricity supply assets and a more appropriate reflection of future cash flows from anticipated legislative, regulatory and structural changes in the industry. The long term price curve used at EnergyAustralia's Business Plan was adjusted to incorporate the announcement of Hazelwood closure on 3 November 2016 in assessing the recoverable amount.

The key assumptions used in the value in use calculations are as follows:

Energy retail business in Australia

- Retail prices are sensitive to regulatory changes including regulation and deregulation of retail tariffs. In the absence of any known or expected changes to the current pricing structure, the retail price path assumptions are based on management estimates and expectations on current market conditions and the Group's expectation of regulatory outcomes.
- The electricity and gas volumes for purchases and sales represent the forecast projections in the EnergyAustralia Business Plan. External information is used to verify and align internal estimates.
- The number of customer accounts for electricity and gas aligns with the EnergyAustralia Business Plan.
- 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.
- Electricity pool prices, generation volumes, dispatch levels and gas prices were derived using modelling of the electricity wholesales market. NEM modelling is prepared internally, where possible, using observable inputs. The modelling used for the electricity wholesale and gas markets is based on past experience and observable market activity.
- The cash flow projections are discounted using a pre-tax discount rate of 11.8% (2015: 12.6%). The discount rates reflect the current market assessments of the time value of money and are based on the estimated cost of capital.
- A terminal growth rate has been used in estimating cash flows beyond a period of ten years. A nominal rate of 0.4% has been used, reflective of long term growth rates.

It is considered that there are no reasonably possible changes that could occur in any of the key assumptions above that would cause the recoverable amount to be less than its carrying value at 31 December 2016.

10. Goodwill and Other Intangible Assets (continued)

Notes (continued):

Hong Kong electricity business

- Goodwill arising from the CAPCO acquisition has been allocated to the CLP Power Hong Kong and CAPCO combined CGU as the acquisition is considered beneficial to the whole SoC business.
- The electricity tariff for the supply of electricity in meeting the demand of customers in Hong Kong over the forecast periods is determined with reference to the rate-setting mechanism under the SoC.
- The forecast for electricity demand is based on the load forecast to support local infrastructure development and meeting customer load requirements, maintaining safety and supply reliability, and meeting environmental requirements.
- Expenditures for the supply of electricity in meeting the forecast demand are based on committed purchase contracts where applicable, and inputs on costs trend as specific to the electricity business in Hong Kong. Such forecast aligns with the projection in the Business Plan for our Hong Kong electricity business, with capital expenditures for the periods to 2018 aligned with those forecasted in the approved development plan.
- Terminal value of the CGU is adopted to estimate the cash flows to be generated for the periods beyond ten years. This is expressed as a multiple of net asset values which corresponds to our return model based on fixed assets investment. The terminal value is a multiple of 1.2 times of the net asset values forecasted as at the end of 2026.
- The cash flow projections are discounted using a pre-tax discount rate of 11.87% (2015: 11.92%), or a post-tax discount rate of 9.99% which reflects the SoC return rate applicable to the electricity business in Hong Kong.

(b) Capacity right represents the right to use 50% of the pumped storage capacity of Phase 1 of the Guangzhou Pumped Storage Power Station in Conghua, Guangzhou and the corresponding right to use the associated transmission facilities until 2034.

(c) The balance includes contracted customers and other identifiable intangible assets from EnergyAustralia.

11. Interests in and Loan to Joint Ventures

Accounting Policy No. 4(B)

The table below lists the material joint ventures of the Group at 31 December 2016:

Name	% of Ownership Interest at 31 December 2015 and 2016	Place of Incorporation / Business	Principal Activity
CSEC Guohua International Power Company Limited [a]	30	Mainland China	Generation of Electricity
CLP Guangxi Fangchenggang Power Company Limited [b]	70 [c]	Mainland China	Generation of Electricity
ShenGang Natural Gas Pipeline Company Limited (SNGPC) [b]	40	Mainland China	Natural Gas Transportation
OneEnergy Taiwan Ltd (OneEnergy Taiwan) [d]	50	British Virgin Islands / Taiwan	Investment Holding
Shandong Zhonghua Power Company, Ltd. (SZPC) [e]	29.4	Mainland China	Generation of Electricity

Notes:

(a) Registered as Sino-Foreign Joint Stock Company under People's Republic of China (PRC) law

(b) Registered as Sino-Foreign Equity Joint Ventures under PRC law

(c) 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 indirectly owns a 40% interest in Ho-Ping Power Company.

(e) Registered as Sino-Foreign Cooperative Joint Ventures under PRC law

More details information of our joint ventures can be found on page 6 of the Annual Report.

11. Interests in and Loan to Joint Ventures (continued)

Summarised financial information of significant joint ventures and the Group's share of results and net assets are as follows:

	CSEC Guohua [(a)] HK$M	Fang-chenggang [(b)] HK$M	SNGPC HK$M	OneEnergy Taiwan HK$M	SZPC HK$M	Others HK$M	Total HK$M
For the year ended 31 December 2016							
Revenue	**11,409**	**1,148**	**979**	**–**	**6,770**	**1,695**	**22,001**
Depreciation and amortisation	**(1,506)**	**(178)**	**(130)**	**–**	**(923)**	**(564)**	**(3,301)**
Interest income	**2**	**3**	**4**	**–**	**3**	**10**	**22**
Interest expense	**(375)**	**(127)**	**(89)**	**–**	**(194)**	**(226)**	**(1,011)**
Other expenses	**(8,235)**	**(1,098)**	**(209)**	**(2)**	**(4,424)**	**(447)**	**(14,415)**
Share of results of joint ventures	**–**	**–**	**–**	**497**	**–**	**(11)**	**486**
Profit / (loss) before income tax	**1,295**	**(252)**	**555**	**495**	**1,232**	**457**	**3,782**
Income tax expense	**(425)**	**(7)**	**(142)**	**–**	**(358)**	**(88)**	**(1,020)**
Profit / (loss) for the year	**870**	**(259)**	**413**	**495**	**874**	**369**	**2,762**
Non-controlling interests	**(480)**	**–**	**–**	**–**	**–**	**–**	**(480)**
Profit / (loss) for the year attributable to shareholders	**390**	**(259)**	**413**	**495**	**874**	**369**	**2,282**
Profit / (loss) for the year	**870**	**(259)**	**413**	**495**	**874**	**369**	**2,762**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**70**	**70**
Total comprehensive income	**870**	**(259)**	**413**	**495**	**874**	**439**	**2,832**
Group's share							
Profit / (loss) for the year attributable to shareholders	**117**	**(181)**	**165**	**247**	**257**	**132**	**737**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**35**	**35**
Total comprehensive income	**117**	**(181)**	**165**	**247**	**257**	**167**	**772**
Dividends from joint ventures	**39**	**–**	**131**	**212**	**541**	**148**	**1,071**
For the year ended 31 December 2015							
Revenue	13,115	1,396	947	–	7,931	1,937	25,326
Depreciation and amortisation	(2,045)	(183)	(137)	–	(964)	(604)	(3,933)
Interest income	1	2	4	–	4	14	25
Interest expense	(499)	(154)	(124)	–	(257)	(312)	(1,346)
Other expenses	(9,320)	(880)	(206)	(2)	(4,024)	(486)	(14,918)
Share of results of joint ventures	–	–	–	549	–	(7)	542
Profit before income tax	1,252	181	484	547	2,690	542	5,696
Income tax expense	(384)	(49)	(122)	–	(710)	(60)	(1,325)
Profit for the year	868	132	362	547	1,980	482	4,371
Non-controlling interests	(627)	–	–	–	–	–	(627)
Profit for the year attributable to shareholders	241	132	362	547	1,980	482	3,744
Profit for the year	868	132	362	547	1,980	482	4,371
Other comprehensive income	–	–	–	(1)	–	159	158
Total comprehensive income	868	132	362	546	1,980	641	4,529
Group's share							
Profit for the year attributable to shareholders	73	93	144	273	582	192	1,357
Other comprehensive income	–	–	–	(1)	–	79	78
Total comprehensive income	73	93	144	272	582	271	1,435
Dividends from joint ventures	144	316	–	200	579	154	1,393

Notes:

(a) The Group's share of results of CSEC Guohua included its share of impairment provision for Beijing Yire Power Station of HK$58 million (2015: HK$243 million).

(b) Due to the impact of several factors including the economic slowdown, discounted tariff of direct sale and oversupplied market in Guangxi Province, Fangchenggang performed below management's expectation. Its carrying value was reassessed and an impairment provision of HK$199 million was included in the share of results in 2016.

11. Interests in and Loan to Joint Ventures (continued)

	CSEC Guohua HK$M	Fang-chenggang HK$M	SNGPC HK$M	OneEnergy Taiwan HK$M	SZPC HK$M	Others HK$M	Total HK$M
At 31 December 2016							
Non-current assets	**22,691**	**8,098**	**3,329**	**3,102**	**6,685**	**8,822**	**52,727**
Current assets							
Cash and cash equivalents	**450**	**158**	**224**	**2**	**147**	**384**	**1,365**
Other current assets	**3,169**	**679**	**49**	**1**	**604**	**578**	**5,080**
	3,619	**837**	**273**	**3**	**751**	**962**	**6,445**
Current liabilities							
Financial liabilities	**(7,471)**	**(477)**	**(376)**	**–**	**(2,327)**	**(873)**	**(11,524)**
Other current liabilities [c]	**(1,358)**	**(1,233)**	**(80)**	**–**	**(1,077)**	**(438)**	**(4,186)**
	(8,829)	**(1,710)**	**(456)**	**–**	**(3,404)**	**(1,311)**	**(15,710)**
Non-current liabilities							
Financial liabilities	**(1,983)**	**(4,587)**	**–**	**–**	**(1,867)**	**(3,073)**	**(11,510)**
Shareholders' loans	**–**	**–**	**(1,355)**	**–**	**–**	**(60)**	**(1,415)**
Other non-current liabilities [c]	**(1,467)**	**(43)**	**(17)**	**–**	**(38)**	**(57)**	**(1,622)**
	(3,450)	**(4,630)**	**(1,372)**	**–**	**(1,905)**	**(3,190)**	**(14,547)**
Non-controlling interests	**(5,858)**	**–**	**–**	**–**	**–**	**–**	**(5,858)**
Net assets	**8,173**	**2,595**	**1,774**	**3,105**	**2,127**	**5,283**	**23,057**
Group's share of net assets	**2,452**	**1,817**	**710**	**1,553**	**625**	**2,231**	**9,388**
Goodwill	**–**	**–**	**–**	**–**	**–**	**41**	**41**
Interests in joint ventures	**2,452**	**1,817**	**710**	**1,553**	**625**	**2,272**	**9,429**
Loan [d]	**–**	**–**	**542**	**–**	**–**	**–**	**542**
	2,452	**1,817**	**1,252**	**1,553**	**625**	**2,272**	**9,971**
At 31 December 2015							
Non-current assets	25,509	7,361	3,704	2,978	7,964	11,257	58,773
Current assets							
Cash and cash equivalents	72	153	254	3	406	688	1,576
Other current assets	4,207	302	56	1	893	806	6,265
	4,279	455	310	4	1,299	1,494	7,841
Current liabilities							
Financial liabilities	(8,919)	(419)	(305)	–	(1,855)	(1,265)	(12,763)
Other current liabilities [c]	(2,067)	(718)	(39)	–	(1,139)	(728)	(4,691)
	(10,986)	(1,137)	(344)	–	(2,994)	(1,993)	(17,454)
Non-current liabilities							
Financial liabilities	(2,523)	(3,599)	–	–	(2,914)	(4,631)	(13,667)
Shareholders' loans	–	–	(1,857)	–	–	(59)	(1,916)
Other non-current liabilities [c]	(1,421)	(37)	(5)	(1)	(44)	(59)	(1,567)
	(3,944)	(3,636)	(1,862)	(1)	(2,958)	(4,749)	(17,150)
Non-controlling interests	(6,356)	–	–	–	–	–	(6,356)
Net assets	8,502	3,043	1,808	2,981	3,311	6,009	25,654
Group's share of net assets	2,551	2,131	723	1,491	973	2,594	10,463
Goodwill	–	–	–	–	–	44	44
Interests in joint ventures	2,551	2,131	723	1,491	973	2,638	10,507
Loan [d]	–	–	743	–	–	–	743
	2,551	2,131	1,466	1,491	973	2,638	11,250

Notes:

(c) Including trade and other payables and provisions

(d) Loan to a joint venture is unsecured, carries interest at 90% (2015: 90%) of the over five years Renminbi benchmark lending rate of the People's Bank of China and with final maturity in June 2022. The current portion of the loan of HK$151 million (2015: HK$122 million) was included in the Group's other receivables. There was no impairment recognised on the loan at 31 December 2016 and 2015.

11. Interests in and Loan to Joint Ventures (continued)

	2016 **HK$M**	2015 HK$M
Share of capital commitments	**490**	1,587
Share of contingent liabilities	**55**	58

The Group's capital commitments in relation to its interests in joint ventures are disclosed in Note 28(B).

12. Interests in Associates

Accounting Policy No. 4(B)

The balance represents the Group's share of net assets of Guangdong Nuclear Power Joint Venture Company, Limited (GNPJVC) and Redback Technologies Limited in Australia at the end of the reporting period.

GNPJVC is unlisted, incorporated and operates in Mainland China, and its registered capital is 25% owned by the Group and 75% owned by Guangdong Nuclear Investment Company, Limited (GNIC). 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 its results and net assets are as follows:

	2016 **HK$M**	2015 HK$M
Revenue	**7,722**	7,552
Profit and total comprehensive income	**3,628**	3,552
Group's share of profit and total comprehensive income	**907**	888
Dividends	**905**	889
Non-current assets	**3,308**	3,283
Current assets	**8,662**	8,572
Current liabilities	**(5,535)**	(5,369)
Non-current liabilities	**(3,292)**	(3,346)
Net assets	**3,143**	3,140
Group's share of net assets	**786**	785

At 31 December 2016, the Group's share of capital commitments of its associates was HK$101 million (2015: HK$96 million).

The Group's capital commitments in relation to its interest in an associate are disclosed in Note 28(B).

13. Finance Lease Receivables

Accounting Policy No. 10

	Minimum Lease Payments		**Present Value of Minimum Lease Payments**	
	2016 **HK$M**	2015 HK$M	**2016** **HK$M**	2015 HK$M
Amounts receivable under finance leases				
Within one year	**153**	166	**51**	52
After one year but within five years	**808**	1,005	**713**	799
	961	1,171	**764**	851
Less: unearned finance income	**(197)**	(320)		
Present value of minimum lease payments receivable	**764**	851		

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 Plant (Paguthan) to its offtaker, Gujarat Urja Vikas Nigam Limited (GUVNL). The effective interest rate implicit in the finance lease was approximately 13.4% for both 2016 and 2015.

14. Derivative Financial Instruments

Accounting Policy

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 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 fuel costs in the case of inventory or in depreciation in the case of fixed assets.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, 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 and loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that has been reported 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.

14. Derivative Financial Instruments (continued)

Accounting Policy (continued)

Additional policies relating to HKFRS 9 which are applicable from 1 January 2016 are:

(D) Costs of hedging

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

(E) Rebalancing of hedge relationships

If the hedge ratio for risk management purposes is no longer optimal but the risk management objective remains unchanged and the hedge continues to qualify for hedge accounting, the hedge relationship will be rebalanced by adjusting either the volume of the hedging instrument or the volume of the hedged item so that the hedge ratio aligns with the ratio used for risk management purposes. Any hedge ineffectiveness is calculated and accounted for in profit or loss at the time of the hedge relationship rebalancing.

	2016		2015	
	Assets HK$M	**Liabilities HK$M**	Assets HK$M	Liabilities HK$M
Cash flow hedges				
Forward foreign exchange contracts	**180**	**34**	595	135
Foreign exchange options	**37**	**–**	83	–
Cross currency interest rate swaps	**462**	**973**	529	1,544
Interest rate swaps	**127**	**92**	18	195
Energy contracts	**507**	**94**	27	11
Fair value hedges				
Cross currency interest rate swaps	**31**	**407**	94	424
Interest rate swaps	**–**	**118**	13	78
Held for trading or not qualifying as accounting hedges				
Forward foreign exchange contracts	**299**	**45**	60	115
Foreign exchange options	**1**	**–**	–	–
Interest rate swaps	**34**	**9**	31	9
Energy contracts	**533**	**785**	228	886
	2,211	**2,557**	1,678	3,397
Current	**692**	**977**	600	595
Non-current	**1,519**	**1,580**	1,078	2,802
	2,211	**2,557**	1,678	3,397

Although termed "held for trading or not qualifying as accounting hedges" above, these derivatives are used as "economic hedges" or for the purpose of understanding energy price movements.

CLP has early adopted HKFRS 9. The resulted changes in accounting policies are discussed in Note 3 of Significant Accounting Policies. If you want to learn more about hedge accounting, please read this year's accounting "mini-series".

14. Derivative Financial Instruments (continued)

At 31 December 2016, the contractual maturity profile of the hedging instruments from the end of the reporting period is summarised below:

Forward foreign exchange contracts	Up to 8 years
Foreign exchange options	Up to 6 years
Cross currency interest rate swaps	Up to 14 years
Interest rate swaps	Up to 11 years
Energy contracts	Up to 12 years

The maturities of the derivative financial instruments used for hedging 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 cash flow hedge 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.

15. Equity Investments

Accounting Policy

(i) Policy relating to HKFRS 9 which is applicable from 1 January 2016

Equity investments are initially recognised at fair value and are subsequently measured at fair value through profit or loss. However, at initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to present in other comprehensive income subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination.

Where an equity investment is elected to present subsequent changes in the fair value in other comprehensive income, the gains or losses on such equity investments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends on equity investments are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in other comprehensive income. Cumulative gains and losses recognised in other comprehensive income are transferred to retained earnings on disposal of an equity investment.

(ii) Policy which is applicable before 1 January 2016

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. They are initially recognised at fair value plus transaction costs and are subsequently carried at fair value. Changes in the fair value of available-for-sales equity investments are recognised in other comprehensive income. When an available-for-sale equity investment 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.

15. Equity Investments (continued)

	Investments at Fair Value Through Other Comprehensive Income 2016 HK$M	Available-for-sale Investments 2015 HK$M
CGN Wind Power Company Limited	**1,190**	1,190
Others	**338**	454
	1,528	1,644

At 1 January 2016, the Group made an irrevocable election to present all changes in the fair value of the equity investments through other comprehensive income, as explained in Note 3 of the Significant Accounting Policies.

16. Trade and Other Receivables

Accounting Policy

(i) Policy relating to HKFRS 9 which is applicable from 1 January 2016

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

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

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

(ii) Policy applicable before 1 January 2016

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.

16. Trade and Other Receivables (continued)

	2016 HK$M	2015 HK$M
Trade receivables [(a)]	**9,772**	10,061
Deposits, prepayments and other receivables	**2,814**	2,613
Dividend receivables from		
Joint ventures	**105**	80
Associates	**895**	877
Loan to and current accounts with [(b)]		
Joint ventures	**212**	180
Associates	**1**	1
	13,799	13,812

Notes:

(a) Trade receivables

Credit risk management

The Group has no significant concentrations of credit risk with respect to the trade receivables in Hong Kong and Australia as their customer bases are widely dispersed in different sectors and industries. The Group has established credit policy for customers in each of its retail business.

In Hong Kong, customers are allowed to settle their electricity bills within two weeks after issue. To limit the credit risk exposure, 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 2016, such cash deposits amounted to HK$4,998 million (2015: HK$4,829 million) and the bank guarantees stood at HK$818 million (2015: HK$843 million). The customer deposits are repayable on demand and bear interest at the HSBC bank savings rate.

In Australia, customers are allowed to settle their electricity bills within 7 to 45 days after issue. EnergyAustralia has policies in place to ensure that sales of products and services are made to major retail customers of an appropriate credit quality and collectability is reviewed on an ongoing basis.

Trade receivables arising from sales of electricity to the offtakers in India and Mainland China are due for settlement within 15 to 60 days and 30 to 90 days after bills issue respectively. The offtakers of these regions are mainly state-owned enterprises. Management has closely monitored the credit qualities and the collectability of these trade receivables and considers that the expected credit risks of them are close to zero. At 31 December 2016, trade receivables of HK$563 million relating to CLP India's renewable projects were past due and not considered impaired as there are no recent history of default and continuous payment received. Trade receivables in dispute are assessed individually for impairment allowance and determined whether specific provisions are required. Further information about disputed trade receivables of CLP India is disclosed in Note 30.

Expected credit losses

CLP Power Hong Kong and EnergyAustralia determine the provision for expected credit losses by grouping together trade receivables with similar credit risk characteristics and collectively assessing them for likelihood of recovery, taking into account prevailing economic conditions. For trade receivables relating to accounts which are long overdue with significant amounts or known insolvencies or non-response to collection activities, they are assessed individually for impairment allowance.

The following tables summarise the expected credit losses on the trade receivables of CLP Power Hong Kong and EnergyAustralia at 31 December 2016.

<u>CLP Power Hong Kong</u>

CLP Power Hong Kong classifies its trade receivables by nature of customer accounts. These include active accounts and terminated accounts.

	Lifetime Expected Credit Loss Rate	Gross Carrying Amount HK$M	Lifetime Expected Credit Loss HK$M	Net Carrying Amount HK$M
Active accounts				
Provision on individual basis	100%	1	(1)	–
Provision on collective basis	0%*	1,949	–	1,949
Terminated accounts				
Provision on individual basis	100%	5	(5)	–
Provision on collective basis	26%	7	(2)	5
		1,962	(8)	1,954

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

16. Trade and Other Receivables (continued)

Notes (continued):

(a) Trade receivables (continued)

EnergyAustralia

EnergyAustralia categories its trade receivables based on the ageing. EnergyAustralia recognises lifetime expected credit losses for receivables by assessing future cash flows for each group of trade receivables including a probability weighted amount determined by evaluating a range of possible outcomes based on twelve month rolling historical credit loss experience by customer segment, geographical region, tenure and type of customer and applying to the receivables held at year end. The determining factor impacting collectability is customer attributes. The impact of economic factors both current and future is considered in assessing the likelihood of recovery from customers.

	Weighted Average Lifetime Expected Credit Loss Rate	Gross Carrying Amount HK$M	Lifetime Expected Credit Loss HK$M	Net Carrying Amount HK$M
Current	1%	4,076	(35)	4,041
1 – 30 days	9%	510	(45)	465
31 – 60 days	20%	234	(48)	186
61 – 90 days	20%	223	(44)	179
Over 90 days	62%	1,193	(740)	453
		6,236	(912)	5,324

The ageing analysis of trade receivables at 31 December 2015 based on the recognition and measurement criteria of HKAS 39 is as follows:

	Not Impaired HK$M	Subject to Impairment HK$M	Provision for Impairment HK$M	Total HK$M
Not yet due	7,024	671	(58)	7,637
Overdue				
1 – 30 days	135	540	(55)	620
31 – 90 days	215	450	(107)	558
Over 90 days	778	1,722	(1,254)	1,246
	8,152	3,383	(1,474)	10,061

The ageing analysis of the trade receivables at 31 December based on invoice date is as follows:

	2016 HK$M	2015 HK$M
30 days or below	**6,832**	7,788
31–90 days	**763**	744
Over 90 days	**2,177**	1,529
	9,772	10,061

"Ageing analysis based on invoice date" is presented to meet the reporting requirements under the Listing Rules of the Hong Kong Stock Exchange.

Invoice date = Date of issue of an invoice

Due date = Invoice date + credit period granted to customers

16. Trade and Other Receivables (continued)

Notes (continued):

(a) Trade receivables (continued)

Movements in the provision for impairment are as follows:

	2016 **HK$M**	2015 HK$M
Balance at 1 January	**1,474**	1,409
Provision for impairment	**350**	455
Receivables written off during the year as uncollectable	**(516)**	(254)
Amounts reversed	**(1)**	(3)
Exchange differences	**(19)**	(133)
Balance at 31 December	**1,288**	1,474

(b) The current accounts with joint ventures and associates are unsecured, interest free and have no fixed repayment terms.

17. 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.

	2016 **HK$M**	2015 HK$M
Trust accounts restricted under TRAA (note)	**198**	232
Bank deposits	**2,789**	2,220
Bank balances and cash	**1,680**	1,347
	4,667	3,799

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$1,374 million (2015: HK$2,162 million) which was mostly denominated in Renminbi (2015: Renminbi).

18. 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.

	2016 HK$M	2015 HK$M
Trade payables [(a)]	**6,019**	5,904
Other payables and accruals	**6,512**	5,599
Advances from non-controlling interests [(b)]	**6,692**	6,720
Current accounts with [(c)]		
Joint ventures	**1**	1
Associates	**606**	577
Deferred revenue [(d)]	**91**	222
	19,921	19,023

Notes:

(a) The ageing analysis of trade payables at 31 December based on invoice date is as follows:

	2016 HK$M	2015 HK$M
30 days or below	**5,632**	5,759
31–90 days	**188**	106
Over 90 days	**199**	39
	6,019	5,904

At 31 December 2016, trade payables denominated in a currency other than the functional currency of the corresponding Group entities amounted to HK$704 million (2015: HK$778 million), which were mostly denominated in US dollar of HK$532 million (2015: HK$571 million) and Renminbi of HK$63 million (2015: HK$66 million).

(b) The advances from non-controlling interests represented the advances from China Southern Power Grid International (HK) Co., Limited (CSG HK) to CAPCO. Pursuant to the agreement between the shareholders of CAPCO, both CLP Power Hong Kong and CSG HK are required to provide shareholders' advances pro rata to their shareholdings in CAPCO. The advances are unsecured, interest free and have no fixed repayment terms. The advances are mainly denominated in US dollar.

(c) The amounts payable to joint ventures and associates are unsecured, interest free and have no fixed repayment terms.

(d) Non-current deferred revenue of HK$1,239 million (2015: HK$1,193 million) was included under other non-current liabilities.

19. 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.

At 31 December 2016, the Group's bank loans and other borrowings were repayable as follows:

	Bank Loans		Other Borrowings *		Total	
	2016 HK$M	2015 HK$M	**2016 HK$M**	2015 HK$M	**2016 HK$M**	2015 HK$M
Within one year	**9,123**	12,189	**1,528**	1,000	**10,651**	13,189
Between one and two years	**4,563**	4,790	**231**	1,450	**4,794**	6,240
Between two to five years	**6,516**	6,562	**8,972**	5,898	**15,488**	12,460
Over five years	**4,699**	5,071	**16,014**	18,523	**20,713**	23,594
	24,901	28,612	**26,745**	26,871	**51,646**	55,483

* Other borrowings mainly included Medium Term Notes of HK$24,955 million (2015: HK$25,387 million) and bonds (INR) of HK$1,469 million (2015: HK$1,252 million).

Another presentation of the Group's liquidity risk is set out on page 230.

Total borrowings included secured liabilities of HK$12,275 million (2015: HK$13,039 million), analysed as follows:

	2016 HK$M	2015 HK$M
CLP India and its subsidiaries [(a)]	**7,589**	8,835
Subsidiaries in Mainland China [(b)]	**4,686**	4,204
	12,275	13,039

Notes:

(a) Bank loans and bonds for CLP India and its subsidiaries are secured by fixed and floating charges over their immovable and moveable properties and current assets with total carrying amounts of HK$13,854 million (2015: HK$14,845 million).

(b) Bank loans for subsidiaries in Mainland China are secured by rights of receipt of tariff, fixed assets and land use rights, with the carrying amounts of these fixed assets and land use rights of HK$7,397 million (2015: HK$4,571 million).

Bank loans and other borrowings totalling HK$13,832 million (2015: HK$14,201 million) were attributed to overseas subsidiaries and are non-recourse to the Company.

At 31 December 2016 and 2015, all of the Group's borrowings are either in the functional currencies of the corresponding Group entities or hedged into those currencies.

At 31 December 2016, the Group had undrawn bank loans and overdraft facilities of HK$23,986 million (2015: HK$29,685 million).

20. Deferred Tax

Accounting Policy

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.

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:

	2016 HK$M	2015 HK$M
Deferred tax assets	**981**	1,690
Deferred tax liabilities	**(13,819)**	(13,476)
	(12,838)	(11,786)

Deferred tax asset = income tax recoverable in the future
Deferred tax liability = income tax payable in the future

Substantially all deferred tax balances are to be recovered or settled after more than 12 months.

The gross movement on the deferred tax account is as follows:

	2016 HK$M	2015 HK$M (Restated)
At 1 January	**(11,786)**	(9,590)
Charged to profit or loss (Note 6)	**(823)**	(1,762)
Charged to other comprehensive income	**(230)**	(86)
Acquisition of subsidiaries	**(1)**	–
Withholding tax	**–**	44
Exchange differences	**2**	(392)
At 31 December	**(12,838)**	(11,786)

20. Deferred Tax (continued)

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	
	2016 HK$M	2015 HK$M	**2016 HK$M**	2015 HK$M	**2016 HK$M**	2015 HK$M	**2016 HK$M**	2015 HK$M
At 1 January	**730**	2,913	**860**	1,291	**453**	880	**2,043**	5,084
Credited / (charged) to profit or loss	**114**	(1,881)	**(43)**	(276)	**129**	(365)	**200**	(2,522)
(Charged) / credited to other comprehensive income	**–**	–	**(14)**	(34)	**(20)**	1	**(34)**	(33)
Acquisition of subsidiaries	**–**	–	**–**	–	**4**	–	**4**	–
Exchange differences	**(20)**	(302)	**(16)**	(121)	**(8)**	(63)	**(44)**	(486)
At 31 December	**824**	730	**787**	860	**558**	453	**2,169**	2,043

Deferred tax liabilities (prior to offset)

	Accelerated Tax Depreciation		Withholding / Dividend Distribution Tax		Intangibles		Others [b]		Total	
	2016 HK$M	2015 HK$M	**2016 HK$M**	2015 HK$M	**2016 HK$M**	2015 HK$M	**2016 HK$M**	2015 HK$M (Restated)	**2016 HK$M**	2015 HK$M (Restated)
At 1 January	**(12,202)**	(12,064)	**(72)**	(279)	**(1,215)**	(1,365)	**(340)**	(966)	**(13,829)**	(14,674)
(Charged) / credited to profit or loss	**(910)**	(100)	**8**	160	**93**	117	**(214)**	583	**(1,023)**	760
Charged to other comprehensive income	**–**	–	**–**	–	**–**	–	**(196)**	(53)	**(196)**	(53)
Acquisition of subsidiaries	**–**	–	**(5)**	–	**–**	–	**–**	–	**(5)**	–
Withholding tax	**–**	–	**–**	44	**–**	–	**–**	–	**–**	44
Exchange differences	**23**	(38)	**1**	3	**2**	33	**20**	96	**46**	94
At 31 December	**(13,089)**	(12,202)	**(68)**	(72)	**(1,120)**	(1,215)	**(730)**	(340)	**(15,007)**	(13,829)

Notes:

(a) The deferred tax asset arising from tax losses related to the electricity businesses in India of HK$823 million (2015: HK$723 million). The expiry of tax losses ranged from eight years to no expiry.

(b) Others mainly relate to temporary differences arising from derivative financial instruments and lease accounting adjustments.

21. 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.

22. 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:

	2016 HK$M	2015 HK$M
Tariff Stabilisation Fund (A)	**786**	935
Rate Reduction Reserve (B)	**2**	2
Rent and Rates Interim Refunds (C)	**72**	72
	860	1,009

The movements in SoC reserve accounts during the year are shown as follows:

(A) Tariff Stabilisation Fund

	2016 HK$M	2015 HK$M
At 1 January	**935**	1,058
Transfer from Rate Reduction Reserve	**2**	1
Transfer under the SoC [(a)]		
– transfer for SoC to revenue (Note 3)	**(260)**	(181)
– charge for asset decommissioning [(b)]	**109**	57
At 31 December	**786**	935

Notes:

(a) Under the SoC Agreement, 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. In any period, the amount of deduction from or addition to the Tariff Stabilisation Fund is recognised as revenue adjustment to the extent that the return and charges under the SoC are recognised in profit or loss (Note 3).

(b) Under the SoC, a periodic charge for asset decommissioning is made with corresponding deferred liabilities recognised in the statement of financial position of the SoC Companies. The balance of the asset decommissioning liabilities account of HK$916 million (2015: HK$1,025 million) recognised under the SoC represents a liability of the Group.

(B) Rate Reduction Reserve

	2016 HK$M	2015 HK$M
At 1 January	**2**	1
Transfer to Tariff Stabilisation Fund	**(2)**	(1)
Interest expense charged to profit or loss (Note 5)	**2**	2
	2	2

(C) Rent and Rates Interim Refunds

CLP Power Hong Kong is challenging the amount of Government rent and rates levied dating back to the year of assessment 2001/02. While the original Lands Tribunal judgment, and the subsequent judgment on the review of valuation matters, as well as the Court of Appeal judgment on a point of law were received in CLP Power Hong Kong's favour, the final resolution of the case will be subject to the outcome of a further appeal to the Court of Final Appeal by the Hong Kong Government against the Court of Appeal judgment.

Interim refunds totalling HK$1,713 million were received by CLP Power Hong Kong from the Hong Kong Government during 2012 to 2014. These interim refunds were made by the Hong Kong Government without prejudice to the final outcome of the appeals which means that these amounts will be adjusted by reference to the decisions of the Lands Tribunal and the subsequent appeals.

Based on the latest development of the case, CLP Power Hong Kong maintains that it would recover no less than the interim refunds received to date in the final outcome of these appeals. The interim refunds continued to be classified within the SoC reserve accounts. The Rent and Rates Special Rebate provided to customers during 2012 and 2013 with the amounts of interim refunds received in 2012 and 2013 of HK$1,641 million had been offset against the interim refunds received.

22. SoC Reserve Accounts (continued)

(C) Rent and Rates Interim Refunds (continued)

In the event that the final amount recovered on conclusion of these appeals is less than the total amount rebated to customers, CLP Power Hong Kong will seek to recover any shortfall in the amounts of Rent and Rates Special Rebate already paid to customers. Similarly, if the final amount recovered exceeds the special rebates paid out, these additional amounts will be returned to customers.

23. Share Capital

	2016 Number of Ordinary Shares	**2016** Amount HK$M	2015 Number of Ordinary Shares	2015 Amount HK$M
Issued and fully paid, at 31 December	**2,526,450,570**	**23,243**	2,526,450,570	23,243

24. Reserves

	Translation Reserves HK$M	Cash Flow Hedge Reserve HK$M	Costs of Hedging Reserves HK$M	Other Reserves HK$M	Retained Profits HK$M	Total HK$M
Balance at 1 January 2015	(2,536)	561	–	2,751	63,994	64,770
Effect on adoption of HKFRS 9 (net of tax) (Note 3 of Significant Accounting Policies)	–	(339)	395	–	(56)	–
Balance at 1 January 2015, as restated	(2,536)	222	395	2,751	63,938	64,770
Earnings attributable to shareholders	–	–	–	–	15,656	15,656
Other comprehensive income						
Exchange differences on translation of						
Subsidiaries	(3,200)	–	–	–	–	(3,200)
Joint ventures	(523)	–	–	–	–	(523)
An associate	(1)	–	–	–	–	(1)
Cash flow hedges						
Net fair value gains	–	223	–	–	–	223
Reclassification to profit or loss	–	(197)	–	–	–	(197)
Tax on the above items	–	(63)	–	–	–	(63)
Costs of hedging						
Net fair value losses	–	–	(138)	–	–	(138)
Amortisation / reclassification to profit or loss	–	–	1	–	–	1
Tax on the above items	–	–	10	–	–	10
Fair value loss on equity investments	–	–	–	(63)	–	(63)
Share of other comprehensive income of joint ventures	39	(23)	–	79	–	95
Total comprehensive income attributable to shareholders	(3,685)	(60)	(127)	16	15,656	11,800
Revaluation reserve realised due to depreciation of fixed assets	–	–	–	(2)	2	–
Appropriation of reserves	–	–	–	18	(18)	–
Dividends paid						
2014 fourth interim	–	–	–	–	(2,526)	(2,526)
2015 first to third interim	–	–	–	–	(4,169)	(4,169)
Balance at 31 December 2015	(6,221)	162	268	2,783	72,883 [(a)]	69,875

24. Reserves (continued)

	Translation Reserves HK$M	Cash Flow Hedge Reserve HK$M	Costs of Hedging Reserves HK$M	Other Reserves HK$M	Retained Profits HK$M	Total HK$M
Balance at 1 January 2016	(6,221)	360	–	2,783	72,953	69,875
Effect on adoption of HKFRS 9 (net of tax)						
(Note 3 of Significant Accounting Policies)	–	(198)	268	–	(70)	–
Balance at 1 January 2016, as restated	(6,221)	162	268	2,783	72,883	69,875
Earnings attributable to shareholders	–	–	–	–	12,711	12,711
Other comprehensive income						
Exchange differences on translation of						
Subsidiaries	(857)	–	–	–	–	(857)
Joint ventures	(577)	–	–	–	–	(577)
Associates	(2)	–	–	–	–	(2)
Cash flow hedges						
Net fair value gains	–	1,388	–	–	–	1,388
Reclassification to profit or loss	–	(289)	–	–	–	(289)
Tax on the above items	–	(261)	–	–	–	(261)
Costs of hedging						
Net fair value losses	–	–	(251)	–	–	(251)
Amortisation / reclassification to profit or loss	–	–	20	–	–	20
Tax on the above items	–	–	44	–	–	44
Fair value loss on equity investments	–	–	–	(115)	–	(115)
Share of other comprehensive income						
of joint ventures	19	1	–	34	–	54
Total comprehensive income						
attributable to shareholders	(1,417)	839	(187)	(81)	12,711	11,865
Revaluation reserve realised due to						
depreciation of fixed assets	–	–	–	(2)	2	–
Appropriation of reserves	–	–	–	76	(76)	–
Dividends paid						
2015 fourth interim	–	–	–	–	(2,653)	(2,653)
2016 first to third interim	–	–	–	–	(4,320)	(4,320)
Balance at 31 December 2016	**(7,638)**	**1,001**	**81**	**2,776**	**78,547** [(a)]	**74,767**

Note:

(a) The fourth interim dividend declared for the year ended 31 December 2016 was HK$2,754 million (2015: HK$2,653 million). The balance of retained profits after the fourth interim dividend of the Group was HK$75,793 million (2015: HK$70,230 million, as restated).

25. Perpetual Capital Securities

A total of US$750 million perpetual capital securities was issued by the wholly owned subsidiary, CLP Power HK Finance Ltd. in 2014. The securities are perpetual, non-callable in the first 5.5 years and entitle the holders to receive distributions at a distribution rate of 4.25% per annum in the first 5.5 years, floating thereafter and with fixed step up margins at year 10.5 and at year 25.5, payable semi-annually in arrears, cumulative and compounding. The distributions are at the Group's discretion, if the issuer and CLP Power Hong Kong, as guarantor of the securities, do not (a) declare or pay dividends to their shareholders or (b) cancel or reduce their share capitals within each distribution payment period. As the perpetual capital securities do not contain any contractual obligation to pay cash or other financial assets, in accordance with HKAS 32, they are classified as equity and for accounting purpose regarded as part of non-controlling interests.

26. Notes to the Consolidated Statement of Cash Flows

(A) Reconciliation of profit before income tax to net cash inflow from operations

	2016 **HK$M**	2015 HK$M (Restated)
Profit before income tax	**16,663**	20,329
Adjustments for:		
Finance costs	**2,261**	4,106
Finance income	**(137)**	(170)
Dividend income from equity investments	**(43)**	(46)
Share of results of joint ventures and associates, net of income tax	**(1,641)**	(2,245)
Depreciation and amortisation	**6,909**	6,765
Impairment charge	**397**	2,462
(Reversal of provision) / provision for onerous contract	**(78)**	74
Net (gain) / loss on disposal of fixed assets	**(386)**	343
Revaluation losses / (gain) on investment properties	**146**	(99)
Gain on sale of subsidiaries	**–**	(8,900)
Loss on sale of a joint venture	**–**	42
Fair value (gain) / loss of derivative financial instruments and net exchange difference	**(211)**	362
SoC items		
Increase in customers' deposits	**169**	177
Increase in fuel clause account	**1,275**	408
Special fuel rebate to customers	**–**	(1,264)
Transfer for SoC	**(260)**	(181)
	1,184	(860)
Decrease / (increase) in trade and other receivables	**145**	(135)
Decrease in finance lease receivables	**45**	54
Decrease in cash restricted for specific purposes	**34**	123
Decrease in derivative financial instruments net liabilities	**(30)**	(168)
Increase / (decrease) in trade and other payables	**63**	(1,470)
Increase in current accounts due to joint ventures and associates	**32**	427
Net cash inflow from operations	**25,353**	20,994

(B) Analysis of balances of cash and cash equivalents

	2016 **HK$M**	2015 HK$M
Deposits with banks	**2,955**	2,444
Cash at banks and on hand	**1,712**	1,355
Bank balances, cash and other liquid funds (Note 17)	**4,667**	3,799
Excluding:		
Cash restricted for specific purposes	**(198)**	(232)
Bank deposits with maturity of over three months	**(2)**	(2)
	4,467	3,565

27. Subsidiaries

The table below lists the principal subsidiaries of the Group at 31 December 2016:

Name	Issued Share Capital / Registered Capital	% of Ownership Interest at 31 December 2015 and 2016	Place of Incorporation / Business	Principal Activity
CLP Power Hong Kong Limited	HK$20,400,007,269.65 divided into 2,488,320,000 ordinary shares	100	Hong Kong	Generation and Supply of Electricity
Castle Peak Power Company Limited	HK$50,000,000 divided into 500,000 ordinary shares	70 [(a)]	Hong Kong	Generation and Sale of Electricity
Hong Kong Pumped Storage Development Company, Limited (PSDC)	HK$10,000,000 divided into 100,000 ordinary shares	100 [(a)]	Hong Kong / Mainland China	Provision of Pumped Storage Services
Hong Kong Nuclear Investment Company Limited	HK$300,000,000 divided into 300,000 ordinary shares	100	Hong Kong / Mainland China	Power Projects Investment Holding
CLP Engineering Limited	HK$49,950,000 divided into 4,995 ordinary shares	100	Hong Kong	Engineering Services
CLP Power Asia Limited	1,000 ordinary shares of US$1 each	100	British Virgin Islands / International and Mainland China	Power Projects Investment Holding
CLP Power International Limited	692,000 ordinary shares of US$1,000 each	100 [(a)]	British Virgin Islands / International	Power Projects Investment Holding
CLP Power China Limited	192,000,000 ordinary shares of US$1 each	100 [(a)]	British Virgin Islands / Mainland China and Hong Kong	Power Projects Investment Holding
CLP Properties Limited	HK$150,000,000 divided into 15,000,000 ordinary shares	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
CLP Innovation Enterprises Limited [(b)]	1 ordinary share of HK$1 each	100	Hong Kong	Innovation Projects Investment Holding
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)]	Australia	Generation of Electricity
CLP India Private Limited	2,842,691,612 equity shares of Rs.10 each	100 [(a)]	India	Generation of Electricity and Power Projects Investment Holding
Jhajjar Power Limited	20,000,000 equity shares of Rs.10 each; 2,324,882,458 compulsory convertible preference shares of Rs.10 each	100 [(a)]	India	Generation of Electricity

27. Subsidiaries (continued)

Name	Issued Share Capital / Registered Capital	% of Ownership Interest at 31 December 2015 and 2016	Place of Incorporation / Business	Principal Activity
CLP Sichuan (Jiangbian) Power Company Limited [c]	RMB496,380,000	100 [a]	Mainland China	Generation of Electricity
Guangdong Huaiji Changxin Hydro-electric Power Company Limited [d]	RMB69,098,976	84.9 [a]	Mainland China	Generation of Electricity
Guangdong Huaiji Gaotang Hydro-electric Power Company Limited [d]	RMB249,430,049	84.9 [a]	Mainland China	Generation of Electricity
Guangdong Huaiji Weifa Hydro-electric Power Company Limited [d]	US$13,266,667	84.9 [a]	Mainland China	Generation of Electricity
Guangdong Huaiji Xinlian Hydro-electric Power Company Limited [d]	RMB141,475,383	84.9 [a]	Mainland China	Generation of Electricity

Notes:

(a) Indirectly held through subsidiaries of the Company

(b) Incorporated in 2016

(c) Registered as a wholly foreign owned enterprise under PRC law

(d) Registered as Sino-Foreign Cooperative Joint Ventures under PRC law

Summarised financial information of CAPCO, which has material non-controlling interests, is set out below:

	2016 HK$M	2015 HK$M
Results for the year		
Revenue	**15,176**	16,963
Profit for the year	**3,149**	3,168
Other comprehensive income for the year	**–**	–
Total comprehensive income for the year	**3,149**	3,168
Dividends paid to non-controlling interests	**942**	959
Net assets		
Non-current assets	**29,122**	29,380
Current assets	**5,238**	5,656
Current liabilities	**(28,139)**	(27,395)
Non-current liabilities	**(5,275)**	(6,702)
	946	939
Cash flows		
Net cash inflow from operating activities	**4,099**	3,327
Net cash outflow from investing activities	**(198)**	(253)
Net cash outflow from financing activities	**(3,901)**	(3,074)
Net change in cash and cash equivalents	**–**	–

28. Commitments and Operating Lease Arrangements

(A) Capital expenditure contracted for at the end of the year but not yet incurred is as follows:

	2016 HK$M	2015 HK$M
Fixed assets	**5,099**	4,560
Investment properties	**3**	26
Intangible assets	**14**	–
	5,116	4,586

(B) On 30 November 2016, the Group entered into the conditional Equity Transfer Agreement to acquire a 17% equity stake in Yangjiang Nuclear Power Co., Ltd. (Yangjiang Nuclear) from CGN Power Co., Ltd. and GNIC (collectively known as "CGN Power") for a consideration which included the bid price of HK$5.6 billion (RMB5 billion) and an audited Completion Payment as defined under the Agreement. HK$568 million (RMB0.5 billion) has been paid as refundable deposit and outstanding commitment of HK$5.0 billion (RMB4.5 billion) is payable upon completion. Yangjiang Nuclear owns and operates the Yangjiang Nuclear Power Station located in Guangdong Province. It comprises six 1,086MW generating units: three are in commercial operation and the other three are currently under construction with sequential targeted commissioning dates spread over the period from 2017 to 2019. The completion of this acquisition is subject to all necessary regulatory approvals and filing and approvals from Yangjiang Nuclear's lenders and shareholders. The latest date for completion is 31 December 2017 and the Group and CGN Power are targeting to achieve the completion in the first half of 2017.

Except for the above, equity contribution required to be made for its joint ventures and an associate at 31 December 2016 was HK$24 million (2015: HK$106 million).

(C) The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2016 HK$M	2015 HK$M
Within one year	**440**	472
Later than one year but not later than five years	**914**	1,401
Over five years	**1,344**	1,490
	2,698	3,363

Of the above amount, HK$1,792 million (2015: HK$1,892 million) relates to a Capacity Purchase Contract between PSDC and Guangdong Pumped Storage Company, Limited with fixed annual payments for 26 years up to 2034 for the use of the land, other resources and infrastructural facilities at Guangzhou Pumped Storage Power Station in Conghua, Guangzhou; and HK$551 million (2015: HK$798 million) relates to a 20-year Master Hedge Agreement between EnergyAustralia and Ecogen which ends in 2019. Under the latter Agreement, EnergyAustralia has the right to call upon electricity from the power stations at predetermined charging rates over the life of the Agreement.

(D) The 25-year power purchase arrangements between Jhajjar and its offtakers are accounted for as operating leases. Under the agreements, the offtakers 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:

	2016 HK$M	2015 HK$M
Within one year	**723**	739
Later than one year but not later than five years	**2,842**	2,999
Over five years	**6,230**	7,055
	9,795	10,793

29. 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:

(A) CLP Power Hong Kong is obliged to purchase 70% of the output from Guangdong Daya Bay Nuclear Power Station (GNPS). 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 with reference to the capacity factor for year. The purchase of nuclear electricity under the arrangement was HK$5,198 million for the year ended 31 December 2016 (2015: HK$5,203 million).

Under a separate purchase arrangement with GNIC and GNPJVC, CLP Power Hong Kong would purchase an approximately 10% of additional nuclear electricity from GNPS on a best endeavour basis from October 2014 to end of 2018, at the same unit price as that under the above purchase arrangement which amounted to HK$742 million for the year ended 31 December 2016 (2015: HK$703 million).

(B) The loan to a joint venture is disclosed under Note 11. Other amounts due from and to the related parties at 31 December 2016 are disclosed in Notes 16 and 18 respectively. At 31 December 2016, the Group did not have any guarantees which were of a significant amount given to or received from these parties (2015: nil).

(C) 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 two (2015: one) Executive Directors and nine (2015: ten) senior management personnel.

	2016 HK$M	2015 HK$M
Fees	**11**	11
Recurring remuneration items [(a)]		
Base compensation, allowances & benefits in kind [(b)]	**61**	55
Performance bonus		
Annual incentive	**59**	57
Long-term incentive	**13**	13
Provident fund contribution	**9**	5
Non-recurring remuneration items [(a)]		
Other payments	**7**	8
	160	149

Notes:

(a) Refer to recurring and non-recurring remuneration items on page 135 of Human Resources & Remuneration Committee Report.

(b) The nature of these benefits in kind includes electricity allowance, the availability of a company vehicle for personal use, any approved personal club memberships entered into primarily for business entertainment purposes and consequently paid by the Company, life insurance and medical benefits.

29. Related Party Transactions (continued)

(C) Emoluments of key management personnel (continued)

At 31 December 2016, the CLP Holdings' Board was composed of twelve Non-executive Directors and two Executive Directors. Remuneration of all Directors for the year totalled HK$46 million (2015: HK$32 million). With respect to the emoluments of the highest paid employees, the five highest paid individuals in the Group during the year included two Directors (2015: one Director) and three members (2015: four members) of Senior Management. The total remuneration of these five highest paid individuals amounted to HK$92 million (2015: HK$86 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 highlighted sections of the Human Resources & Remuneration Committee Report on pages 134 to 137 and 142 to 144. These sections form the "auditable" part of the Human Resources & Remuneration Committee Report and are part of the financial statements.

(D) Interest of Directors

There are no loans, quasi-loans or other dealings in favour of directors, their controlled bodies corporate and connected entities (2015: nil).

During the year and at the year end, no director of the Company had or has a material interest, directly or indirectly, in any significant transactions, arrangements and contracts in relation to the Group's business to which the Group was or is a party (2015: nil).

30. 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 Interest on Deemed Loans

This is a dispute between CLP India and its offtaker GUVNL under the power purchase agreement for Paguthan. GUVNL is required to make a "deemed generation incentive" payment to CLP India when plant availability is above a set threshold. 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 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$828 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".

30. Contingent Liabilities (continued)

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

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$95 million) (2015: Rs.830 million (HK$97 million)).

In February 2009, the GERC found in favour of GUVNL on the "deemed generation incentive" but held that GUVNL's claim up to 14 September 2002 was time-barred under the Limitations Act of India. The GERC also dismissed GUVNL's claim to recover interest on the "deemed loans". CLP India appealed the GERC's decision to the Appellate Tribunal for Electricity (APTEL). GUVNL also filed an appeal against the orders of the GERC which went against GUVNL. In January 2010, the APTEL upheld the decisions of the GERC. Both CLP India and GUVNL have filed further appeals in the Supreme Court of India. The appeal petitions have been admitted but the next date of hearing has not yet been fixed by the court.

At 31 December 2016, the total amount of the claim plus interest and tax with respect to the "deemed generation incentive" amounted to Rs.8,543 million (HK$975 million) (2015: Rs.8,543 million (HK$1,000 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.

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

CLP Wind Farms (India) Private Limited, CLP India and its subsidiaries (CLP India group) have invested (or are committed to invest) in around 681MW of wind power projects to be developed with Wind World India Limited (WWIL). WWIL's major shareholder, Enercon GmbH, has commenced litigation against WWIL claiming infringement of intellectual property rights. CLP India group, as a customer of WWIL, has been named as a defendant. Enercon GmbH is also seeking an injunction restraining CLP India group's use of certain rotor blades acquired from WWIL. As at 31 December 2016, 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 Offtakers

Jhajjar Power Limited (JPL) has disputes with its offtakers over applicable tariff of capacity charges and energy charges relating to transit loss. Total disputed amounts were Rs.1,917 million (HK$219 million) at 31 December 2016 (2015: Rs.1,860 million (HK$218 million)). The Group considers that JPL has a strong case and hence, no provision has been made.

JPL has filed a petition to Central Electricity Regulatory Commission (CERC) against its offtakers in September 2013. On 25 January 2016, CERC pronounced its judgment in favour of JPL, which supports the Group's decision that no provision should be made. JPL and its offtakers have filed appeals to APTEL. The next hearing date is expected on 2 March 2017.

31. Statement of Financial Position of the Company

	2016 HK$M	2015 HK$M
Non-current assets		
Fixed assets	**128**	139
Investments in subsidiaries	**51,695**	51,786
Advance to a subsidiary	**39**	39
Other non-current assets	**4**	3
	51,866	51,967
Current assets		
Trade and other receivables	**63**	53
Bank balances and cash	**4**	3
	67	56
Current liabilities		
Trade and other payables	**(350)**	(310)
Advance from a subsidiary	**–**	(26)
Bank loans and other borrowings	**–**	(306)
	(350)	(642)
Net current liabilities	**(283)**	(586)
Total assets less current liabilities	**51,583**	51,381
Financed by:		
Equity		
Share capital	**23,243**	23,243
Retained profits	**28,340**	28,138
	51,583	51,381

The movement of retained profits is as follows:

	2016 HK$M	2015 HK$M
Balance at 1 January	**28,138**	28,026
Profit and total comprehensive income for the year	**7,175**	6,807
Dividends paid		
2015 / 2014 fourth interim	**(2,653)**	(2,526)
2016 / 2015 first to third interim	**(4,320)**	(4,169)
Balance at 31 December	**28,340**	28,138

The balance of retained profits after the fourth interim dividend of the Company was HK$25,586 million (2015: HK$25,485 million).

William Mocatta
Vice Chairman
Hong Kong, 27 February 2017

Richard Lancaster
Chief Executive Officer

Geert Peeters
Chief Financial Officer

Financial Risk Management

1. Financial Risk Factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, fair value and cash flow interest rate risks, and energy portfolio risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise the impact of exchange rate, interest rate and energy price fluctuations on the Group's financial performance. The Group uses different derivative financial instruments to manage its exposure in these areas. Other than limited energy trading activities engaged by EnergyAustralia for the purpose of understanding price movements, 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 dollar, Renminbi and Indian rupee. Additionally, CLP Power Hong Kong has significant foreign currency obligations relating to its foreign currency denominated debts, US dollar denominated nuclear power purchase offtake 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 dollar, 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 cash flow hedge reserve under equity due to exchange rate movements, with all other variables held constant, is as follows:

	2016 HK$M	2015 HK$M
Increase / (decrease) in the cash flow hedge reserve		
Hong Kong dollar against US dollar		
If Hong Kong dollar weakened by 0.6% (2015: 0.6%)	**118**	196
If Hong Kong dollar strengthened by 0.6% (2015: 0.6%)	**(118)**	(196)
Hong Kong dollar against Japanese yen		
If Hong Kong dollar weakened by 5% (2015: 4%)	**2**	31
If Hong Kong dollar strengthened by 5% (2015: 4%)	**(2)**	(29)

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.

1. Financial Risk Factors (continued)

Foreign currency risk (continued)

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 2016, the Group's net investment subject to translation exposure was HK$56,859 million (2015: HK$56,882 million), arising mainly from our investments in Mainland China, India, Southeast Asia and Taiwan and Australia. This means that, for each 1% (2015: 1%) average foreign currency movement, our translation exposure will vary by about HK$569 million (2015: HK$569 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 Group entities are hedged and / or their transactions are predominantly conducted through the functional currency of the respective entity. The following analysis presents the Group's (apart from CLP Power Hong Kong) sensitivity to a reasonably possible change in the functional currencies of the Group entities against the US dollar and Renminbi, with all other variables held constant. The sensitivity rates in US dollar and Renminbi used are considered reasonable given the current level of exchange rates and the volatility observed in the different functional currencies of the Group entities. These are both on a historical basis and market expectations for future movement at the end of the reporting period and under the economic environments in which the Group operates. The extent of the impact to post-tax profit or equity due to exchange rate movements of US dollar and Renminbi against different functional currencies of Group entities, with all other variables held constant, is as follows:

	2016 HK$M	2015 HK$M
US dollar		
If US dollar strengthened by 5% (2015: 5%)		
Post-tax profit for the year	**60**	58
Equity – cash flow hedge reserve	**70**	91
If US dollar weakened by 5% (2015: 5%)		
Post-tax profit for the year	**(60)**	(51)
Equity – cash flow hedge reserve	**(70)**	(91)
Renminbi		
If Renminbi strengthened by 4% (2015: 4%)		
Post-tax profit for the year	**101**	126
Equity – cash flow hedge reserve	**–**	–
If Renminbi weakened by 4% (2015: 4%)		
Post-tax profit for the year	**(101)**	(126)
Equity – cash flow hedge reserve	**–**	–

1. Financial Risk Factors (continued)

Energy portfolio risk

EnergyAustralia's two key energy portfolios are electricity and gas.

For electricity, EnergyAustralia's wholesale purchase and sale of electricity operates through a competitive power pool at spot (half-hour) market prices. For gas there is a gas balancing market with daily prices. EnergyAustralia operates in these markets through its retail customer demand requirements and through its supply which is a combination of physical supply from its power stations, gas agreements for supply, transportation and storage, and derivative hedges linked to market prices.

EnergyAustralia is exposed to wholesale energy portfolio risk from the variability of prices in these markets and the variability of demand and supply volumes exposed to these market prices. EnergyAustralia manages its wholesale energy portfolio exposure through an established risk management framework. The framework consists of policies which place appropriate limits on overall energy market exposures, delegations of authority on contracting, hedging strategies, and requirements for regular risk monitoring. Risk monitoring includes physical position reporting, stress testing of the portfolios and analyses of earnings (Earnings-at-Risk, EaR). The EaR is derived from modelling, through Monte Carlo simulations and scenarios, potential variability in spot and forward market prices and supply and demand volumes across the wholesale energy portfolio. The EaR measure is drawn from the resulting earnings distribution and is chosen at a 1 in 4 probability downside (2015: 1 in 20 probability downside). The updated probability level is in alignment with internal reporting and better reflects recognisable scenarios. The corporate governance process also includes oversight by an Audit & Risk Committee which acts on behalf of EnergyAustralia's Board.

Based on the methods explained above, the energy portfolio risk exposure for EnergyAustralia at 31 December 2016 was HK$247 million (2015: HK$317 million). The change in the risk measure is a combination of changes in the probability level and the inclusion of the gas portfolio.

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.

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.

1. Financial Risk Factors (continued)

Interest rate risk (continued)

	2016 HK$M	2015 HK$M
Hong Kong dollar		
If interest rates were 0.4% (2015: 0.7%) higher		
Post-tax profit for the year	**(49)**	(92)
Equity – cash flow hedge reserve	**–**	2
If interest rates were 0.4% (2015: 0.7%) lower		
Post-tax profit for the year	**49**	92
Equity – cash flow hedge reserve	**–**	(2)
Indian rupee		
If interest rates were 1% (2015: 1%) higher		
Post-tax profit for the year	**(16)**	(16)
Equity – cash flow hedge reserve	**–**	–
If interest rates were 1% (2015: 1%) lower		
Post-tax profit for the year	**16**	16
Equity – cash flow hedge reserve	**–**	–
US dollar		
If interest rates were 0.2% (2015: 0.1%) higher		
Post-tax profit for the year	**–**	–
Equity – cash flow hedge reserve	**17**	–
If interest rates were 0.2% (2015: 0.1%) lower		
Post-tax profit for the year	**–**	–
Equity – cash flow hedge reserve	**(17)**	–

Credit risk

The Group's approach to managing credit risk for trade receivables is discussed in Note 16.

On the treasury side, all finance-related hedging transactions and deposits of the Group entities are made with counterparties with good credit quality in conformance to the Group treasury policies to minimise credit exposure. Good credit ratings from reputable credit rating agencies 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.

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.

1. Financial Risk Factors (continued)

Liquidity risk (continued)

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.

	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 2016					
Non-derivative financial liabilities					
Bank loans	**9,897**	**5,213**	**7,656**	**5,605**	**28,371**
Other borrowings	**2,558**	**1,209**	**11,544**	**19,163**	**34,474**
Customers' deposits	**4,999**	**–**	**–**	**–**	**4,999**
Trade and other payables	**19,921**	**–**	**–**	**–**	**19,921**
Fuel clause account	**–**	**2,867**	**–**	**–**	**2,867**
SoC reserve accounts	**–**	**860**	**–**	**–**	**860**
Asset decommissioning liabilities	**–**	**916**	**–**	**–**	**916**
	37,375	**11,065**	**19,200**	**24,768**	**92,408**
Derivative financial liabilities					
Net settled					
Forward foreign exchange contracts	**3**	**–**	**–**	**–**	**3**
Interest rate swaps	**68**	**38**	**82**	**70**	**258**
Energy contracts	**690**	**167**	**209**	**265**	**1,331**
Gross settled					
Forward foreign exchange contracts	**21,263**	**9,640**	**7,465**	**496**	**38,864**
Cross currency interest rate swaps	**2,649**	**1,667**	**8,954**	**11,558**	**24,828**
	24,673	**11,512**	**16,710**	**12,389**	**65,284**
At 31 December 2015					
Non-derivative financial liabilities					
Bank loans	12,872	5,439	7,628	6,100	32,039
Other borrowings	2,044	2,442	8,541	21,701	34,728
Customers' deposits	4,829	–	–	–	4,829
Trade and other payables	19,023	–	–	–	19,023
Fuel clause account	–	–	2,226	–	2,226
SoC reserve accounts	–	–	1,009	–	1,009
Asset decommissioning liabilities	–	–	1,025	–	1,025
	38,768	7,881	20,429	27,801	94,879
Derivative financial liabilities					
Net settled					
Forward foreign exchange contracts	2	–	–	–	2
Interest rate swaps	110	52	91	57	310
Energy contracts	359	225	267	513	1,364
Gross settled					
Forward foreign exchange contracts	33,438	19,666	15,460	792	69,356
Cross currency interest rate swaps	1,586	2,641	6,696	15,216	26,139
	35,495	22,584	22,514	16,578	97,171

2. Hedge Accounting

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

Hedges on debt related transactions

The Group applies various types of derivative financial instruments (forward foreign currency contracts, foreign currency options, cross currency interest rate swaps and interest rate swaps) to mitigate exposures arising from the fluctuations in foreign currencies and / or interest rates of debts. In most of the cases, the hedging instruments have a one-to-one hedge ratio with the hedged items. In view of the nature of the hedging activities, no significant ineffectiveness is expected at inception.

Hedges on non-debt related transactions

CLP Power Hong Kong uses forward contracts to manage its foreign exchange risk arising from fuel and nuclear purchases obligations. CLP Power Hong Kong hedges a high portion of committed and highly probable forecast transactions.

EnergyAustralia purchases and sells the majority of its electricity through a competitive power pool at spot (half-hour) market prices. EnergyAustralia enters into forward electricity contracts to manage the spot electricity price risk against forecast retail and generation exposures. The gas market is a balancing market. To meet retail demand EnergyAustralia procures gas supply agreements from various gas producers. Increasingly these agreements are not at a fixed price but rather have the supply price linked to oil spot prices on the global markets. EnergyAustralia enters into oil-price-linked derivative financial instruments (forward contracts) to manage this oil price risk component.

Effects of hedge accounting

The tables below summarise the effect of the hedge accounting on the financial position and performance of the Group for the year ended 31 December 2016.

Cash Flow Hedges	Notional amount of hedging instruments HK$M	Carrying amount of hedging instrument assets / (liabilities) HK$M	Favourable / (Unfavourable) changes in fair value used for measuring ineffectiveness: Hedging instruments HK$M	Favourable / (Unfavourable) changes in fair value used for measuring ineffectiveness: Hedged items HK$M	Hedging (gains) / losses recognised in cash flow hedge reserve HK$M	Hedge ineffectiveness charged to profit or loss [(a)] HK$M	Amount reclassified from cash flow hedge reserve and credited / (charged) to profit or loss: Hedged items affected profit or loss [(a)] HK$M	Amount reclassified from cash flow hedge reserve and credited / (charged) to profit or loss: Hedged future cash flows no longer expected to occur [(a)] HK$M
Debt related transactions								
Interest rate risk [(b)]	27,242	(476)	591	(599)	(594)	3	116	(5)
Foreign currency risk	336	37	(40)	36	36	4	(27)	–
Non-debt related transactions								
Foreign currency risk	26,778	205	143	(145)	(143)	–	(21)	–
Energy portfolio risk – electricity	1,083	136	402	(402)	(402)	–	226	–
Energy portfolio risk – gas	2,682	277	285	(285)	(285)	–	–	–

2. Hedge Accounting (continued)

Effects of hedge accounting (continued)

Fair Value Hedges	Notional amount of hedging instruments HK$M	Carrying amount of hedged items (included accumulated fair value hedge adjustments) HK$M	Accumulated fair value hedge adjustments		Favourable/ (Unfavourable) changes in fair value used for measuring ineffectiveness		Hedge ineffectiveness charged to finance costs HK$M
			Continuing hedges HK$M	Discontinued hedges HK$M	Hedging instruments HK$M	Hedged items HK$M	
Debt related transactions							
Interest rate risk [(b)]	6,131	(10,532)	214	(25)	3	(9)	6

Notes:

(a) Hedge ineffectiveness and amounts reclassified from cash flow hedge reserve on non-debt and debt related transactions were recognised in fuel and other operating expenses and finance costs respectively.

(b) Also include foreign currency risk in case of foreign currency debts

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

Cash Flow Hedge Reserve	Interest rate risk [(b)] HK$M	Foreign currency risk HK$M	Energy portfolio risk HK$M	Total HK$M
Balance at 1 January 2016	41	(1)	256	296
Effect on adoption of HKFRS 9 (net of tax)	(80)	(118)	–	(198)
Balance at 1 January 2016, as restated	(39)	(119)	256	98
Hedging gains	594	107	687	1,388
Reclassification to profit or loss				
Hedged items affected profit or loss	(116)	48	(226)	(294)
Hedged items were no longer expected to occur	5	–	–	5
Related deferred tax	(87)	(35)	(139)	(261)
Balance at 31 December 2016	**357**	**1**	**578**	**936**

Costs of Hedging Reserves	Time value of options reserve HK$M	Forward element reserve HK$M	Foreign currency basis spread reserve HK$M	Total HK$M
Balance at 1 January 2016	–	–	–	–
Effect of adoption of HKFRS 9 (net of tax)	4	19	245	268
Balance at 1 January 2016, as restated	4	19	245	268
Changes due to transaction related hedged items				
Fair value losses	–	–	(13)	(13)
Amount reclassified to the costs of the hedged items	–	–	(99)	(99)
Changes due to time-period related hedged items				
Fair value losses	(23)	(83)	(132)	(238)
Amount reclassified to profit or loss for amortisation	20	71	28	119
Related deferred tax	2	7	35	44
Balance at 31 December 2016	**3**	**14**	**64**	**81**

3. Fair Value Estimation and Hierarchy of Financial Instruments

The fair value of financial instruments traded in active markets (such as publicly traded derivatives) is based on quoted market prices at the end of the reporting period.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using appropriate valuation techniques and making assumptions that are based on market conditions existing at the end of each reporting period.

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

Financial instruments measured at fair value are analysed into the following fair value measurement hierarchy:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
Level 3 – inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

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 2016				
Financial assets				
Equity investments	**303**	**–**	**1,225**	**1,528**
Forward foreign exchange contracts	**–**	**479**	**–**	**479**
Foreign exchange options	**–**	**38**	**–**	**38**
Cross currency interest rate swaps	**–**	**493**	**–**	**493**
Interest rate swaps	**–**	**161**	**–**	**161**
Energy contracts	**–**	**910**	**130**	**1,040**
	303	**2,081**	**1,355**	**3,739**
Financial liabilities				
Forward foreign exchange contracts	**–**	**79**	**–**	**79**
Cross currency interest rate swaps	**–**	**1,380**	**–**	**1,380**
Interest rate swaps	**–**	**219**	**–**	**219**
Energy contracts	**–**	**690**	**189**	**879**
	–	**2,368**	**189**	**2,557**
At 31 December 2015				
Financial assets				
Equity investments	417	–	1,227	1,644
Forward foreign exchange contracts	–	655	–	655
Foreign exchange options	–	83	–	83
Cross currency interest rate swaps	–	623	–	623
Interest rate swaps	–	62	–	62
Energy contracts	–	135	120	255
	417	1,558	1,347	3,322
Financial liabilities				
Forward foreign exchange contracts	–	250	–	250
Cross currency interest rate swaps	–	1,968	–	1,968
Interest rate swaps	–	282	–	282
Energy contracts	–	146	751	897
	–	2,646	751	3,397

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.

3. Fair Value Estimation and Hierarchy of Financial Instruments (continued)

During 2016 and 2015, there were no transfers between Level 1 and Level 2, or into Level 3.

Notes:

(a) The valuation technique and inputs used in the fair value measurements within Level 2 and Level 3 are as follows:

Financial Instruments	**Valuation Technique**	**Significant Inputs**
Equity investments	Discounted cash flow	Discount rate
Forward foreign exchange contracts	Discounted cash flow	Observable exchange rates
Foreign exchange options	Garman Kohlhagen Model	Observable exchange rates, interest rates and volatility levels
Cross currency interest rate swaps	Discounted cash flow	Observable exchange rates and swap rates of respective currency
Interest rate swaps	Discounted cash flow	Observable swap rates of respective currency
Energy contracts	Discounted cash flow	Brokers' quotes and observable exchange traded swap and cap rates

(b) Additional information about fair value measurements using significant unobservable inputs (Level 3):

Financial Instruments	**Significant Unobservable Inputs**
Equity investments (i)	Discount rate
Energy contracts (ii)	Long term forward electricity price and cap price curve

(i) The valuations are performed and reported twice each year, in line with the Group's reporting dates, to Group management.

(ii) The finance department of EnergyAustralia includes a team that performs the valuations of non-property assets required for financial reporting purposes, including Level 3 fair values. This team reports directly to EnergyAustralia's Chief Financial Officer (CFO – EA) and Audit & Risk Committee (ARC – EA). The valuation of Level 3 forward energy contracts involves the use of a short term forward curve which is observable in the liquid market and a long term forward curve which is derived using unobservable inputs. This short term forward curve is reviewed at least once every six months, in line with the Group's half-yearly reporting dates. Review of the long term forward curve is performed between the CFO – EA and ARC – EA annually due to the lack of market liquidity. Fair value changes analyses are performed on a monthly basis for reasonableness.

The movements of Level 3 financial instruments for the years ended 31 December are as follows:

	2016			2015		
	Equity Investments HK$M	**Energy Contracts HK$M**	**Total HK$M**	Equity Investments HK$M	Energy Contracts HK$M	Total HK$M
Opening balance	**1,227**	**(631)**	**596**	1,227	(592)	635
Total gains / (losses) recognised in						
Profit or loss and presented in fuel and other operating expenses	**–**	**656**	**656**	–	(81)	(81)
Other comprehensive income	**–**	**(29)**	**(29)**	–	146	146
Settlements	**–**	**(18)**	**(18)**	–	30	30
Transfer out of Level 3 (note)	**(2)**	**(37)**	**(39)**	–	(134)	(134)
Closing balance	**1,225**	**(59)**	**1,166**	1,227	(631)	596
Unrealised gains / (losses) recognised in profit or loss relating to the assets and liabilities held at the end of the reporting period, and presented in fuel and other operating expenses	**–**	**617**	**617**	–	(81)	(81)

Note: During 2016 and 2015, the transfer of certain energy contracts out of Level 3 is because certain observable significant inputs are used in the fair value measurement instead of those unobservable ones used previously.

At 31 December 2016 and 2015, the valuation of long tenure energy contracts is sensitive to electricity pool price assumptions. A favourable and unfavourable change of 15% would cause the fair values to rise by HK$511 million (2015: HK$438 million) and decline by HK$509 million (2015: HK$432 million) respectively, with all other variables held constant.

4. Offsetting Financial Assets and Financial Liabilities

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

	Effect of offsetting in the consolidated statement of financial position			Related amounts not offset in the consolidated statement of financial position [(a)]		
	Gross amounts recognised HK$M	Gross amounts offset HK$M	Net amounts included in the respective line HK$M	Financial instruments HK$M	Financial collateral received / pledged HK$M	Net amount HK$M
At 31 December 2016						
Financial assets						
Bank balances, cash and other liquid funds	**198**	**–**	**198**	**(198)**	**–**	**–**
Trade and other receivables	**4,337**	**–**	**4,337**	**(2,431)**	**(1,906)**	**–**
Derivative financial instruments	**1,893**	**(367)**	**1,526**	**(438)** [(b)]	**–**	**1,088**
	6,428	**(367)**	**6,061**	**(3,067)**	**(1,906)**	**1,088**
Financial liabilities						
Customers' deposits	**4,998**	**–**	**4,998**	**(1,906)**	**–**	**3,092**
Bank loans and other borrowings	**11,487**	**–**	**11,487**	**–**	**(2,629)**	**8,858**
Derivative financial instruments	**2,851**	**(367)**	**2,484**	**(438)** [(b)]	**–**	**2,046**
	19,336	**(367)**	**18,969**	**(2,344)**	**(2,629)**	**13,996**
At 31 December 2015						
Financial assets						
Bank balances, cash and other liquid funds	232	–	232	(232)	–	–
Trade and other receivables	4,414	–	4,414	(2,365)	(2,049)	–
Derivative financial instruments	1,062	(340)	722	(398) [(b)]	–	324
	5,708	(340)	5,368	(2,995)	(2,049)	324
Financial liabilities						
Customers' deposits	4,829	–	4,829	(2,049)	–	2,780
Bank loans and other borrowings	10,910	–	10,910	–	(2,597)	8,313
Derivative financial instruments	3,426	(340)	3,086	(398) [(b)]	–	2,688
	19,165	(340)	18,825	(2,447)	(2,597)	13,781

Notes:

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

(b) 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.

4. Offsetting Financial Assets and Financial Liabilities (continued)

The table on page 235 presents the financial instruments that are either subject to offset, or subject to enforceable master netting arrangements or other similar arrangements but not offset as at the end of the reporting period. They are disclosed correspondingly as follows:

- "Net amounts included in the respective line" column which presents the net amounts of financial assets / liabilities after offset, where the Group currently has a legally enforceable right and intention to set off. Such amounts were included in the respective line of the consolidated statement of financial position.
- "Net amount" column which presents what the net impact would be on the consolidated statement of financial position if all set-off rights (e.g. master netting arrangements, collateral arrangements, etc.) were exercised. These items include
  - restricted cash of CLP India disclosed under Note 17 to the financial statements;
  - trade receivables related to Hong Kong electricity business where customers' deposits are served as security for payments, and trade receivables of subsidiaries in Mainland China and India which are pledged against their bank loans and other borrowings (as noted below); and
  - bank loans and other borrowings of subsidiaries in Mainland China and India which are secured by charges over certain assets or rights to income.

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 2016 and 2015.

The Group monitors capital using "total debt to total capital" and "net debt to total capital" ratios. These ratios are as follows:

	2016 HK$M	2015 HK$M
Total debt [(a)]	**51,646**	55,483
Net debt [(b)]	**46,979**	51,684
Total equity [(c)]	**112,465**	107,652
Total capital (based on total debt) [(d)]	**164,111**	163,135
Total capital (based on net debt) [(e)]	**159,444**	159,336
Total debt to total capital (based on total debt) ratio (%)	**31.5**	34.0
Net debt to total capital (based on net debt) ratio (%)	**29.5**	32.4

The reduction in total debt to total capital and net debt to total capital ratios were mainly due to robust operating cash flow enabling significant amount of debt repayments and higher shareholders' funds resulting from earnings for the year.

Certain entities of the Group are subject to certain loan covenants. For both 2016 and 2015, there is no material non-compliance with those loan covenants.

Notes:

(a) Total debt equals bank loans and other borrowings.

(b) Net debt equals total debt less bank balances, cash and other liquid funds.

(c) Total equity equals equity plus advances from non-controlling interests.

(d) Total capital (based on total debt) equals total debt plus total equity.

(e) Total capital (based on net debt) equals net debt plus total equity.

Scheme of Control Statement

CLP Power Hong Kong Limited and Castle Peak Power Company Limited

Overview

In Hong Kong, CLP Power Hong Kong Limited (CLP Power Hong Kong) operates a vertically integrated electricity generation, transmission and distribution business. The generating plants in Hong Kong are owned by Castle Peak Power Company Limited (CAPCO), in which CLP Power Hong Kong originally owned 40% and was further increased to 70% since May 2014. CLP Power Hong Kong builds and operates CAPCO's power stations under contract and is the sole customer for CAPCO's electricity which CLP Power Hong Kong transmits and distributes to its customers in Kowloon and the New Territories. CLP Power Hong Kong owns the transmission and distribution network.

Since financial year 1964, the electricity-related operations of CLP Power Hong Kong and CAPCO (the SoC Companies) have been governed by a Scheme of Control Agreement (SoC) with the Hong Kong Government. The SoC specifies the SoC Companies' obligations to supply adequate and reliable electricity supplies to customers at the lowest reasonable cost and the mechanism for Hong Kong Government to monitor their financial affairs and operating performance. In return, CLP Power Hong Kong is allowed to charge tariffs designed to recover the operating costs (including tax) and allowed net return of the SoC Companies.

The current SoC took effect from 1 October 2008. The SoC covers a period of 10 years to 30 September 2018, and provides that the SoC Companies will continue to earn the permitted return until 30 September 2023 on all approved investments.

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

Tariff Setting Mechanism

For each year, CLP Power Hong Kong designs the net tariff it charges to cover the SoC Companies' operating costs and allowed net return. The net tariff consists of the following components:

(i) basic tariff rate which is derived by taking into account the annual forecast of (a), (b) and (c) below, using the formula "(a-b) / c":

- (a) the allowed net return and operating costs including the standard cost of fuel; generation, transmission, distribution and administration expenses; depreciation; interest expenses; and taxes;
- (b) 80% of the profit on electricity sale to Mainland China; and
- (c) local unit sales as determined by the load forecast.

(ii) fuel clause charge or rebate (Fuel Cost Adjustment) which represents the difference between the costs of fuel (including natural gas, coal and oil) and the standard cost recovered through the basic tariff rate.

Any difference between the actual profit for SoC operations and the permitted return for the year is transferred to or from a Tariff Stabilisation Fund. The Tariff Stabilisation Fund does not form part of distributable shareholders' funds and represents a liability in the accounts of CLP Power Hong Kong. A charge on the average balance of the Tariff Stabilisation Fund is credited to the Rate Reduction Reserve in the accounts of CLP Power Hong Kong, which balance as at the end of each year is to be transferred to the Tariff Stabilisation Fund in the following year.

Permitted and Net Return

The permitted and net return that the SoC Companies are allowed under the SoC are calculated as follows:

- The annual permitted return under the SoC is 9.99% of the SoC Companies' average net fixed assets other than renewable energy investments; and 11% for renewable energy investments.
- The net return is the permitted return after the deduction or adjustment of the following items:
  (a) interest up to a maximum of 8% per annum on borrowed capital arranged for financing fixed assets;
  (b) a charge of the average one-month Hong Kong interbank offered rate on the average balance of the Tariff Stabilisation Fund under the SoC, which is credited to the Rate Reduction Reserve;
  (c) an excess capacity adjustment of 9.99% under the SoC on the average excess capacity expenditure less an allowed interest charge up to 8% per annum on the average excess capacity expenditure;
  (d) interest up to 8% per annum on the increase in average balance of the customers' deposits in excess of the balance as at 30 September 1998; and
  (e) performance related incentives / penalties adjustments are in the range of -0.03% to +0.1% on the average net fixed assets with respect to customer performance, energy efficiency and renewables performance applicable to each full calendar year under the SoC.
- The rate of return on average net fixed assets of the SoC Companies for the year ended 31 December 2016 was 9.14% (2015: 9.15%).

The net return is divided between the SoC Companies in accordance with the provisions of the agreements between the SoC Companies. These provisions state that each company will receive that proportion of the total net return represented by the net return that company would receive if it were the only company under the SoC and the net return were calculated solely on the basis of its own financial statements. In year 2016, 68% (2015: 67%) of the net return was allocated to CLP Power Hong Kong and 32% (2015: 33%) to CAPCO.

The calculations shown on next page are in accordance with the SoC and the agreements between the SoC Companies.

For the year ended 31 December

	2016 HK$M	2015 HK$M
SoC revenue	**37,223**	38,205
Expenses		
Operating costs	**4,312**	4,068
Fuel	**10,978**	12,682
Purchases of nuclear electricity	**5,198**	5,203
Provision for asset decommissioning	**(109)**	(57)
Depreciation	**4,375**	4,143
Operating interest	**997**	940
Taxation	**1,895**	1,865
	27,646	28,844
Profit after taxation	**9,577**	9,361
Interest on borrowed capital	**952**	920
Adjustment for performance incentives	**(53)**	(51)
Adjustments required under the SoC (being share of profit on sale of electricity to Mainland China attributable to the SoC Companies)	**(69)**	(68)
Profit for SoC	**10,407**	10,162
Transfer from Tariff Stabilisation Fund	**151**	124
Permitted return	**10,558**	10,286
Deduct interest on / Adjustment for		
Borrowed capital as above	**952**	920
Performance incentives as above	**(53)**	(51)
Tariff Stabilisation Fund to Rate Reduction Reserve	**2**	2
	901	871
Net return	**9,657**	9,415
Divisible as follows:		
CLP Power Hong Kong	**6,547**	6,319
CAPCO	**3,110**	3,096
	9,657	9,415
CLP Power Hong Kong's share of net return		
CLP Power Hong Kong	**6,547**	6,319
Interest in CAPCO	**2,177**	2,167
	8,724	8,486

Five-year Summary: CLP Group Statistics

Economic

	2016	2015	2014	2013	2012
Consolidated Operating Results, HK$M					
Revenue					
Electricity business in Hong Kong	**37,615**	38,488	35,303	33,840	33,643
Energy businesses outside Hong Kong	**41,459**	41,757	56,633	70,352	70,983
Others	**360**	455	323	338	235
Total	**79,434**	80,700	92,259	104,530	104,861
Operating profit	**17,146**	22,020	14,895	8,906	13,101
Earnings*					
Hong Kong	**8,640**	8,260	7,777	6,966	6,654
Other investments / operations	**4,378**	3,885	2,907	2,790	3,316
Gains / (losses) on acquisitions / sales of investments and assets	**643**	6,619	1,953	(75)	–
Impairment and provision reversal	**(203)**	(1,723)	(1,736)	(3,696)	(409)
Revaluation (losses) / gains on investment properties	**(146)**	99	245	–	–
Reversal of over-provision of tax and tax consolidation benefit	**83**	–	545	–	105
Other items affecting comparability from Australia	**–**	(858)	152	524	(790)
Unallocated net finance income / (costs)	**33**	17	(36)	(26)	(74)
Unallocated Group expenses	**(717)**	(643)	(586)	(423)	(490)
Total	**12,711**	15,656	11,221	6,060	8,312
Dividends	**7,074**	6,822	6,619	6,493	6,301
Capital expenditure, owned and leased assets	**10,105**	11,317	9,446	12,052	11,230
Depreciation & amortisation, owned and leased assets	**6,909**	6,765	6,791	7,592	7,021
Consolidated Statement of Cash Flows, HK$M					
Net cash inflow from operating activities	**23,676**	19,168	21,966	21,021	23,915
Consolidated Statement of Financial Position, HK$M					
SoC fixed assets	**106,886**	104,479	101,420	67,057	63,599
Other fixed assets	**32,535**	31,533	34,963	63,846	70,730
Goodwill and other intangible assets	**27,653**	28,257	31,129	23,847	28,479
Interests in joint ventures	**9,971**	11,250	11,176	19,940	19,197
Interests in associates	**813**	785	786	1,675	1,856
Other non-current assets	**4,922**	5,385	9,664	8,601	7,742
Current assets	**23,198**	22,275	25,525	26,719	37,153
Total assets	**205,978**	203,964	214,663	211,685	228,756
Shareholders' funds	**98,010**	93,118	88,013	87,361	91,127
Perpetual capital securities	**5,791**	5,791	5,791	–	–
Other non-controlling interests	**1,972**	2,023	2,155	120	74
Equity	**105,773**	100,932	95,959	87,481	91,201
Bank loans and other borrowings	**51,646**	55,483	67,435	56,051	66,198
Obligations under finance leases	**–**	–	27	27,976	27,055
SoC reserve accounts	**860**	1,009	1,131	28	1,245
Other current liabilities	**26,689**	25,098	27,771	25,251	28,147
Other non-current liabilities	**21,010**	21,442	22,340	14,898	14,910
Total liabilities	**100,205**	103,032	118,704	124,204	137,555
Equity and total liabilities	**205,978**	203,964	214,663	211,685	228,756
Per Share Data, HK$					
Shareholders' funds per share	**38.79**	36.86	34.84	34.58	36.07
Earnings per share	**5.03**	6.20	4.44	2.40	3.45
Dividends per share	**2.80**	2.70	2.62	2.57	2.57

* The 2015 figures have been restated in accordance with the transitional provision of HKFRS 9 (2014) Financial Instruments about certain requirements of hedge accounting.

A ten-year summary is on our website

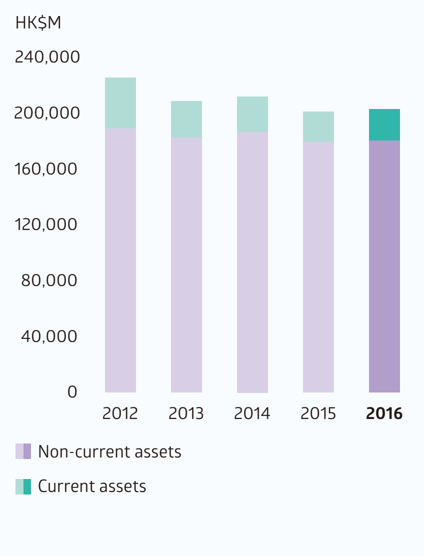
	2016	2015	2014	2013	2012
Per Share Data, HK$ (continued)					
Closing share price					
Highest	**83.90**	69.75	68.00	69.85	68.95
Lowest	**62.45**	62.20	56.30	60.35	62.30
As at year-end	**71.25**	65.85	67.25	61.30	64.85
Ratios					
Return on equity, %	**13.3**	17.3	12.8	6.8	10.1[1]
Total debt to total capital, %	**31.5**	34.0	39.6	39.1	42.1
Net debt to total capital, %	**29.5**	32.4	38.0	36.7	36.8
EBIT interest cover, times	**10**	10	6	3	4
Price / Earnings, times	**14**	11	15	26	19
Dividend yield, %	**3.9**	4.1	3.9	4.2	4.0
Dividend pay-out (total earnings), %	**55.7**	43.5	59.0	107.1	74.5
Dividend pay-out (operating earnings), %	**57.4**	59.2	65.8	69.8	65.9
Group Generating Capacity					
(owned / operated / under construction) [2], MW					
– by region					
Hong Kong	**7,483**	6,908	6,908	6,908	6,908
Mainland China	**7,181**	7,072	6,740	5,760	5,911
India	**2,978**	3,048	3,056	3,026	2,947
Southeast Asia & Taiwan	**285**	285	285	285	285
Australia	**4,505**	4,505	4,533	5,533	5,616
	22,432	21,818	21,522	21,512	21,667
– by status					
Operational	**21,560**	20,336	20,176	20,974	21,175
Construction	**872**	1,482	1,346	538	492
	22,432	21,818	21,522	21,512	21,667

Notes:

1 The 2012 figure excluded the effect of the 5% share placement on 20 December 2012 to give a more accurate average shareholders' funds in 2012.

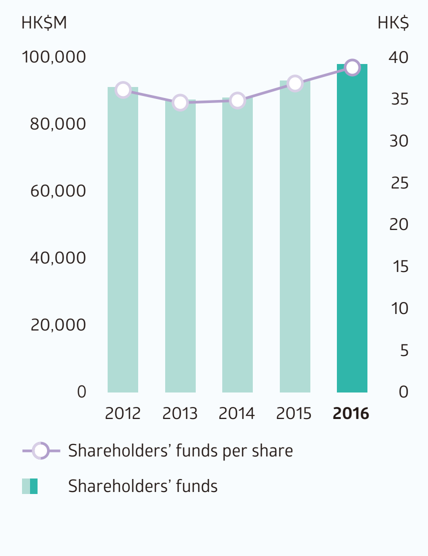
2 Group generating capacity (in MW) is incorporated on the following basis: (a) CAPCO on 100% capacity as stations operated by CLP Power Hong Kong; (b) PSDC (during 2012 and 2013) and Ecogen on 100% as having right to use; and (c) other stations (including PSDC from 2014) on the proportion of the Group's equity interests.

Total Assets



Earnings

Shareholders' Funds



Environmental

Performance Indicators	Units	2016	2015	2014	2013	2012	GRI Standard	HKEx ESG Reporting Guide Reference
Resource Use & Emissions [1]								
Coal consumed (for power generation)	TJ	**453,904**	450,937	541,865	433,763	361,819	302-1	A2.1
Gas consumed (for power generation)	TJ	**86,787**	95,591	63,268	73,510	86,200	302-1	A2.1
Oil consumed (for power generation)	TJ	**4,162**	2,892	2,345	1,973	8,200	302-1	A2.1
CO_2e emissions from power generation (Scopes 1 & 2)	kT	**46,681**	46,723	53,258	44,258	38,464	305-1, 305-2	A1.2
CO_2 emissions from power generation (Scopes 1 & 2) [2]	kT	**46,518**	46,553	53,044	44,076	38,319		
Nitrogen oxides emissions (NO_x)	kT	**58.1**	56.3	74.6	50.2	42.9	305-7	A1.1
Sulphur dioxide emissions (SO_2)	kT	**71.2**	63.4	93.0	50.5	35.1	305-7	A1.1
Total particulates emissions	kT	**8.5**	9.8	11.5	5.5	4.7	305-7	A1.1
Water withdrawal							303-1	A2.2
from marine water resources	Mm^3	**4,202.3**	4,447.6	4,774.5	4,987.9	4,648.6		
from freshwater resources	Mm^3	**48.2**	48.8	52.9	37.2 [3]	35.4		
from municipal sources	Mm^3	**6.5**	6.6	6.6	6.2 [3]	5.8		
Total	Mm^3	**4,257.0**	4,503.0	4,834.0	5,031.0	4,689.6		
Water discharged							306-1	
cooling water to marine water bodies	Mm^3	**4,202.3**	4,447.6	4,774.5	4,987.9	4,648.6		
treated wastewater to marine water bodies	Mm^3	**1.5**	1.1	1.3	1.2	1.1		
treated wastewater to freshwater bodies	Mm^3	**13.6**	12.6	14.5	10.1	14.0		
wastewater to sewerage	Mm^3	**1.6**	1.6	1.8	1.5	1.7		
wastewater to other destinations	Mm^3	**0.2**	0.1	0.1	0.1	0.3		
Total	Mm^3	**4,219.2**	4,463.0	4,792.2	5,000.8	4,665.7		
Hazardous waste produced [4]	T (solid) / kl (liquid)	**1,302 / 1,251**	641 / 2,832	484 / 2,783	337 / 1,228	262 / 1,500	306-2	A1.3
Hazardous waste recycled [4]	T (solid) / kl (liquid)	**260 / 1,149**	203 / 1,176	89 / 1,463	34 / 981	25 / 1,023	306-2	
Non-hazardous waste produced [4]	T (solid) / kl (liquid)	**8,317 / 84**	11,455 / 199	21,142 / 78	7,700 / 0	10,830 / 21	306-2	A1.4
Non-hazardous waste recycled [4]	T (solid) / kl (liquid)	**2,963 / 84**	4,414 / 199	4,172 / 78	1,853 / 0	2,719 / 4	306-2	
Environmental regulatory non-compliances resulting in fines or prosecutions	number	**0**	1	1	0	0	307-1	
Environmental licence limit exceedances & other non-compliances	number	**2**	13	3	4	1	307-1	
Climate Vision 2050 Target Performance (Equity Basis) [5]								
Total renewable energy generation capacity	% (MW)	**16.6 (3,090)**	16.8 (3,051)	14.1 (2,660)	16.3 (2,579)	20.2 (2,734)		
Non-carbon emitting generation capacity	% (MW)	**19.2 (3,582)**	19.5 (3,543)	16.7 (3,152)	19.4 (3,071)	23.8 (3,226)		
Carbon dioxide emissions intensity of CLP Group's generation portfolio	kg CO_2 / kWh	**0.82** [6]	0.81 [6]	0.84 [6]	0.82 [6]	0.77	305-4	A1.2

Notes:
1 Covers operating facilities where CLP has operational control for the full calendar reporting year.
2 Includes CO_2e emissions of Yallourn and Hallett facilities as CO_2 emissions data were not available.
3 Data updated to align with reporting definition.
4 Waste categorised in accordance with local regulations.
5 "Equity basis" includes all majority and minority share facilities in the CLP Group portfolio.
6 CGN Wind not included as per the Greenhouse Gas Protocol due to its accounting categorisation.

*All 2016 data above have been independently verified by PricewaterhouseCoopers **except** those numbers which are shaded in grey.*

Packaging Material and Product Recalls:
At CLP, our primary product is electricity, which requires no packaging for delivery to customers. Packaging material used for auxiliary products only accounts for an immaterial amount. The nature of electricity also does not allow recalls of our primary product.

Social

Performance Indicators	Units	2016	2015	2014	2013	2012	GRI Standard	HKEx ESG Reporting Guide Reference
Employees								
Employees based on geographical location							102-7	B1.1
Hong Kong	number	**4,450**	4,438	4,405	4,394	4,345		
Mainland China	number	**560**	527	480	469	539		
Australia	number	**1,983**	1,998	2,143	1,745	1,302		
India	number	**435**	397	359	360	391		
Other locations (Southeast Asia & Macau)	number	**–**	–	–	–	4		
Total	number	**7,428**	7,360	7,387	6,968	6,581		
Employees eligible to retire within the next five years[7]							EU15	
Hong Kong	%	**17.3%**	16.2%	15.4%	15.2%	14.0%		
Mainland China	%	**12.1%**	11.9%	11.1%	12.2%	11.9%		
Australia	%	**11.4%**	10.9%	9.2%	10.9%	11.9%		
India	%	**0.9%**	0.8%	1.4%	0.8%	0.8%		
Other locations (Southeast Asia & Macau)[8]	%	**N / A**	N / A	N / A	N / A	N / A		
Total	%	**14.1%**	13.3%	12.4%	13.0%	12.6%		
Voluntary staff turnover rate[9, 10]							401-1	B1.2
Hong Kong	%	**2.3%**	2.8%	2.6%	1.9%	–		
Mainland China	%	**3.4%**	2.6%	2.5%	2.6%	–		
Australia	%	**12.6%**	13.7%	11.6%	9.4%	–		
India	%	**8.4%**	9.8%	13.2%	10.1%	–		
Other locations (Southeast Asia & Macau)	%	**N / A**	N / A	N / A	N / A	–		
Training per employee	average hours	**49.2**	57.2	43.4[11]	5.5	5.6	404-1	B3.2
Safety[12]								
Fatalities (employees only)[13]	number	**0**	0	0	0	0	403-2	B2.1
Fatalities (contractors only)[13]	number	**3**	0	1	1	N / A	403-2	B2.1
Fatality Rate (employees only)[14]	rate	**0.00**	0.00	0.00	0.00	N / A	403-2	B2.1
Fatality Rate (contractors only)[14]	rate	**0.02**	0.00	0.01	0.01	N / A	403-2	B2.1
Lost Time Injury (employees only)[15]	number	**3**	8	4	5	N / A	403-2	
Lost Time Injury (contractors only)[15]	number	**10**	8	19	28	N / A	403-2	
Lost Time Injury Rate (employees only)[14, 15]	rate	**0.04**	0.10	0.05	0.06	N / A	403-2	
Lost Time Injury Rate (contractors only)[14, 15]	rate	**0.07**	0.06	0.15	0.22	N / A	403-2	
Total Recordable Injury Rate (employees only)[14, 16]	rate	**0.11**	0.18	0.26	0.23	N / A	403-2	
Total Recordable Injury Rate (contractors only)[14, 16]	rate	**0.18**	0.28	0.51	0.50	N / A	403-2	
Days lost (employees only)[15, 17]	number	**9**	199	105	29	240	403-2	B2.2
Governance								
Convicted cases of corruption	cases	**0**	0	0	0	0	205-3	B7.1
Breaches of Code of Conduct	cases	**21**	6	7	12	14		

Notes:
7 The percentages given refer to full-time permanent staff within each location, who are eligible to retire within the next five years.
8 There have been no permanent staff in "Other locations (Southeast Asia & Macau)" since 2012.
9 Voluntary turnover is employees leaving the organisation voluntarily and does not include dismissal, retirement, separation under a separation scheme or end of contract.
10 In Mainland China, voluntary staff turnover rates refer to both permanent and short-term employees. In all other regions, voluntary staff turnover rates refer to permanent employees only.
11 Training per employee has been reported in average hours of training since 2014. Prior to 2014, training per employee is reported in average days of training.
12 The system of rules applied in recording and reporting accident statistics complies with the International Labour Organization (ILO) Code of Practice on Recording and Notification of Occupational Accidents and Diseases. Each year's safety data cover the incidents that happened in that calendar year and are based on the latest information available at the time of publication.
13 A fatality is the death of an employee or contractor personnel as a result of an occupational illness / injury / disease incident in the course of employment.
14 All rates are normalised to 200,000 worked hours, which approximately equals the number of hours worked by 100 people in one year.
15 An occupational illness / injury / disease sustained by an employee or contractor personnel causing him / her to miss one scheduled workday / shift or more after the day of the injury (including fatalities). A lost time injury does not include the day the injury incident occurred or any days that the injured person was not scheduled to work and it does not include restricted work injuries.
16 Total recordable injuries count all occupational injury incidents and illness other than first aid cases. They include fatalities, lost time injuries, restricted work injuries and medical treatment.
17 It refers to the number of working days lost when workers are unable to perform their usual work because of an occupational accident or disease. A return to limited duty or alternative work for the same organisation does not count as lost days.

All 2016 data on this page have been independently verified by PricewaterhouseCoopers ***except*** *those numbers which are shaded in grey.*

Five-year Summary: Scheme of Control Financial & Operating Statistics

CLP Power Hong Kong Limited and Castle Peak Power Company Limited

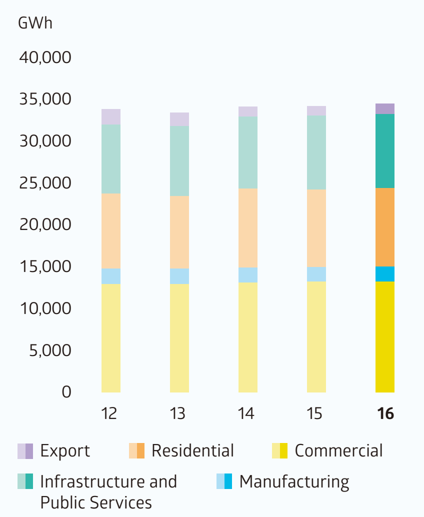
	2016	2015	2014	2013	2012
SoC Financial Statistics					
Combined Profit & Loss Statement, HK$M					
Profit for SoC	**10,407**	10,162	10,988	8,945	9,388
Transfer from/(to) Tariff Stabilisation Fund	**151**	124	(1,030)	693	(75)
Permitted return	**10,558**	10,286	9,958	9,638	9,313
Less: Interest on/Adjustment for					
Borrowed capital	**952**	920	856	887	859
Performance (incentives)/penalties	**(53)**	(51)	(49)	(48)	(47)
Tariff Stabilisation Fund	**2**	2	1	1	2
Net return	**9,657**	9,415	9,150	8,798	8,499
Combined Balance Sheet, HK$M					
Net assets employed					
Fixed assets	**106,886**	104,479	101,420	97,918	95,243
Non-current assets	**440**	382	684	1,091	1,904
Current assets	**4,061**	5,327	6,770	6,778	11,530
	111,387	110,188	108,874	105,787	108,677
Less: current liabilities	**21,474**	18,565	18,518	17,142	22,248
Net assets	**89,913**	91,623	90,356	88,645	86,429
Exchange fluctuation account	**(279)**	113	(565)	(939)	(907)
	89,634	91,736	89,791	87,706	85,522
Represented by					
Equity	**42,147**	42,307	42,456	45,067	43,070
Long-term loans and other borrowings	**28,885**	30,730	28,340	26,873	28,254
Deferred liabilities	**17,816**	17,764	17,937	15,747	13,486
Tariff Stabilisation Fund	**786**	935	1,058	19	712
	89,634	91,736	89,791	87,706	85,522
Other SoC Information, HK$M					
Total electricity sales	**37,120**	38,087	35,969	33,064	33,842
Capital expenditure	**7,292**	7,630	7,800	7,479	8,621
Depreciation	**4,375**	4,143	3,901	4,475	4,146
SoC Operating Statistics					
Customers and Sales					
Number of customers (thousand)	**2,524**	2,485	2,460	2,429	2,400
Sales analysis, millions of kWh					
Commercial	**13,234**	13,209	13,099	12,935	12,917
Manufacturing	**1,751**	1,791	1,791	1,832	1,890
Residential	**9,394**	9,228	9,450	8,658	8,900
Infrastructure and Public Services	**8,858**	8,805	8,585	8,358	8,288
Local	**33,237**	33,033	32,925	31,783	31,995
Export	**1,205**	1,187	1,226	1,650	1,838
Total Electricity Sales	**34,442**	34,220	34,151	33,433	33,833
Annual change, %	**0.6**	0.2	2.1	(1.2)	(0.9)
Local consumption, kWh per person	**5,451**	5,466	5,516	5,379	5,466
Local sales, HK¢ per kWh (average)					
Basic Tariff	**88.9**	87.1	88.6	84.0	84.2
Fuel Cost Adjustment [1]	**24.3**	27.0	22.4	22.4	17.8
Total Tariff	**113.2**	114.1	111.0	106.4	102.0
Rent and Rates Special Rebate [2]	**–**	–	–	(1.7)	(3.3)
Net Tariff [3]	**113.2**	114.1	111.0	104.7	98.7
Annual change in Basic Tariff, %	**2.1**	(1.7)	5.5	(0.2)	5.1
Annual change in Total Tariff, %	**(0.8)**	2.8	4.3	4.3	8.3
Annual change in Net Tariff, %	**(0.8)**	2.8	6.0	6.1	4.8

A ten-year summary is on our website.

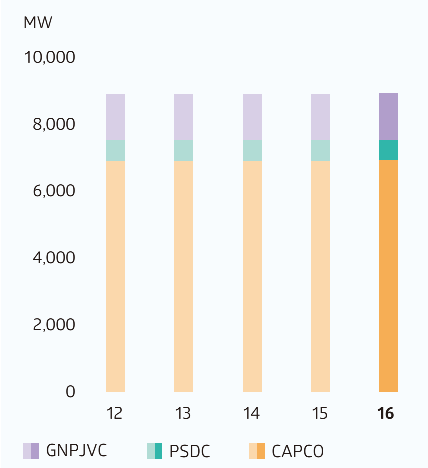
	2016	2015	2014	2013	2012
Generation (Including Affiliated Generating Companies)					
Installed capacity, MW	**8,913**	8,888	8,888	8,888	8,888
System maximum demand					
Local, MW	**6,841**	6,878	7,030	6,699	6,769
Annual change, %	**(0.5)**	(2.2)	4.9	(1.0)	1.0
Local and Mainland China, MW	**7,509**	7,582	7,502	7,615	7,431
Annual change, %	**(1.0)**	1.1	(1.5)	2.5	(4.7)
System load factor, %	**57.7**	57.0	57.8	55.7	57.5
Generation by CAPCO stations, millions of kWh	**26,056**	25,739	27,533	26,994	25,894
Sent out, millions of kWh –					
From own generation	**24,362**	24,075	25,597	25,084	24,102
Net transfer from					
Landfill gas generation	**4**	4	3	4	3
GNPS/GPSPS/Others	**11,501**	11,612	10,084	9,757	11,172
Total	**35,867**	35,691	35,684	34,845	35,277
Fuel consumed, terajoules –					
Oil	**3,452**	2,160	1,785	1,491	7,900
Coal	**160,661**	161,988	215,367	205,198	182,651
Gas	**74,559**	71,406	42,465	47,545	50,420
Total	**238,672**	235,554	259,617	254,234	240,971
Cost of fuel, HK$ per gigajoule – Overall	**43.77**	51.25	39.66	38.02	40.56
Thermal efficiency, % based on units sent out	**36.7**	36.8	35.5	35.5	36.0
Plant availability, %	**84.1**	85.0	83.7	85.2	82.1
Transmission and Distribution					
Network, circuit kilometres					
400kV	**555**	555	555	555	555
132kV	**1,656**	1,645	1,643	1,587	1,581
33kV	**24**	24	27	27	27
11kV	**13,046**	12,739	12,475	12,328	12,074
Transformers, MVA	**65,834**	63,373	61,450	60,430	60,136
Substations –					
Primary	**230**	226	224	218	216
Secondary	**14,254**	14,019	13,845	13,692	13,536
Employees and Productivity					
Number of SoC employees	**3,808**	3,817	3,807	3,819	3,791
Productivity, thousands of kWh per employee	**8,718**	8,666	8,635	8,353	8,504

Notes:
1 The Fuel Cost Adjustment has replaced the Fuel Clause Charge effective from October 2014.
2 While the rent and rates appeals are still progressing, CLP Power Hong Kong provided customers with a Rent and Rates Special Rebate of 3.3 cents and 2.1 cents per unit in 2012 and January to mid-October 2013 respectively, rebating to customers all interim refunds received from the Government in 2012 and 2013 for overcharged rent and rates.
3 The effective net tariff including the one-off special fuel rebate in 2015 is 110.3 cents per unit.

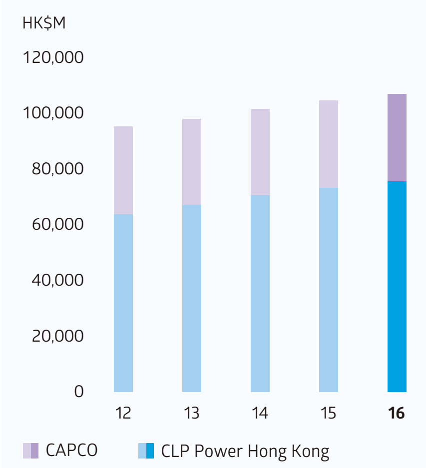
Electricity Sales by Sector



Installed Capacity



SoC Net Fixed Assets



Contact Us

Annual Report

The English and Chinese versions of this Report have been made available on the "Investors Information" section on the Company's website at www.clpgroup.com and on the website of Hong Kong Exchanges and Clearing Limited at www.hkex.com.hk since 13 March 2017 and posted to shareholders on 28 March 2017.

Those shareholders who wish to receive our 2016 Annual Report in printed form or in a language version other than their existing choice are requested to write to the Company Secretary or the Company's Registrars.

Shareholders may change their choice of language (English and / or Chinese) and means of receipt (in printed form or electronic means through our webiste) of the Company's future corporate communications, free of charge, at any time by reasonable notice in writing (not less than 7 days) to the Company or the Company's Registrars or via email (cosec@clp.com.hk or clp.ecom@computershare.com.hk), notwithstanding any wish to the contrary they have previously conveyed to the Company or the Company's Registrars.

For those shareholders who have chosen (or are deemed to have chosen) to receive all future corporate communications by electronic means but for any reason have difficulty in receiving or gaining access to the corporate communications, the Company will promptly upon request send to the shareholders the corporate communications in printed form free of charge.

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 5 May 2017. 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 2017.

Register of Shareholders

To be closed on 14 March 2017 for the 2016 fourth interim dividend and closed from 28 April 2017 to 5 May 2017, both days inclusive, for the 2017 AGM.

Company's Registrars

Computershare Hong Kong Investor Services Limited

Address:	17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
Telephone:	(852) 2862 8628
Facsimile:	(852) 2865 0990
Email:	hkinfo@computershare.com.hk

Share Listing

CLP Holdings shares are listed on the Stock Exchange of Hong Kong and are one of the eligible stocks included in Southbound trading through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect. CLP Holdings shares are also traded over the counter in the United States in the form of American Depositary Receipts.

Our Stock Code

The Stock Exchange of Hong Kong:	00002
Bloomberg:	2 HK
Reuters:	0002.HK
Ticker Symbol for ADR Code:	CLPHY
CUSIP Reference Number:	18946Q101

Address: 8 Laguna Verde Avenue, Hung Hom, Kowloon, Hong Kong
Telephone: (852) 2678 8228 (Shareholders' hotline)
Facsimile: (852) 2678 8390 (Company Secretary)
Email: cosec@clp.com.hk (Company Secretary)
ir@clp.com.hk (Director — Investor Relations)

Helping Our Community

Every year since 2003, CLP has used the publication of the Annual Report and Sustainability Report to act as a springboard for developing charity initiatives. We do this hand in hand with our shareholders and other stakeholders. We support various projects by making a donation of HK$60 for each shareholder who opts for electronic corporate communication, and for feedback received on the two reports and our online snapshot, up to a maximum cumulative amount of HK$350,000. We encourage shareholders to show support by opting for electronic communication by mail (see attached form) or via email addressed to clp.ecom@computershare.com.hk or cosec@clp.com.hk on or before 30 June 2017.

Recent Beneficiaries

The Hong Kong Society for Rehabilitation

With the specific aim of improving the lives of children with disabilities in Sichuan province, professionals of The Hong Kong Society for Rehabilitation visited the Bazhong Welfare Home for Children in September 2016 and organised rehabilitation training workshops for its frontline health care workers.

Care worker Ke Chunrong (second left) learns how to help children with special needs

"Four-year-old Long Cheng suffers from severe congenital heart disease and severe neuromuscular disorder. He has to be fed and has problems with basic bodily functions; but now with our guidance, he can manage to eat his meals largely unaided," said care worker Ke Chunrong.

"Through the workshops, we learn to observe and be aware of the children's body posture, as well as how to plan group activities for them. All these skills are useful at work," she said. "The training enables us to better serve the children, and improve our management and planning skills. More importantly, we now know our children better and are able to provide them with better care."

Student Lee Hoi-ching (third from left) treasures the opportunity to learn how to play the violin

Changing Young Lives Foundation

In 2016, CLP funded Changing Young Lives Foundation to launch a one-year programme for the children of new immigrant and low-income families. The programme aims to build the children's self-confidence and enhance their social and communication skills.

"The programme offers a variety of workshops, covering sports, cooking and music. They help us relax, and enable us to develop our potential," said 15-year-old student Lee Hoi-ching. "The violin class is my favourite because the tutor is friendly and patient. Sometimes, he even gives us little rewards."

Upcoming Beneficiaries

Early Psychosis Foundation
思覺基金

Early Psychosis Foundation strives to promote high-quality early psychosis intervention services, professional training and public awareness programmes.

路向四肢傷殘人士協會
Direction Association for the Handicapped

Direction Association for the Handicapped aims at promoting mutual help among people with severe physical disabilities in Hong Kong.

Your support is appreciated.

CLP welcomes your views...

CLP 中電

Section A – Feedback on 2016 Annual Report

The Annual Report is a key document in communicating with 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.

Page		Is the report easy to understand? strongly disagree			strongly agree	Does the report provide helpful information? strongly disagree			strongly agree
2	A Snapshot of CLP in 2016	1	2	3	4	1	2	3	4
6	Our Investments	1	2	3	4	1	2	3	4
7	Our Business Model and Value Creation Journey	1	2	3	4	1	2	3	4
12	Chairman's Statement	1	2	3	4	1	2	3	4
15	CEO's Strategic Review	1	2	3	4	1	2	3	4
20	Shareholder Value	1	2	3	4	1	2	3	4
Financial Review									
26	Financial Review	1	2	3	4	1	2	3	4
Performance and Business Outlook									
36	Hong Kong	1	2	3	4	1	2	3	4
42	Mainland China	1	2	3	4	1	2	3	4
48	India	1	2	3	4	1	2	3	4
54	Southeast Asia and Taiwan	1	2	3	4	1	2	3	4
56	Australia	1	2	3	4	1	2	3	4
Capitals									
64	Financial Capital	1	2	3	4	1	2	3	4
69	Manufactured Capital	1	2	3	4	1	2	3	4
72	Intellectual Capital	1	2	3	4	1	2	3	4
75	Human Capital	1	2	3	4	1	2	3	4
81	Social and Relationship Capital	1	2	3	4	1	2	3	4
85	Natural Capital	1	2	3	4	1	2	3	4
Governance									
90	Board of Directors	1	2	3	4	1	2	3	4
92	Senior Management	1	2	3	4	1	2	3	4
94	Corporate Governance Report	1	2	3	4	1	2	3	4
115	Risk Management Report	1	2	3	4	1	2	3	4
124	Audit Committee Report	1	2	3	4	1	2	3	4
128	Sustainability Committee Report	1	2	3	4	1	2	3	4
131	Human Resources & Remuneration Committee Report	1	2	3	4	1	2	3	4
145	Directors' Report	1	2	3	4	1	2	3	4
Financials									
162	Approaching Our Financial Statements	1	2	3	4	1	2	3	4
164	Accounting Mini-series	1	2	3	4	1	2	3	4
167	Independent Auditor's Report	1	2	3	4	1	2	3	4
172	Financial Statements	1	2	3	4	1	2	3	4
240	Five-year Summaries	1	2	3	4	1	2	3	4
Supplementary Information (Online Version)		1	2	3	4	1	2	3	4
A Snapshot of 2016 Annual Report (Online Version)		1	2	3	4	1	2	3	4

2. Your overall rating of this Annual Report is:
(Please "✔" the appropriate circle)

Poor ○ Fair ○ Good ○ Very Good ○ Excellent ○

... / cont'd

3. Was there any additional information you expected to receive in the Annual Report? Please specify.

4. Are there any questions that you would like 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. Please feel free to add any other comments or suggestions you may have.

Section B – Request for Additional Information

Our Annual Report identifies areas where additional information is available on our website (www.clpgroup.com) or in other printed publications.

If you would like hard copies of that web information and / or printed copies of other publications, please indicate as appropriate below:

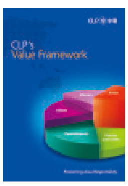
Name of Shareholder(s)

Address

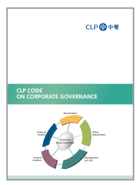
Please "✔" the appropriate circle(s).

○ Web Information Required (Please specify)

○ CLP's Value Framework



○ CLP Code on Corporate Governance



Please send your feedback or requests for additional information to CLP Holdings Limited by:

(i) POST — please cut and stick the freepost label below on an envelope and mail to:
CLP Holdings' Registrars, Computershare Hong Kong Investor Services Limited

(ii) FAX at (852) 2678 8390

(iii) E-MAIL at 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.

The 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 from the date of publication of the 2016 Annual Report.

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

You can find out more about CLP's policies on privacy and personal data protection by accessing our privacy policy statement available on the CLP website at https://www.clpgroup.com/en/Pages/Privacy.aspx.

MAILING LABEL

Please cut out the mailing label and stick it on an envelope when returning 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 中電

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中電控股有限公司

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www.clpgroup.com

Stock Code: 00002

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