

IMPORTANT NOTICE

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NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “*SECURITIES ACT*”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATIONS UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

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

Confirmation of the Representation: In order to be eligible to view this Offering Circular or make an investment decision with respect to the securities, investors must be a non-U.S. person purchasing the securities outside the United States in an offshore transaction in reliance on Regulation S under the Securities Act. This Offering Circular is being sent at your request and by accepting the electronic mail and accessing this Offering Circular, you shall be deemed to have represented to us that you are not a U.S. person or acting for the account or benefit of a U.S. person (in each case as defined in Regulation S), the electronic mail address that you gave us and to which this electronic mail has been delivered is not located in the United States and that you consent to delivery of such Offering Circular and any amendments and supplements thereto by electronic transmission.

You are reminded that this Offering Circular has been delivered to you on the basis that you are a person into whose possession this Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Offering Circular to any other person. You should not reply by e-mail to this notice, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the “Reply” function on your e-mail software, will be ignored or rejected.

The materials relating to any offering of securities under the Programme to which this Offering Circular relates do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that such offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, such offering shall be deemed to be made by the underwriters or such affiliate on behalf of Hongkong Electric Finance Limited in such jurisdiction.

This Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Dealers (as defined in this Offering Circular) or any person who controls any Dealer or any director, officer, employee or agent of either of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from any of the Dealers.

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OFFERING CIRCULAR



Hongkong Electric Finance Limited

(incorporated with limited liability under the laws of the British Virgin Islands)

unconditionally and irrevocably guaranteed by

The Hongkong Electric Company, Limited

香港電燈有限公司

(incorporated with limited liability under the laws of Hong Kong)

U.S.\$5,000,000,000 Medium Term Note Programme

On 18 December 2002, Hongkong Electric Finance Limited (the "Issuer") established a U.S.\$1,000,000,000 Medium Term Note Programme (the "Programme"). On 25 July 2006, the size of the Programme was increased from U.S.\$1,000,000,000 to U.S.\$2,000,000,000 and on 8 December 2011, the size of the Programme was further increased from U.S.\$2,000,000,000 to U.S.\$3,000,000,000, both in accordance with the terms of the Programme. On 31 July 2014, the size of the Programme was again further increased from U.S.\$3,000,000,000 to U.S.\$5,000,000,000 in accordance with the terms of the Programme. This Offering Circular supersedes any previous offering circular (including any supplement thereto) issued in respect of the Programme prior to the date hereof. Any Notes (as defined below) issued under this Programme on or after the date of this Offering Circular are issued subject to the provisions described herein. This does not affect any Notes issued prior to the date of this Offering Circular.

Under this Programme, the Issuer may from time to time issue notes (the "Notes") denominated in any currency agreed between the Issuer, The Hongkong Electric Company, Limited 香港電燈有限公司 (the "Guarantor") and the relevant Dealer (as defined below).

The payments of all amounts due in respect of the Notes will be unconditionally and irrevocably guaranteed by the Guarantor.

Notes may be issued in bearer or registered form (respectively "Bearer Notes" and "Registered Notes"). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed U.S.\$5,000,000,000 (or its equivalent in other currencies calculated as described herein), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "Summary of the Programme" and any additional Dealer appointed under the Programme from time to time by the Issuer (each a "Dealer" and together the "Dealers"), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the "relevant Dealer" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe for such Notes.

Application has been made to The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") for the listing of the Programme by way of debt issues to professional investors only (as defined in the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong). This Offering Circular is for distribution to professional investors only. **Investors should not purchase the Notes in the primary or secondary markets unless they are professional investors and understand the risks involved. The Notes are not suitable for retail investors.**

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

A separate application will be made for permission to deal in, and for the listing of, Notes issued under the Programme which are by way of debt issues to Professional Investors only during the period of 12 months from the date of this Offering Circular on the Hong Kong Stock Exchange. Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under "Terms and Conditions of the Notes") of Notes will be set out in a pricing supplement (the "Pricing Supplement") a copy of which, with respect to Notes to be listed on the Hong Kong Stock Exchange, will be delivered to the Hong Kong Stock Exchange on or before the date of issue of the Notes of such Tranche.

The Programme provides that Notes may be listed on such other or further stock exchange(s) as may be agreed between the Issuer, the Guarantor and the relevant Dealer. The Issuer may also issue unlisted Notes.

The Notes and the Guarantee (as defined under "Terms and Conditions of the Notes") have not been and will not be registered under the U.S. Securities Act of 1933, as amended, (the "Securities Act") or any U.S. State securities law and may not be offered or sold directly or indirectly in the United States or to, or for the account or benefit of, U.S. persons unless the Notes and the Guarantee are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available and in accordance with all applicable securities laws of any state of the United States and any other jurisdiction. See "Form of the Notes" for a description of the manner in which Notes will be issued. Registered Notes are subject to certain restrictions on transfer, see "Subscription and Sale and Transfer and Selling Restrictions".

Notes issued under the Programme may be rated or unrated. Where an issue of Notes is rated, its rating will not necessarily be the same as the rating applicable to the Programme and (where applicable) such rating will be specified in the relevant Pricing Supplement. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

The Issuer and the Guarantor may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event (in the case of Notes intended to be listed on the Hong Kong Stock Exchange), a supplementary offering circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

Arrangers

Goldman Sachs (Asia) L.L.C.

HSBC

Dealers

ANZ

Barclays

BofA Merrill Lynch

Crédit Agricole CIB

Goldman Sachs (Asia) L.L.C.

J.P. Morgan

Morgan Stanley

Bank of China (Hong Kong)

BNP PARIBAS

Citigroup

Deutsche Bank

HSBC

Mizuho Securities

Standard Chartered Bank (Hong Kong) Limited

The date of this Offering Circular is 8 July 2016

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

This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see “*Documents Incorporated by Reference*” below). This Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of this Offering Circular.

The Dealers have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers as to the accuracy or completeness of the information contained or incorporated in this Offering Circular or any other information provided by the Issuer or the Guarantor in connection with the Programme. No Dealer accepts any liability in relation to the information contained or incorporated by reference in this Offering Circular or any other information provided by the Issuer or the Guarantor in connection with the Programme.

Subject as provided in the applicable Pricing Supplement, no person is or has been authorised by the Issuer or the Guarantor to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or the Guarantor or any of the Dealers.

Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer, the Guarantor or any of the Dealers that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating the purchase of any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and/or the Guarantor. Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer or the Guarantor or any of the Dealers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer and/or the Guarantor is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers expressly do not undertake to review the financial condition or affairs of the Issuer or the Guarantor during the life of the Programme or to advise any investor in the Notes of any information coming to their attention.

The Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered directly or indirectly within the United States or its possessions or to United States persons, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended and the regulations promulgated thereunder.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer, the Guarantor and the Dealers do not represent that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Guarantor or the Dealers which is intended to permit a public offering of any Notes or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the European Economic Area, the United Kingdom, the Netherlands, Japan, the Hong Kong Special Administrative Region (“*Hong Kong*”), Singapore and the British Virgin Islands, see “*Subscription and Sale and Transfer and Selling Restrictions*”.

This Offering Circular has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “*Relevant Member State*”) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly, any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of an offering contemplated in this Offering Circular as completed by Pricing Supplement in relation to the offer of those Notes may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer have authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

In making an investment decision, investors must rely on their own examination of the Issuer and the Guarantor and the terms of the Notes being offered, including the merits and risks involved. The Notes and the Guarantee have not been approved or disapproved by the United States Securities and Exchange Commission or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities approved this Offering Circular or confirmed the accuracy or determined the adequacy of the information contained in this Offering Circular. Any representation to the contrary is unlawful.

None of the Dealers, the Issuer or the Guarantor makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

U.S. INFORMATION

This Offering Circular may be submitted on a confidential basis in the United States to a limited number of QIBs or Institutional Accredited Investors (each as defined under “*Form of the Notes*”) for informational use solely in connection with the consideration of the purchase of the Notes being offered hereby. Its use for any other purpose in the United States is not authorised. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

Registered Notes may be offered or sold within the United States only to QIBs or to Institutional Accredited Investors, in either case in transactions exempt from registration under the Securities Act. Each U.S. purchaser of Registered Notes is hereby notified that the offer and sale of any Registered Notes to it may be being made in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A under the Securities Act (“*Rule 144A*”).

The Notes and the Guarantee have not been approved or disapproved by the United States Securities and Exchange Commission, any state securities commission in the United States or any other United States regulatory authority, nor has any of the foregoing authorities passed upon or endorsed the merits of the Offering of the Notes or the accuracy or the adequacy of this Offering Circular. Any representation to the contrary is a criminal offence in the United States.

Purchasers of Definitive IAI Registered Notes will be required to execute and deliver an IAI Investment Letter (as defined under “*Terms and Conditions of the Notes*”). Each purchaser or holder of Definitive IAI Registered Notes, Notes represented by a Rule 144A Global Note or any Registered Notes in exchange or substitution therefor (together “*Legended Notes*”) will be deemed, by its acceptance or purchase of any such Legended Notes, to have made certain representations and agreements intended to restrict the resale or other transfer of such Notes as set out in “*Subscription and Sale and Transfer and Selling Restrictions*”. Unless otherwise stated, terms used in this paragraph have the meanings given to them in “*Form of the Notes*”.

AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with any resales or other transfers of Notes that are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, each of the Issuer and the Guarantor has undertaken in a deed poll dated 31 July 2014 (the “*Deed Poll*”) to furnish, upon the request of a holder of such Notes or any beneficial interest therein, to such holder or to a prospective purchaser designated by him, the information required to be delivered under Rule 144A(d)(4) of the Securities Act if, at the time of the request, the Guarantor is neither a reporting company under Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended, (the “*Exchange Act*”) nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Notes and any non-contractual obligations arising out of or in connection with the Notes are governed by English law, and the Notes do not provide for the appointment by the Issuer or the Guarantor of an agent for service of process in the United States or for submission by the Issuer or the Guarantor to the jurisdiction of U.S. federal or state courts. As a result, investors may find it difficult in a lawsuit based on the civil liability provisions of the U.S. federal securities laws (i) to effect service within the United States, upon the Issuer, the Guarantor or their directors and executive officers located outside the United States, (ii) to enforce in U.S. courts or outside the U.S., judgments obtained in U.S. courts against the Issuer, the Guarantor

or such persons, (iii) to enforce in U.S. courts judgments obtained against the Issuer, the Guarantor or such persons in courts in jurisdictions outside the United States, and (iv) to enforce against the Issuer, the Guarantor or such persons in the British Virgin Islands, the United Kingdom or Hong Kong, whether in original actions or in actions for the enforcement of judgments of U.S. courts, civil liabilities based solely upon the U.S. federal securities laws.

The Issuer is an exempted limited liability company organised under the laws of the British Virgin Islands. All of the officers and directors named herein reside outside the United States and all or a substantial portion of the assets of the Issuer and such officers and directors are located outside the United States. As a result, it may not be possible for investors to effect service of process outside the British Virgin Islands upon the Issuer or such persons, or to enforce judgments against them obtained in courts outside the British Virgin Islands predicated upon civil liabilities of the Issuer or such directors and officers under laws other than the British Virgin Islands law, including any judgment predicated upon U.S. federal securities laws.

The Issuer has been advised by its British Virgin Islands legal advisers, Harney Westwood & Riegels LLP, that any final and conclusive monetary judgment for a definite sum obtained against the Issuer in the Courts of the United States in respect of the Notes would be treated by the courts of the British Virgin Islands as a cause of action in itself so that no retrial of the issues would be necessary provided that:

- (i) the Courts of the United States had jurisdiction in the matter and the Issuer either submitted to such jurisdiction or was resident or carrying on business within such jurisdiction and was duly served with process;
- (ii) the judgment given by the Courts of the United States was not in respect of penalties, taxes, fines or similar fiscal or revenue obligations of the Issuer;
- (iii) in obtaining judgment there was no fraud on the part of the person in whose favour judgment was given or on the part of the Courts of the United States;
- (iv) recognition or enforcement of the judgment in the British Virgin Islands would not be contrary to public policy; and
- (v) the proceedings pursuant to which judgment was obtained were not contrary to natural justice.

A British Virgin Islands court may stay proceedings if concurrent proceedings are being brought elsewhere.

The Guarantor is a company incorporated under the laws of Hong Kong. All of the officers and directors named herein reside outside the United States and all or a substantial portion of the assets of the Guarantor and such officers and directors are or may be located outside the United States. As a result, it may not be possible for investors to effect service of process outside Hong Kong upon the Guarantor or such persons, or to enforce judgments against them obtained in courts outside Hong Kong predicated upon civil liabilities of the Guarantor or such directors and officers under laws other than Hong Kong law, including any judgment predicated upon United States federal securities laws. The Guarantor has been advised by its Hong Kong counsel, King & Wood Mallesons, that there is doubt as to whether the courts of Hong Kong would (i) enforce judgments of United States courts obtained against the Guarantor or such persons predicated solely upon civil liability provisions of the securities laws of the United States or any state within the United States or (ii) entertain original actions brought in Hong Kong courts against the Guarantor or such persons predicated solely upon the securities laws, respectively, of the United States or any state within the United States.

PRESENTATION OF FINANCIAL INFORMATION

The Guarantor maintains its financial books and records and prepares its financial statements in Hong Kong dollars. Unless otherwise specified, where financial information in relation to the Guarantor has been translated into U.S. dollars, it has been so translated, for the convenience of the reader, at an exchange rate of HK\$7.8 = U.S.\$1.00. No representation is made that Hong Kong dollars have been, could have been, or could be, converted into U.S. dollars at the rate indicated or at any other rate.

CURRENCIES

All references in this document to “*U.S. dollars*” and “*U.S.\$*” refer to the lawful currency of the United States of America and to “*Hong Kong dollars*” and “*HK\$*” refer to the lawful currency of Hong Kong and to “*CNH*”, “*CNY*”, “*RMB*” or “*Renminbi*” refer to the currency of the People’s Republic of China (the “*PRC*”). In addition, references to “*Sterling*” and “*£*” refer to the lawful currency of the United Kingdom and to “*euro*” and “*€*” refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

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IN CONNECTION WITH THE ISSUE AND DISTRIBUTION OF ANY TRANCHE OF NOTES, THE DEALER OR DEALERS (IF ANY) NAMED AS THE STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN THE APPLICABLE PRICING SUPPLEMENT MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES OF THE SERIES (AS DEFINED BELOW) OF WHICH SUCH TRANCHE FORMS PART AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION MAY NOT NECESSARILY OCCUR. ANY STABILISATION ACTION OR OVER-ALLOTMENT MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OR THE RELEVANT TRANCHE OF NOTES IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE RELEVANT TRANCHE OF NOTES AND 60 DAYS AFTER THE DATE OF ALLOTMENT OF THE RELEVANT TRANCHE OF NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents published or issued from time to time after the date hereof shall be deemed to be incorporated in, and to form part of, this Offering Circular:

- (a) the audited non-consolidated annual financial statements of the Guarantor for the year ended 31 December 2015 (with 2014 comparative information);
- (b) the most recently published audited annual financial statements of the Issuer (if any) and the most recently published audited annual financial statements of the Guarantor (if any) and, if published later, the most recently published interim financial statements of the Issuer (if any) and the most recently published interim financial statements of the Guarantor (if any), see “*General Information — Documents Available*” for a description of the financial statements currently published by the Issuer and the Guarantor (as at the date of this Offering Circular, the Issuer has not published and does not propose to publish, any financial statements); and
- (c) all supplements or amendments to this Offering Circular published by the Issuer and the Guarantor from time to time,

save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular.

The Issuer and the Guarantor will provide, without charge, to each person to whom a copy of this Offering Circular has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to the Issuer or the Guarantor at their respective offices set out at the end of this Offering Circular. In addition, such documents will be available free of charge from the principal office of the Paying Agent in Hong Kong (or such other Paying Agent for the time being in Hong Kong) for Notes listed on the Hong Kong Stock Exchange.

If the terms of the Programme are modified or amended in a manner which would make this Offering Circular, as so modified or amended, inaccurate or misleading, a new offering circular will be prepared.

GENERAL DESCRIPTION OF THE PROGRAMME

Under the Programme, the Issuer may from time to time issue Notes denominated in any currency, subject as set out herein. A summary of the terms and conditions of the Programme and the Notes appears below. The applicable terms of any Notes will be agreed between the Issuer, the Guarantor and the relevant Dealer prior to the issue of the Notes and will be set out in the Terms and Conditions of the Notes endorsed on, attached to, or incorporated by reference into, the Notes, as modified and supplemented by the applicable Pricing Supplement attached to, or endorsed on, such Notes, as more fully described under “*Form of the Notes*” below.

This Offering Circular and any supplement will only be valid for listing Notes on the Hong Kong Stock Exchange during the period of 12 months from the date of this Offering Circular in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Notes previously or simultaneously issued under the Programme, does not exceed U.S.\$5,000,000,000 or its equivalent in other currencies. For the purpose of calculating the U.S. dollar equivalent of the aggregate nominal amount of Notes issued under the Programme from time to time:

- (a) the U.S. dollar equivalent of Notes denominated in another Specified Currency (as specified in the applicable Pricing Supplement in relation to the relevant Notes, described under “*Form of the Notes*”) shall be determined, at the discretion of the Issuer, either as of the date on which agreement is reached for the issue of Notes or on the preceding day on which commercial banks and foreign exchange markets are open for business in London and Hong Kong in each case on the basis of the spot rate for the sale of the U.S. dollar against the purchase of such Specified Currency in the London foreign exchange market quoted by any leading international bank selected by the Issuer on the relevant day of calculation;
- (b) the U.S. dollar equivalent of Dual Currency Notes, Index Linked Notes and Partly Paid Notes (each as specified in the applicable Pricing Supplement in relation to the relevant Notes, described under “*Form of the Notes*”) shall be calculated in the manner specified above by reference to the original nominal amount on issue of such Notes (in the case of Partly Paid Notes regardless of the subscription price paid); and
- (c) the U.S. dollar equivalent of Zero Coupon Notes (as specified in the applicable Pricing Supplement in relation to the relevant Notes, described under “*Form of the Notes*”) and other Notes issued at a discount or a premium shall be calculated in the manner specified above by reference to the net proceeds received by the Issuer for the relevant issue.

SUMMARY OF THE PROGRAMME

The following summary does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. Words and expressions defined in “Form of the Notes” and “Terms and Conditions of the Notes” shall have the same meanings in this summary.

Issuer:	Hongkong Electric Finance Limited
Guarantor:	The Hongkong Electric Company, Limited 香港電燈有限公司
Description:	Medium Term Note Programme
Arrangers:	Goldman Sachs (Asia) L.L.C. The Hongkong and Shanghai Banking Corporation Limited
Dealers:	Australia and New Zealand Banking Group Limited Bank of China (Hong Kong) Limited Barclays Bank PLC BNP Paribas Citigroup Global Markets Limited Crédit Agricole Corporate and Investment Bank Deutsche Bank AG, Singapore Branch Goldman Sachs (Asia) L.L.C. The Hongkong and Shanghai Banking Corporation Limited J.P. Morgan Securities plc Merrill Lynch International Mizuho Securities Asia Limited 瑞穗證券亞洲有限公司 Morgan Stanley & Co. International plc Standard Chartered Bank (Hong Kong) Limited 渣打銀行(香港)有限公司

and any other Dealers from time to time appointed by the Issuer and the Guarantor for the duration of the Programme or with regard to a particular Tranche of Notes, in accordance with the Programme Agreement (as defined under “*Subscription and Sale and Transfer and Selling Restrictions*”).

Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see “ <i>Subscription and Sale and Transfer and Selling Restrictions</i> ”).
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Notes having a maturity of less than one year

Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in Section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see “*Subscription and Sale and Transfer and Selling Restrictions*”.

Principal Paying Agent:	Deutsche Bank AG, London Branch or, if so specified in the applicable Pricing Supplement, Deutsche Bank AG, Hong Kong Branch.
Paying and Transfer Agent:	Deutsche Bank Luxembourg S.A.
Registrar:	Deutsche Bank Trust Company Americas or, if so specified in the applicable Pricing Supplement, Deutsche Bank Luxembourg S.A.
CMU Lodging Agent and Transfer Agent:	Deutsche Bank AG, Hong Kong Branch.
Programme Size:	Up to U.S.\$5,000,000,000 (or its equivalent in other currencies calculated as described under “ <i>General Description of the Programme</i> ”) in aggregate nominal amount of Notes outstanding at any time. The Issuer and the Guarantor may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer, the Guarantor and the relevant Dealer.
Redenomination:	In respect of any Tranche of Notes, the applicable Pricing Supplement may provide that certain Notes may be redenominated in euro. The relevant provisions applicable to any such redenomination are contained in Condition 5.
Maturities:	Such maturities as may be agreed between the Issuer, the Guarantor and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer, the Guarantor or the relevant Specified Currency.
Issue Price:	Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par as specified in the applicable Pricing Supplement.
Form of Notes:	The Notes will be issued in bearer or registered form as described in “ <i>Form of the Notes</i> ”. Registered Notes will not be exchangeable for Bearer Notes and vice versa.
Fixed Rate Notes:	Fixed interest will be payable at such rate or rates in arrear and on such date or dates as may be agreed between the Issuer, the Guarantor and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer, the Guarantor and the relevant Dealer.

Floating Rate Notes:

Floating Rate Notes will bear interest at a rate determined:

- (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or
- (ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or
- (iii) on such other basis as may be agreed between the Issuer, the Guarantor and the relevant Dealer.

The margin (if any) relating to such floating rate will be agreed between the Issuer, the Guarantor and the relevant Dealer for each Series of Floating Rate Notes.

Index Linked Notes:

Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer, the Guarantor and the relevant Dealer may agree.

Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes:

Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both.

Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the Issuer, the Guarantor and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer, the Guarantor and the relevant Dealer.

Dual Currency Notes:

Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer, the Guarantor and the relevant Dealer may agree.

Zero Coupon Notes:

Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.

Redemption:

The applicable Pricing Supplement will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than (i) in specified instalments, if applicable, (ii) for taxation reasons or (iii) following an Event of Default (as defined in Condition 11)) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer, the Guarantor and the relevant Dealer.

The applicable Pricing Supplement may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Pricing Supplement.

Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution.

Denomination of Notes:

Notes will be issued in such denominations as may be agreed between the Issuer, the Guarantor and the relevant Dealer save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see “*Certain Restrictions*” above.

Unless otherwise stated in the applicable Pricing Supplement, the minimum denomination of each Definitive IAI Registered Note will be U.S.\$500,000 or its approximate equivalent in other Specified Currencies.

Taxation:

All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction (as defined in Condition 9), subject as provided in Condition 9. In the event that any such deduction is made, the Issuer or, as the case may be, the Guarantor will, save in certain limited circumstances provided in Condition 9, be required to pay additional amounts to cover the amounts so deducted.

In making an investment decision, each prospective investor is strongly recommended to consult its own professional advisers in respect of the tax implications of an investment in the Notes to their particular circumstances (see “*Taxation*”).

Negative Pledge:

The terms of the Notes will contain a negative pledge provision as further described in Condition 4.

Cross Default:

The terms of the Notes will contain a cross default provision as further described in Condition 11.

Status of the Notes:

The Notes will constitute direct, unconditional, unsubordinated and, subject to the provisions of Condition 4, unsecured obligations of the Issuer and will rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

Guarantee:

The Notes will be unconditionally and irrevocably guaranteed by the Guarantor. The obligations of the Guarantor under such guarantee will be direct, unconditional, unsubordinated and, subject to the provisions of Condition 4, unsecured obligations of the Guarantor and will rank *pari passu* and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Guarantor from time to time outstanding.

Rating:	<p>Notes issued under the Programme may be rated or unrated.</p> <p>Where an issue of Notes is rated, its rating will not necessarily be the same as the rating applicable to the Programme and (where applicable) such rating will be specified in the relevant Pricing Supplement. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.</p>
Listing:	<p>Application has been made for the Programme to be listed on the Hong Kong Stock Exchange. Notes issued under the Programme may also be listed on the Hong Kong Stock Exchange or on such other or further stock exchange(s) as may be agreed between the Issuer, the Guarantor and the relevant Dealer in relation to each Series.</p> <p>Unlisted Notes may also be issued.</p> <p>The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and, if so, on which stock exchange(s).</p>
Governing Law:	<p>The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and shall be construed in accordance with, English law.</p>
Clearing System:	<p>The CMU Service, Euroclear, Clearstream, Luxembourg, DTC (each as defined in Condition 1) and/or any other clearing system, as specified in the applicable Pricing Supplement, see “<i>Form of the Notes</i>”.</p>
Selling Restrictions:	<p>There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area, the United Kingdom, the Netherlands, Japan, Hong Kong, Singapore and the British Virgin Islands and such other restrictions as may be applicable in connection with the offering and sale of a particular Tranche of Notes, see “<i>Subscription and Sale and Transfer and Selling Restrictions</i>”.</p>
United States Selling Restrictions:	<p>Regulation S (Category 2), Rule 144A and Section 4(2), TEFRA C or D/TEFRA not applicable, as specified in the applicable Pricing Supplement.</p>

RISK FACTORS

In addition to other information in this Offering Circular, investors should carefully consider the following risk factors, together with all other information contained in this Offering Circular, before deciding to invest in the Notes. The risks and uncertainties described below may not be the only ones that the Issuer or the Guarantor faces. Additional risks and uncertainties that the Issuer and the Guarantor are not aware of or that they currently believe are immaterial may also adversely affect the business, financial condition or results of operations of the Issuer or the Guarantor. If any of the possible events described below occurs, the Issuer's or the Guarantor's business, financial condition or results of operations could be materially and adversely affected. In such case, investors may lose all or part of their investment.

The Notes and the Guarantee are unsecured obligations.

As the Notes and the Guarantee are unsecured obligations, their repayment may be compromised if:

- the Issuer or the Guarantor enters into bankruptcy, liquidation, reorganisation or other winding-up proceedings;
- there is a default in payment under the Issuer's or the Guarantor's secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of the Issuer's or the Guarantor's indebtedness.

If any of these events were to occur, the Issuer's or, as the case may be, the Guarantor's assets and any amounts received from the sale of such assets may not be sufficient to pay amounts due on the Notes.

The Notes may not be a suitable investment for all investors.

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

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

Some Notes may be complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to the purchaser's overall portfolios. A potential investor should not invest in Notes which are complex

financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio. Additionally, the investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities.

The Issuer is dependent on the business and financial condition of the Guarantor to make payments under the Notes.

The Issuer is a wholly-owned subsidiary of the Guarantor formed for the primary purpose of entering into arrangements for the establishment and maintenance of the Programme and will on-lend the proceeds from the issue of the Notes to the Guarantor. The Issuer's ability to make payments under the Notes depends on timely payments under such on-lent loans and the availability of funds from the Guarantor.

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

As the Issuer is incorporated in the British Virgin Islands and the Guarantor is incorporated under the laws of Hong Kong, any insolvency proceeding relating to the Issuer or the Guarantor would likely involve British Virgin Islands or Hong Kong insolvency laws, respectively, the procedural and substantive provisions of which may differ from comparable provisions of the local insolvency laws of jurisdictions with which the Noteholders are familiar.

Notes issued under the Programme may not have an active trading market and may trade at a discount to their initial offering price and/or with limited liquidity.

Notes issued under the Programme may not be widely distributed and there may be no active trading market (unless, in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of the Notes which is already issued). If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer or the Guarantor. If the Notes are trading at a discount, investors may not be able to receive a favourable price for their Notes, and in some circumstances investors may not be able to sell their Notes at all or at their fair market value. Although an application may be made for some Notes issued under the Programme to be listed on, and permitted to deal in, the Hong Kong Stock Exchange, there is no assurance that such application will be accepted, that any particular Tranche of the Notes will be so listed or that an active trading market will develop. In addition, the market for investment grade and crossover grade debt has been subject to disruptions that have caused volatility in prices of securities similar to the Notes issued under the Programme. Accordingly, there is no assurance as to the development or liquidity of any trading market, or that disruptions will not occur, for any particular Tranche of the Notes.

The liquidity and price of the Notes following the offering may be volatile.

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

The Guarantor’s credit rating may decline.

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

The credit ratings assigned to the Notes may not reflect all risks.

One or more independent credit rating agencies may assign credit ratings to an issue of Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. There can be no assurance that the ratings assigned to any Notes will remain in effect for any given period of time or that the ratings will not be revised or withdrawn by the relevant rating agency in the future if in its judgment circumstances so warrant. Neither the Issuer nor the Guarantor has any obligation to inform Noteholders of any such revision or withdrawal. A suspension, downgrade or withdrawal of the ratings of any Notes at any time may adversely affect the market price of the Notes.

Changes in interest rates may have an adverse effect on the price of the Notes.

The Noteholders may suffer unforeseen losses due to fluctuations in interest rates. Generally, a rise in interest rates may cause a fall in the prices of the Notes, resulting in a capital loss for the Noteholders. However, the Noteholders may reinvest the interest payments at higher prevailing interest rates. Conversely, when interest rates fall, the prices of the Notes may rise. The Noteholders may enjoy a capital gain but interest payments received may be reinvested at lower prevailing interest rates.

Exchange rate risks and exchange controls may result in a Noteholder receiving less interest or principal than expected.

The Issuer and the Guarantor will pay principal and interest on the Notes in the currency specified in the relevant Pricing Supplement (the “*Specified Currency*”). This presents certain risks relating to currency conversions if an investor’s financial activities are denominated principally in a currency or currency unit (the “*Investor’s Currency*”) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor’s Currency) and the risk that authorities with jurisdiction over the Investor’s Currency may impose or modify exchange controls. An appreciation in the value of the Investor’s Currency relative to the Specified Currency would decrease (1) the Investor’s Currency equivalent yield on the Notes, (2) the Investor’s Currency equivalent value of the principal payable on the Notes and (3) the Investor’s Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

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

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

If the Issuer and the Guarantor are unable to comply with the restrictions and covenants in their respective debt agreements, there could be a default under the terms of these agreements, which could cause repayment of their respective debt to be accelerated.

If the Issuer and the Guarantor are unable to comply with their respective current or future debt obligations and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to the Issuer and the Guarantor, accelerate repayment of the debt and declare all outstanding amounts due and payable or terminate the agreements, as the case may be. Furthermore, some of the Issuer's or the Guarantor's debt agreements contain cross-acceleration or cross-default provisions. As a result, the Issuer's or the Guarantor's default under one debt agreement may cause the acceleration of repayment of not only such debt but also other debt, including the Notes, or result in a default under the Issuer's or the Guarantor's other debt agreements. If any of these events occur, the Issuer and the Guarantor cannot assure Noteholders that their respective assets and cash flows would be sufficient to repay in full all of their respective indebtedness, or that the Issuer and the Guarantor would be able to find alternative financing. Even if they could obtain alternative financing, they cannot assure holders that it would be on terms that are favourable or acceptable to them.

Notes subject to optional redemption by the Issuer may have a lower market value than Notes that cannot be redeemed.

Optional redemption features as contained in the terms and conditions are likely to limit the market value of Notes. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This may also be true prior to any redemption period. The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

The Guarantor experienced a net current liabilities position as at 31 December 2015 and there is no assurance that it will not recur in the future.

The Guarantor experienced a net current liabilities position as at 31 December 2015 of approximately HKD870 million. There is no guarantee that they will not experience net current liabilities again in the future. Whether or not the Guarantor is able to maintain or to continue to improve its current asset position depends on a combination of factors, such as their future operating performance, prevailing economic conditions, financial, business and other factors, many of which is beyond its control. Net current liabilities increase the liquidity risk and may restrain the Guarantor's operational flexibility. This could in turn have an adverse impact on the business, prospects and results of operations of the Guarantor.

Risks relating to the structure of a particular issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

Notes which are issued with variable interest rates or which are structured to include a multiplier or other leverage factor are likely to have more volatile market values than more standard securities.

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Failure by an investor to pay a subsequent instalment of Partly Paid Notes may result in an investor losing all of its investment.

The Issuer may issue Notes where the issue price is payable in more than one instalment. Any failure by an investor to pay any subsequent instalment could result in such investor losing all of its investment.

Risks applicable to Index Linked Notes and Dual Currency Notes

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a “**Relevant Factor**”). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- (a) the market price of such Notes may be volatile;
- (b) they may receive no interest;
- (c) payment of principal or interest may occur at a different time or in a different currency than expected;
- (d) they may lose all or a substantial portion of their principal;
- (e) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (f) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- (g) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index or other Relevant Factor should not be viewed as an indication of the future performance of such Relevant Factor during the term of any Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any Notes linked to a Relevant Factor and the suitability of such Notes in light of its particular circumstances.

FORM OF THE NOTES

The Notes of each Series will be in either bearer form, with or without interest coupons (“*Coupons*”) attached, or registered form, without Coupons attached. Bearer Notes will be issued outside the United States to non-U.S. persons in reliance on Regulation S under the Securities Act (“*Regulation S*”) and Registered Notes will be issued both outside the United States in reliance on the exemption from registration provided by Regulation S and within the United States in reliance on Rule 144A or Regulation D under the Securities Act.

Bearer Notes

Each Tranche of Bearer Notes will be initially issued in the form of either a temporary bearer global note (a “*Temporary Bearer Global Note*”) or a permanent bearer global note (a “*Permanent Bearer Global Note*”) and together with a Temporary Bearer Global Note, the “*Bearer Global Notes*”, and each a “*Bearer Global Note*”) as indicated in the applicable Pricing Supplement, which, in either case, will be delivered on or prior to the original issue date of the Tranche to either (i) a common depositary (the “*Common Depositary*”) for Euroclear Bank SA/NV (“*Euroclear*”) and Clearstream Banking, S.A. (“*Clearstream, Luxembourg*”) or (ii) a sub-custodian for the Central Moneymarkets Unit Service, operated by the Hong Kong Monetary Authority (the “*CMU Service*”).

Whilst any Bearer Note is represented by a Temporary Bearer Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Bearer Global Note only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Bearer Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and/or Deutsche Bank AG, Hong Kong Branch (the “*CMU Lodging Agent*”) and (in the case of a Temporary Bearer Global Note delivered to a Common Depositary for Euroclear and Clearstream, Luxembourg) Euroclear and Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent.

On and after the date (the “*Exchange Date*”) which, for each Tranche in respect of which a Temporary Bearer Global Note is issued, is 40 days after the Temporary Bearer Global Note is issued, interests in such Temporary Bearer Global Note will be exchangeable (free of charge) upon a request as described therein either (i) for interests in a Permanent Bearer Global Note of the same Series or (ii) for definitive Bearer Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Pricing Supplement and subject, in the case of definitive Bearer Notes, to such notice period as is specified in the applicable Pricing Supplement), in each case against certification of beneficial ownership as described above, unless such certification has already been given, provided that purchasers in the United States and certain U.S. persons will not be able to receive definitive Bearer Notes. The CMU Service may require that any such exchange for a Permanent Bearer Global Note is made in whole and not in part and in such event, no such exchange will be effected until all relevant account holders (as set out in a CMU Instrument Position Report or any other relevant notification supplied to the CMU Lodging Agent by the CMU Service) have so certified.

The holder of a Temporary Bearer Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Bearer Global Note for an interest in a Permanent Bearer Global Note or for definitive Bearer Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Bearer Global Note will be made through Euroclear and/or Clearstream, Luxembourg against presentation or surrender (as the case may be) of the Permanent Bearer Global Note without any requirement for certification.

In respect of a Bearer Global Note held through the CMU Service, any payments of principal, interest (if any) or any other amounts shall be made to the person(s) for whose account(s) interests in the relevant Bearer Global Note are credited (as set out in a CMU Instrument Position Report or any other relevant notification supplied to the CMU Lodging Agent by the CMU Service) and, save in the case of final payment, no presentation of the relevant Bearer Global Note shall be required for such purpose.

The applicable Pricing Supplement will specify that a Permanent Bearer Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Bearer Notes with, where applicable, receipts, interest coupons and talons attached upon either (i) not less than 60 days' written notice (a) in the case of Notes held by a Common Depository for Euroclear and Clearstream, Luxembourg, from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) to the Principal Paying Agent as described therein and/or (b) in the case of Notes held through the CMU Service, from the relevant account holders therein to the CMU Lodging Agent as described therein or (ii) only upon the occurrence of an Exchange Event.

For these purposes, "**Exchange Event**" means that (i) an Event of Default (as defined in Condition 11) has occurred and is continuing, (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg and, in the case of Notes cleared through the CMU Service, the CMU Service have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any case, no successor or alternative clearing system is available or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Permanent Bearer Global Note in definitive form. The Issuer will promptly give notice to Noteholders in accordance with Condition 15 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event as described in (i) and (ii) above, (a) in the case of Notes held by a Common Depository for Euroclear and Clearstream, Luxembourg, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) or, (b) in the case of Notes held through the CMU Service, the relevant account holders therein, may give notice to the Principal Paying Agent or, as the case may be, the CMU Lodging Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Principal Paying Agent or, as the case may be, the CMU Lodging Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent or, as the case may be, the CMU Lodging Agent.

The following legend will appear on all Bearer Notes (other than Temporary Bearer Global Notes), and on all receipts and interest coupons relating to such Notes where TEFRA D is specified in the applicable Pricing Supplement:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE."

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, receipts or interest coupons.

Notes which are represented by a Bearer Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg or the CMU Service, as the case may be.

Registered Notes

The Registered Notes of each Tranche offered and sold in reliance on Regulation S, which will be sold to non-U.S. persons outside the United States, will initially be represented by a global note in registered form (a “**Regulation S Global Note**”). Prior to expiry of the distribution compliance period (as defined in Regulation S) applicable to each Tranche of Notes, beneficial interests in a Regulation S Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person save as otherwise provided in Condition 2 and may not be held otherwise than through Euroclear or Clearstream, Luxembourg or the CMU Service and such Regulation S Global Note will bear a legend regarding such restrictions on transfer.

The Registered Notes of each Tranche may only be offered and sold in the United States or to U.S. persons in private transactions (i) to “qualified institutional buyers” within the meaning of Rule 144A under the Securities Act (“**QIBs**”) or (ii) to institutional “accredited investors” (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act that are institutions (“**Institutional Accredited Investors**”) who agree to purchase the Notes for their own account and not with a view to the distribution thereof. The Registered Notes of each Tranche sold to QIBs will be represented by a global note in registered form (a “**Rule 144A Global Note**” and, together with a Regulation S Global Note, the “**Registered Global Notes**”).

Registered Global Notes will either (i) be deposited with a custodian for, and registered in the name of a nominee of, DTC for the accounts of Euroclear and Clearstream, Luxembourg, (ii) be deposited with a Common Depository for, and registered in the name of a common nominee of, Euroclear and Clearstream, Luxembourg, as specified in the applicable Pricing Supplement; or (iii) be deposited with a sub-custodian for, and registered in the name of the Hong Kong Monetary Authority (the “**HKMA**”) as the operator of, the CMU Service. Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form.

The Registered Notes of each Tranche sold to Institutional Accredited Investors will be in definitive form, registered in the name of the holder thereof (“**Definitive IAI Registered Notes**”). Unless otherwise set forth in the applicable Pricing Supplement, Definitive IAI Registered Notes will be issued only in minimum denominations of U.S.\$500,000 and integral multiples of U.S.\$1,000 in excess thereof (or the approximate equivalents in the applicable Specified Currency). Definitive IAI Registered Notes will be subject to the restrictions on transfer set forth therein and will bear the restrictive legend described under “**Subscription and Sale and Transfer and Selling Restrictions**”. Institutional Accredited Investors that hold Definitive IAI Registered Notes may elect to hold such Notes through DTC, Euroclear, Clearstream, Luxembourg or the CMU Service, but transferees acquiring the Notes in transactions exempt from Securities Act registration pursuant to Regulation S or Rule 144A under the Securities Act (if available) may do so upon satisfaction of the requirements applicable to such transfer as described under “**Subscription and Sale and Transfer and Selling Restrictions**”. The Rule 144A Global Note and the Definitive IAI Registered Notes will be subject to certain restrictions on transfer set forth therein and will bear a legend regarding such restrictions.

Payments of principal, interest and any other amount in respect of the Registered Global Notes will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 7(d)) as the registered holder of the Registered Global Notes. None of the Issuer, the Guarantor, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 7(d)) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, “*Exchange Event*” means that (i) an Event of Default has occurred and is continuing, (ii) in the case of Notes registered in the name of a nominee for DTC, either DTC has notified the Issuer that it is unwilling or unable to continue to act as depository for the Notes and no alternative clearing system is available or DTC has ceased to constitute a clearing agency registered under the Exchange Act, (iii) in the case of Notes registered in the name of a nominee for a common depository for Euroclear and Clearstream, Luxembourg or Notes held through the CMU Service, the Issuer has been notified that both Euroclear and Clearstream, Luxembourg or the CMU Service, as the case may be, have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available or (iv) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Registered Global Note in definitive form.

The Issuer will promptly give notice to Noteholders in accordance with Condition 15 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, DTC, Euroclear and Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Registered Global Note) and the account holders of the CMU Service, as the case may be, may give notice to the Registrar or the CMU Lodging Agent, as the case may be, requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iv) above, the Issuer may also give notice to the Registrar or the CMU Lodging Agent, as the case may be, requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar or the CMU Lodging Agent, as the case may be.

Transfer of Interests

Interests in a Registered Global Note may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Registered Global Note or in the form of a Definitive IAI Registered Note and Definitive IAI Registered Notes may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such Notes in the form of an interest in a Registered Global Note. No beneficial owner of an interest in a Registered Global Note will be able to transfer such interest, except in accordance with the applicable procedures of DTC, Euroclear and Clearstream, Luxembourg and the CMU Service, in each case to the extent applicable. **Registered Notes are also subject to the restrictions on transfer set forth therein and will bear a legend regarding such restrictions, see “*Subscription and Sale and Transfer and Selling Restrictions*”.**

General

Pursuant to the Agency Agreement (as defined under “**Terms and Conditions of the Notes**”), the Principal Paying Agent or, as the case may be, the CMU Lodging Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a common code and ISIN and, where applicable, a CMU instrument number, a CUSIP and CINS number which are different from the common code, CMU instrument number, ISIN, CUSIP and CINS assigned to Notes of any other Tranche of the same Series until at least the expiry of the Distribution Compliance Period applicable to the Notes of such Tranche.

For so long as any of the Notes is represented by a Bearer Global Note held on behalf of Euroclear, Clearstream, Luxembourg or the CMU Service, each person (other than Euroclear, Clearstream, Luxembourg or the CMU Service) who is for the time being shown in the records of Euroclear, Clearstream, Luxembourg or the CMU Service as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear, Clearstream, Luxembourg or the CMU Service as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Guarantor and their agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal

amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note shall be treated by the Issuer, the Guarantor and their agents as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Bearer Global Note and the expressions “*Noteholder*” and “*holder of Notes*” and related expressions shall be construed accordingly.

So long as DTC or its nominee is the registered owner or holder of a Registered Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Registered Global Note for all purposes under the Agency Agreement and such Notes except to the extent that in accordance with DTC’s published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

Notwithstanding the above, if a Note (whether in global or definitive form) is held through the CMU Service, any payment that is made in respect of such Note shall be made at the direction of the bearer or the registered holder to the person(s) for whose account(s) interests in such Note are credited as being held through the CMU Service in accordance with the CMU Rules at the relevant time as notified to the CMU Lodging Agent by the CMU Service in a relevant CMU Instrument Position Report or any other relevant notification by the CMU Service (which notification, in either case, shall be conclusive evidence of the records of the CMU Service as to the identity of any accountholder and the principal amount of any Note credited to its account, save in the case of manifest error) and such payments shall discharge the obligation of the Issuer, or, as the case may be, the Guarantor in respect of that payment under such Note.

Any reference herein to Euroclear and/or Clearstream, Luxembourg and/or the CMU Service and/or DTC shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement or as may otherwise be approved by the Issuer, the Guarantor, the Principal Paying Agent and the Registrar.

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 11. In such circumstances, where any Note is still represented by a Global Note and the Global Note (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of such Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Note then holders of interests in such Global Note credited to their accounts with Euroclear and/or Clearstream, Luxembourg and/or the CMU Service and/or DTC, as the case may be, will become entitled to proceed directly against the Issuer on the basis of statements of account provided by Euroclear, Clearstream, Luxembourg, the CMU Service and DTC on and subject to the terms of a deed of covenant (the “*Deed of Covenant*”) dated 31 July 2014 and executed by the Issuer. In addition, holders of interests in such Global Note credited to their accounts with DTC may require DTC to deliver Definitive Notes in registered form in exchange for their interests in such Global Note in accordance with DTC’s standard operating procedures.

FORM OF PRICING SUPPLEMENT

Set out below is the form of Pricing Supplement which will be completed for each Tranche of Notes issued under the Programme.

[Date]

HONGKONG ELECTRIC FINANCE LIMITED

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

Guaranteed by

THE HONGKONG ELECTRIC COMPANY, LIMITED

香港電燈有限公司

under the U.S.\$5,000,000,000

Medium Term Note Programme

[This document is for distribution to professional investors only (as defined in the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong). **Investors should not purchase the Notes in the primary or secondary markets unless they are professional investors and understand the risks involved. The Notes are not suitable for retail investors.**]

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

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

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) set forth in the Offering Circular dated [*original date*]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular.

[The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.]

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) set forth in the Offering Circular dated [*original date*]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated [*current date*], save in respect of the Conditions which are extracted from the Offering Circular dated [*original date*] and are attached hereto.]

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub- paragraphs. Italics denote directions for completing the Pricing Supplement.]

[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.]

1. (i) Issuer: Hongkong Electric Finance Limited
- (ii) Guarantor: The Hongkong Electric Company, Limited
香港電燈有限公司
2. (i) Series Number: []
- (ii) Tranche Number: []
- (iii) Date on which the Notes will be consolidated and form a single Series: The Notes will be consolidated and form a single Series with *[identify earlier Tranches]* on [the Issue Date/the date that is 40 days after the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph [] below, which is expected to occur on or about *[date]*][Not Applicable]
3. Specified Currency or Currencies: []
4. Aggregate Nominal Amount:
- (i) Series: []
- (ii) Tranche: []
5. [(i)] Issue Price: [] per cent. of the Aggregate Nominal Amount [plus accrued interest from *[insert date]* (in the case of fungible issues only, if applicable)]
- [(ii) Net proceeds (Required only for listed issues):] []
6. (i) Specified Denominations: []
- (in the case of Registered Notes, this means the minimum integral amount in which transfers can be made)*
- (N.B. Notes to be admitted to trading on a regulated market within the European Economic Area must have a minimum denomination of €100,000 (or equivalent) in order to benefit from Transparency Directive exemptions in respect of wholesale securities and in order to benefit from the wholesale exemption set out in Article 3.2(d) of the Prospectus Directive in that Member State.)*
- (N.B. Where multiple denominations above [€100,000] or equivalent are being used with respect to Bearer Notes, the following sample wording should be followed:*
- “[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Notes in definitive form will be issued with a denomination above [€199,000].”*)

(N.B. If an issue of Notes is (i) NOT admitted to trading on a European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive the [€ 100,000] minimum denomination is not required.)

(N.B. In the case of Registered Notes, this means the minimum integral amount in which transfers can be made.)

(ii) Calculation Amount: []

(If there is only one Specified Denomination, insert the Specified Denomination.)

If there is more than one Specified Denomination, insert the highest common factor of those Specified Denominations. N.B. There must be a common factor in the case of two or more Specified Denominations.

7. (i) Issue Date [and Interest Commencement Date]: []

(ii) Interest Commencement Date (if different from the Issue Date): [Specify/Not Applicable]

(N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.)

8. Maturity Date: [Fixed rate — specify date [or Interest Payment Date falling in or nearest to [specify month and year]]⁽¹⁾/Floating rate — Interest Payment Date falling in or nearest to [specify month and year]]

9. Interest Basis: [[] per cent. Fixed Rate]
[[LIBOR/EURIBOR/HIBOR/CNH HIBOR] +/- [] per cent. Floating Rate]
[Zero Coupon]
[Index Linked Interest]
[Dual Currency Interest]
[specify other]
(further particulars specified below)

10. Redemption/Payment Basis: [Redemption at par]
[Index Linked Redemption]
[Dual Currency Redemption]
[Partly Paid]
[Instalment]
[specify other]

⁽¹⁾ Note that for Renminbi and Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification it will be necessary to include this wording.

11. Change of Interest Basis or Redemption/Payment Basis: [Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis]
12. Put/Call Options: [Investor Put]
[Issuer Call]
[(further particulars specified below)]
13. Listing: [Hong Kong/specify other/None]

(N.B. If listing in Hong Kong, specify expected listing date)
14. Method of distribution: [Syndicated/Non-syndicated]
15. Private Bank Rebate/Commission: [Not Applicable/give details]
16. Use of Proceeds: [Give details if different from the "Use of Proceeds" section in the Offering Circular]

Provisions Relating to Interest (If Any) Payable

17. Fixed Rate Note Provisions: [Applicable/Not Applicable]

(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Rate(s) of Interest: [] per cent. per annum payable in arrear on each Interest Payment Date
- (ii) Interest Payment Date(s): [[] in each year up to and including the Maturity Date]/[specify other]⁽²⁾

(Amend appropriately in the case of irregular coupons)
- (iii) Fixed Coupon Amount(s) for Notes in definitive form (and in relation to Notes in global form see Conditions): [] per Calculation Amount⁽³⁾
- (iv) Broken Amount(s) for Notes in definitive form (and in relation to Notes in global form see Conditions): [] per Calculation Amount, payable on the Interest Payment Date falling [in/on] []

⁽²⁾ Note that for certain Hong Kong dollar denominated Fixed Rate Notes and Renminbi denominated Fixed Rate Notes, the Interest Payment Dates are subject to modification and the following words should be added: "provided that if any Interest Payment Date falls on a day which is not a Business Day, the Interest Payment Date will be the next succeeding Business Day unless it would thereby fall in the next calendar month in which event the Interest Payment Date shall be brought forward to the immediately preceding Business Day. For these purposes, "Business Day" means a day other than Saturday or Sunday on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and currency deposits) in Hong Kong [and []]."

⁽³⁾ For Renminbi or Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification the following wording is appropriate. "Each Fixed Coupon Amount shall be calculated by applying the Rate of Interest to each Calculation Amount, multiplying such sum by the actual number of days in the Accrual Period (as defined in Condition 6(a)(i)) divided by 365 and rounding the resultant figure to the nearest CNY0.01, CNY0.005 being rounded upwards in the case of Renminbi denominated Fixed Rate Notes and to the nearest HK\$0.01, HK\$0.005 being rounded upwards in the case of Hong Kong dollar denominated Fixed Rate Notes."

- (v) Day Count Fraction: [Actual/Actual (ICMA)
30/360
Actual/365 (Fixed)⁽⁴⁾
Other]
- (vi) [Determination Date(s): [] in each year

(Insert regular interest payment dates, ignoring issue date or maturity date in case of a long or short first or last coupon)

(N.B. This will need to be amended in the case of regular interest payment dates which are not of equal duration)

(N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA))
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [None/Give details]
18. Floating Rate Note Provisions: [Applicable/Not Applicable]

(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Specified Period(s)/Specified Interest Payment Dates: []
- (ii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[specify other]]
- (iii) Additional Business Centre(s): []
- (iv) Manner in which the Rate of Interest and Interest Amount are to be determined: [Screen Rate Determination/ISDA Determination/specify other]
- (v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Principal Paying Agent): []
- (vi) Screen Rate Determination:
— Reference Rate and Relevant Financial Centre: Reference Rate: []
[LIBOR/EURIBOR/HIBOR/CNH HIBOR/specify other Reference Rate].

Relevant Financial Centre:
[London/Brussels/Hong Kong/specify other Relevant Financial Centre]
- Interest Determination Date(s): []

⁽⁴⁾ Applicable to Hong Kong dollar denominated Fixed Rate Notes and Renminbi denominated Fixed Rate Notes.

(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling, Hong Kong dollar or euro LIBOR), first day of each Interest Period if Sterling LIBOR or Hong Kong dollar LIBOR or HIBOR, the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR and the second Hong Kong business day prior to the start of each Interest Period if CNH HIBOR)

— Relevant Screen Page: []

(In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)

(vii) ISDA Determination:

— Floating Rate Option: []

— Designated Maturity: []

— Reset Date: []

(viii) Margin(s): [+/-] [] per cent. per annum

(ix) Minimum Rate of Interest: [] per cent. per annum

(x) Maximum Rate of Interest: [] per cent. per annum

(xi) Day Count Fraction: [[Actual/Actual (ISDA)][Actual/Actual]
Actual/365 (Fixed)
Actual/365 (Sterling)
Actual/360
[30/360][360/360][Bond Basis]
[30E/360][Eurobond Basis]
30E/360 (ISDA)]

(See Condition 6 for alternatives)

(xii) Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: []

19. Zero Coupon Note Provisions: [Applicable/Not Applicable]

(If not applicable, delete the remaining sub-paragraphs of this paragraph)

(i) Accrual Yield: [] per cent. per annum

(ii) Reference Price: []

- (iii) Any other formula/basis of determining amount payable: []
- (iv) Day Count Fraction in relation to Early Redemption Amounts and late payment: [Conditions 8(e)(iii) and (j) apply/specify other]
(Consider applicable day count fraction if not U.S. dollar denominated)
20. Index Linked Interest Note Provisions: [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Index/Formula: [give or annex details]
- (ii) Calculation Agent responsible for calculating the interest due: []
- (iii) Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Principal Paying Agent): []
- (iv) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: [need to include a description of market disruption or settlement disruption events and adjustment provisions]
- (v) Specified Period(s)/Specified Interest Payment Dates: []
- (vi) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/specify other]
- (vii) Additional Business Centre(s): []
- (viii) Minimum Rate of Interest: [] per cent. per annum
- (ix) Maximum Rate of Interest: [] per cent. per annum
- (x) Day Count Fraction: []
21. Dual Currency Interest Note Provisions: [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Rate of Exchange/method of calculating Rate of Exchange: [give or annex details]
- (ii) Calculation Agent, if any, responsible for calculating the interest payable: []

- (iii) Party, if any, responsible for calculating the principal and/or interest due (if not the Calculation Agent): []
- (iv) Provisions applicable where calculation by reference to Rate of Exchange is impossible or impracticable: [*need to include a description of market disruption or settlement disruption events and adjustment provisions*]
- (v) Person at whose option Specified Currency(ies) is/are payable: []

Provisions Relating to Redemption

22. Issuer Call: [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)

- (i) Optional Redemption Date(s): []
- (ii) Optional Redemption Amount(s) and method, if any, of calculation of such amount(s): [[] per Calculation Amount/specify other/see Appendix]
- (iii) If redeemable in part:
 - (a) Minimum Redemption Amount: []
 - (b) Maximum Redemption Amount: []
- (iv) Notice period (if other than as set out in the Conditions): []
(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)

23. Investor Put: [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)

- (i) Optional Redemption Date(s): []
- (ii) Optional Redemption Amount and method, if any, of calculation of such amount(s): [[] per Calculation Amount/specify other/see Appendix]

(iii) Notice period (if other than as set out [] in the Conditions):

(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)

24. Final Redemption Amount(s): [[] per Calculation Amount/specify other/see Appendix]
25. Early Redemption Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 8(e)): [[] per Calculation Amount/specify other/see Appendix]

General Provisions Applicable to the Notes

26. Form of Notes:

[Bearer Notes:

[Temporary Bearer Global Note exchangeable for a Permanent Bearer Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event⁽⁵⁾]]

[Temporary Bearer Global Note exchangeable for Definitive Notes on and after the Exchange Date]

[Permanent Bearer Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event⁽⁵⁾]]

[Registered Notes:

Regulation S Global Note (U.S.\$ [] nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg/held through the CMU Service]/Rule 144A Global Note (U.S.\$[] nominal amount registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg/held through the CMU Service]/Definitive IAI Registered Notes (*specify nominal amounts*)]

⁽⁵⁾ Ensure that this is consistent with the wording in the "Form of the Notes" section in the Offering Circular and the Notes themselves. N.B. The exchange upon notice should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 6 includes language substantially to the following effect: "[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]." Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes.

27. Additional Financial Centre(s) or other special provisions relating to Payment Dates: [Not Applicable/give details]
(Note that this paragraph relates to the place of payment and not Interest Period end dates to which sub-paragraphs 18(iii) and 20(vii) relate)
28. Talons for future Coupons or Receipts to be attached to Definitive Bearer Notes (and dates on which such Talons mature): [Yes/No. If yes, give details]
29. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/give details. N.B.: new forms of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues.]
30. Details relating to Instalment Notes:
- (i) Instalment Amount(s): [Not Applicable/give details]
- (ii) Instalment Date(s): [Not Applicable/give details]
31. Redenomination applicable: Redenomination [not] applicable
[(If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates))]
32. Other terms or special conditions: [Not Applicable/give details]
- Distribution**
33. (i) If syndicated, names of Managers: [Not Applicable/give names]
(ii) Stabilising Manager(s) (if any): [Not Applicable/give name(s)]
34. If non-syndicated, name of relevant Dealer: [Not Applicable/give name]
35. U.S. Selling Restrictions: [Reg. S Category 2; TEFRA D/TEFRA C/TEFRA not applicable]

36. Additional selling restrictions: The following paragraph shall be deemed to be added as a new paragraph 9 in Appendix B (Selling Restrictions) to the Programme Agreement:

“9.Taiwan

Each Dealer represents and agrees that the Notes have not been, and will not be, offered or sold, directly or indirectly, in Taiwan, to investors other than “professional institutional investors” as defined under Article 4 of the Financial Consumer Protection Act, unless otherwise permitted by the laws and regulations of Taiwan.”

[give details of any additional selling restrictions]

Operational Information

37. Any clearing system(s) other than Euroclear, Clearstream, Luxembourg and DTC and the relevant identification number(s): [The CMU Service/Not Applicable/*give name(s) and number(s)*]

38. Delivery: Delivery [against/free of] payment

[39. In the case of Registered Notes, specify the location of the office of the Registrar if other than New York: [Not Applicable/Luxembourg]]

[40. In the case of Bearer Notes, specify the location of the office of the Principal Paying Agent if other than London: [Not Applicable/Hong Kong]]

41. Additional Paying Agent(s) (if any): []

ISIN: []

Common Code: []

(insert here any other relevant codes such as a CMU instrument number, CUSIP and CINS codes)

[Listing Application

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the U.S.\$5,000,000,000 Medium Term Note Programme of Hongkong Electric Finance Limited.]

Responsibility

The Issuer and the Guarantor accept responsibility for the information contained in this Pricing Supplement.

Signed on behalf of the Issuer:

Signed on behalf of the Guarantor:

By: _____
Duly authorised

By: _____
Duly authorised

If the applicable Pricing Supplement specifies any modification to the Terms and Conditions of the Notes as described herein, it is envisaged that, to the extent that such modification relates only to Conditions 1, 5, 6, 7, 8 (except Condition 8(b)), 12, 13, 14, 15 (insofar as such Notes are not listed or admitted to trading on any stock exchange) or 17, they will not necessitate the preparation of a supplement to this Offering Circular. If the Terms and Conditions of the Notes of any Series are to be modified in any other respect, a supplement to this Offering Circular will be prepared, if appropriate.

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the rules of the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer, the Guarantor and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Pricing Supplement in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Pricing Supplement (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to “Form of Pricing Supplement” for a description of the content of Pricing Supplements which will specify which of such terms are to apply in relation to the relevant Notes.

This Note is one of a Series (as defined below) of Notes issued by Hongkong Electric Finance Limited (the “**Issuer**”) pursuant to the Agency Agreement (as defined below). The Notes will be guaranteed by The Hongkong Electric Company, Limited 香港電燈有限公司 (the “**Guarantor**”).

References herein to the “**Notes**” shall be references to the Notes of this Series and shall mean:

- (i) in relation to any Notes represented by a global Note (a “**Global Note**”), units of each Specified Denomination in the Specified Currency;
- (ii) any Global Note;
- (iii) any definitive Notes in bearer form (“**Bearer Notes**”) issued in exchange for a Global Note in bearer form; and
- (iv) any definitive Notes in registered form (“**Registered Notes**”) (whether or not issued in exchange for a Global Note in registered form).

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Amended and Restated Agency Agreement dated 31 July 2014 (such agreements as amended and/or supplemented and/or restated from time to time, the “**Agency Agreement**”) and made between the Issuer, the Guarantor, Deutsche Bank AG, London Branch (or, if so specified in the applicable Pricing Supplement, Deutsche Bank AG, Hong Kong Branch) as principal paying agent (the “**Principal Paying Agent**”, which expression shall include any successor principal paying agent), Deutsche Bank AG, Hong Kong Branch as CMU lodging agent (the “**CMU Lodging Agent**”, which expression shall include any successor CMU lodging agent) and the other paying agents named therein (together with the Principal Paying Agent and the CMU Lodging Agent, the “**Paying Agents**”, which expression shall include any additional or successor paying agents), Deutsche Bank Trust Company Americas as exchange agent (the “**Exchange Agent**”, which expression shall include any successor exchange agent) and Deutsche Bank Trust Company Americas (or, if so specified in the applicable Pricing Supplement, Deutsche Bank Luxembourg S.A.) as registrar (the “**Registrar**”, which expression shall include any successor registrar), and a transfer agent and the other transfer agents named therein (together with the Registrar, the “**Transfer Agents**”, which expression shall include any additional or successor transfer agents). For the purposes of these Terms and Conditions, all references (other than in relation to the determination of interest and other amounts payable in respect of the Notes) to the Principal Paying Agent shall, with respect to a Series of Notes to be held through the CMU Service (as defined below), be deemed to be a reference to the CMU Lodging Agent and all such references shall be construed accordingly.

Interest bearing definitive Bearer Notes have interest coupons (“**Coupons**”) and, if indicated in the applicable Pricing Supplement, talons for further Coupons (“**Talons**”) attached on issue. Any reference herein to Coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons. Definitive Bearer Notes repayable in instalments have receipts (“**Receipts**”) for the payment of the instalments of principal (other than the final instalment) attached on issue. Registered Notes and Global Notes do not have Receipts, Coupons or Talons attached on issue.

The Pricing Supplement for this Note (or the relevant provisions thereof) is attached to or endorsed on this Note and supplements these Terms and Conditions (the “**Conditions**”) and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, replace or modify the Conditions for the purposes of this Note. References to the “**applicable Pricing Supplement**” are to the Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on this Note.

The payment of all amounts in respect of this Note have been guaranteed by the Guarantor pursuant to a deed of guarantee (the “**Guarantee**”) dated 31 July 2014 (as supplemented and/or restated from time to time) executed by the Guarantor. The original of the Guarantee is held by the Principal Paying Agent on behalf of the Noteholders, the Receiptholders and the Couponholders (each as defined below) at its specified office.

Any reference to “**Noteholders**” or “**holders**” in relation to any Notes shall mean (in the case of Bearer Notes) the holders of the Notes and (in the case of Registered Notes) the persons in whose name the Notes are registered and shall, in relation to any Notes represented by a Global Note, be construed as provided below. Any reference herein to “**Receiptholders**” shall mean the holders of the Receipts and any reference herein to “**Couponholders**” shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

As used herein, “**Tranche**” means Notes which are identical in all respects (including as to listing) and “**Series**” means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

The Noteholders, the Receiptholders and the Couponholders are entitled to the benefit of the Deed of Covenant (the “**Deed of Covenant**”) dated 31 July 2014 (as supplemented and/or restated from time to time) and made by the Issuer. The original of the Deed of Covenant is held by the common depositary for Euroclear (as defined below) and Clearstream, Luxembourg (as defined below).

The Issuer and the Guarantor have executed a Deed Poll (the “**Deed Poll**”) dated 31 July 2014 (as supplemented and/or restated from time to time) relating to certain information required to be delivered pursuant to Rule 144(A)(d)(4) under the Securities Act (as defined below). The original of the Deed Poll is held by the Principal Paying Agent.

Copies of the Agency Agreement, the Deed Poll, the Deed of Covenant and the Guarantee are available for inspection during normal business hours at the specified office of each of the Principal Paying Agent, the Registrar and the other Paying Agents and Transfer Agents (such Agents and the Registrar being together referred to as the “**Agents**”). Copies of the applicable Pricing Supplement are obtainable during normal business hours at the specified office of each of the Agents save that, if this Note is an unlisted Note of any Series, the applicable Pricing Supplement will only be obtainable by a Noteholder holding one or more unlisted Notes of that Series and such Noteholder must produce evidence satisfactory to the Issuer and the relevant Agent as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement, the Guarantee, the Deed Poll, the Deed of Covenant and the applicable Pricing Supplement which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

Words and expressions defined in the Agency Agreement or used in the applicable Pricing Supplement shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the applicable Pricing Supplement, the applicable Pricing Supplement will prevail.

1. FORM, DENOMINATION AND TITLE

The Notes are in bearer form or in registered form as specified in the applicable Pricing Supplement and, in the case of definitive Notes, serially numbered, in the Specified Currency and the Specified Denomination(s). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination and Bearer Notes may not be exchanged for Registered Notes and vice versa.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, a Dual Currency Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Pricing Supplement.

This Note may be an Index Linked Redemption Note, an Instalment Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Pricing Supplement.

Definitive Bearer Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in the Conditions are not applicable.

Subject as set out below, title to the Bearer Notes, Receipts and Coupons will pass by delivery and title to the Registered Notes will pass upon registration of transfers in accordance with the provisions of the Agency Agreement. The Issuer, the Guarantor and any Agent will (except as otherwise required by law) deem and treat the bearer of any Bearer Note, Receipt or Coupon and the registered holder of any Registered Note as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Bearer Global Note held on behalf of Euroclear Bank SA/NV ("**Euroclear**") and/or Clearstream Banking S.A. ("**Clearstream, Luxembourg**") and/or a sub-custodian for the Central Moneymarkets Unit Service operated by the Hong Kong Monetary Authority (the "**CMU Service**"), each person (other than Euroclear, Clearstream, Luxembourg or the CMU Service) who is for the time being shown in the records of Euroclear, Clearstream, Luxembourg or the CMU Service as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg or the CMU Service as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Guarantor and the Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer, the Guarantor and any Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions "**Noteholder**" and "**holder of Notes**" and related expressions shall be construed accordingly. Notwithstanding the above, if a Note (whether in global or definitive form) is held through the CMU Service, any payment that is made in respect of such Note shall be made at the direction of the bearer or the registered holder to the person(s) for whose account(s) interests in such Note are credited as being held through the CMU Service in accordance with the CMU Rules at the relevant time as notified to the CMU Lodging Agent by the CMU Service in the relevant CMU Instrument Position Report or any other relevant notification by the CMU Service (which notification, in either case, shall be conclusive evidence of the records of the CMU Service as to the identity of any accountholder and the principal amount of any Note credited to its account, save in the case of manifest error) (the "**CMU Accountholders**") and such payments shall discharge the obligation of the Issuer, or, as the case may be, the Guarantor in respect of that payment under such Note.

For so long as any of the Notes is represented by a Regulation S Global Note, the registered holder of the relevant Regulation S Global Note shall be treated by the Issuer, the Guarantor and any Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note.

For so long as The Depository Trust Company (“*DTC*”) or its nominee is the registered owner or holder of a Registered Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Registered Global Note for all purposes under the Agency Agreement and the Notes except to the extent that in accordance with DTC’s published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of DTC, Euroclear, Clearstream, Luxembourg and/or the CMU Service, as the case may be.

References to DTC, Euroclear, Clearstream, Luxembourg and/or the CMU Service shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement or as may otherwise be approved by the Issuer, the Guarantor and the Principal Paying Agent or the Registrar, as the case may be.

2. TRANSFERS OF REGISTERED NOTES

(a) Transfers of interests in Registered Global Notes

Transfers of beneficial interests in Registered Global Notes will be effected by DTC, Euroclear, Clearstream, Luxembourg or the CMU Service, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Registered Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Registered Notes in definitive form or for a beneficial interest in another Registered Global Note only in the authorised denominations set out in the applicable Pricing Supplement and only in accordance with the rules and operating procedures for the time being of DTC, Euroclear, Clearstream, Luxembourg or the CMU Service, as the case may be and in accordance with the terms and conditions specified in the Agency Agreement. Transfers of a Registered Global Note registered in the name of a nominee for DTC shall be limited to transfers of such Registered Global Note, in whole but not in part, to another nominee of DTC or to a successor of DTC or such successor’s nominee.

(b) Transfers of Registered Notes in definitive form

Subject as provided in paragraphs (e), (f) and (g) below, upon the terms and subject to the conditions set forth in the Agency Agreement, a Registered Note in definitive form may be transferred in whole or in part (in the authorised denominations set out in the applicable Pricing Supplement). In order to effect any such transfer (i) the holder or holders must (A) surrender the Registered Note for registration of the transfer of the Registered Note (or the relevant part of the Registered Note) at the specified office of the Registrar or any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (B) complete and deposit such other certifications as may be required by the Registrar or, as the case may be, the relevant Transfer Agent and (ii) the Registrar or, as the case may be, the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 10 to the Agency Agreement). Subject as provided above, the Registrar or, as the case may be, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar or, as the case may be, the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Registered Note in definitive form of a like aggregate nominal amount to the Registered Note (or

the relevant part of the Registered Note) transferred. In the case of the transfer of part only of a Registered Note in definitive form, a new Registered Note in definitive form in respect of the balance of the Registered Note not transferred will be so authenticated and delivered or (at the risk of the transferor) sent by uninsured mail to the transferor.

(c) **Registration of transfer upon partial redemption**

In the event of a partial redemption of Notes under Condition 8, the Issuer shall not be required to register the transfer of any Registered Note, or part of a Registered Note, called for partial redemption.

(d) **Costs of registration**

Noteholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

(e) **Transfers of interests in Regulation S Global Notes**

Prior to the expiry of the applicable Distribution Compliance Period, transfers by the holder of, or of a beneficial interest in, a Regulation S Global Note to a transferee in the United States or who is a U.S. person will only be made:

- (i) upon receipt by the Registrar of a written certification substantially in the form set out in Schedule 8 to the Agency Agreement, amended as appropriate (a “**Transfer Certificate**”), copies of which are available from the specified office of the Registrar or any Transfer Agent, from the transferor of the Note or beneficial interest therein to the effect that such transfer is being made:

- (A) to a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A; or

- (B) to a person who is an Institutional Accredited Investor,

together with, in the case of (B), a duly executed investment letter from the relevant transferee substantially in the form set out in Schedule 9 to the Agency Agreement (an “**IAI Investment Letter**”); or

- (ii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States,

and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction.

In the case of (i)(A) above, such transferee may take delivery through a Legended Note in global or definitive form and, in the case of (i)(B) above, such transferee may take delivery only through a Legended Note in definitive form. After expiry of the applicable Distribution Compliance Period (i) beneficial interests in Regulation S Global Notes registered in the name of a nominee for DTC may be held through DTC directly, by a participant in DTC, or indirectly through a participant in DTC and (ii) such certification requirements will no longer apply to such transfers.

(f) Transfers of interests in Legended Notes

Transfers of Legended Notes or beneficial interests therein may be made:

- (i) to a transferee who takes delivery of such interest through a Regulation S Global Note, upon receipt by the Registrar of a duly completed Transfer Certificate from the transferor to the effect that such transfer is being made in accordance with Regulation S and that in the case of a Regulation S Global Note registered in the name of a nominee for DTC, if such transfer is being made prior to expiry of the applicable Distribution Compliance Period, the interests in the Notes being transferred will be held immediately thereafter through Euroclear and/or Clearstream, Luxembourg; or
- (ii) to a transferee who takes delivery of such interest through a Legended Note:
 - (A) where the transferee is a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, without certification; or
 - (B) where the transferee is an Institutional Accredited Investor, subject to delivery to the Registrar of a Transfer Certificate from the transferor to the effect that such transfer is being made to an Institutional Accredited Investor, together with a duly executed IAI Investment Letter from the relevant transferee; or
- (iii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States,

and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction.

Notes transferred by Institutional Accredited Investors to QIBs pursuant to Rule 144A or outside the United States pursuant to Regulation S will be eligible to be held by such QIBs or non-U.S. investors through DTC, Euroclear or Clearstream, Luxembourg, as appropriate, and the Registrar will arrange for any Notes which are the subject of such a transfer to be represented by the appropriate Registered Global Note, where applicable.

Upon the transfer, exchange or replacement of Legended Notes, or upon specific request for removal of the legend (the “*Legend*”), the Registrar shall deliver only Legended Notes or refuse to remove the Legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence as may reasonably be required by the Issuer, which may include an opinion of U.S. counsel, that neither the Legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

(g) Exchanges and transfers of Registered Notes generally

Holders of Registered Notes in definitive form, other than Institutional Accredited Investors, may exchange such Notes for interests in a Registered Global Note of the same type at any time.

(h) Closed Periods

No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on the due date for redemption of, or payment of any Instalment Amount in respect of, that Note, (ii) during the period of 15 days before any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 8(c), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date (as defined in Condition 7(d)).

(i) **Definitions**

In this Condition, the following expressions shall have the following meanings:

“**Distribution Compliance Period**” means the period that ends 40 days after the completion of the distribution of each Tranche of Notes, as certified by the relevant Dealer (in the case of a non-syndicated issue) or the relevant Lead Manager (in the case of a syndicated issue);

“**Institutional Accredited Investor**” means institutional “**accredited investors**” (within the meaning of Rule 501(a)(1), (2), (3) or (7)) under the Securities Act);

“**Legended Note**” means Registered Notes in definitive form that are issued to Institutional Accredited Investors and Registered Notes (whether in definitive form or represented by a Registered Global Note) sold in private transactions to QIBs in accordance with the requirements of Rule 144A;

“**QIB**” means a “**qualified institutional buyer**” within the meaning of Rule 144A;

“**Regulation S**” means Regulation S under the Securities Act;

“**Regulation S Global Note**” means a Registered Global Note representing Notes sold outside the United States in reliance on Regulation S;

“**Rule 144A**” means Rule 144A under the Securities Act;

“**Rule 144A Global Note**” means a Registered Global Note representing Notes sold in the United States to QIBs; and

“**Securities Act**” means the United States Securities Act of 1933, as amended.

3. STATUS OF THE NOTES AND THE GUARANTEE

(a) **Status of the Notes**

The Notes and any related Receipts and Coupons are direct, unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

(b) **Status of the Guarantee**

The obligations of the Guarantor under the Guarantee are direct, unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligations of the Guarantor and (save for certain obligations required to be preferred by law) rank and will rank at least equally with all other present and future unsecured obligations (other than subordinated obligations, if any) of the Guarantor, from time to time outstanding.

4. NEGATIVE PLEDGE

So long as any of the Notes remains outstanding (as defined in the Agency Agreement) neither the Issuer nor the Guarantor will create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest (each a “**Security Interest**”) upon the whole or any part of its business, undertaking, assets or revenues (including any uncalled capital) present or future to secure any Relevant Indebtedness (as defined below), or any guarantee of or indemnity in respect of any Relevant Indebtedness, unless the Issuer or the Guarantor shall, in the case of the creation of a Security Interest, at the same time or prior thereto and, in any other case, promptly, take any and all action necessary to ensure that, the Issuer’s obligations under the Notes, the Coupons and the Receipts or, as the case may be, the Guarantor’s obligations under the Guarantee (1) are secured by the Security Interest equally and rateably with the Relevant Indebtedness or benefit from a guarantee or indemnity

in substantially identical terms thereto, as the case may be, or (2) have the benefit of such other Security Interest, guarantee, indemnity or other arrangement (whether or not it includes the giving of a Security Interest) as shall be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of the Noteholders, provided that the Issuer or, as the case may be, the Guarantor may create, assume or have outstanding a Security Interest in respect of any Relevant Indebtedness and/or in respect of any guarantee or indemnity of any Relevant Indebtedness without the obligation to provide a Security Interest, guarantee, indemnity or other arrangement in respect of the Notes and the related Receipts and Coupons as aforesaid where such Security Interest is issued or created for the purpose of financing or refinancing the purchase of any assets provided that (i) such assets are the sole subject of the Security Interest, (ii) in connection with any such financing or refinancing, neither the scope of the Security Interest nor the principal amount secured is increased, (iii) the principal amount of the Relevant Indebtedness secured by such Security Interest shall not exceed the purchase cost of such assets and (iv) any such Security Interest shall be created or assumed concurrently with or within one year following the purchase of such assets.

“**Relevant Indebtedness**” means any present or future indebtedness in the form of, or represented by, bonds, notes, debentures, debenture stock, loan stock or other securities which are for the time being, or are capable of being, quoted, listed or ordinarily dealt in on any stock exchange, over-the-counter or other securities market, having an original maturity of more than one year from its date of issue.

5. REDENOMINATION

(a) Redenomination

Where redenomination is specified in the applicable Pricing Supplement as being applicable, the Issuer may, without the consent of the Noteholders, the Receiptholders or the Couponholders, on giving 30 days’ prior notice to the Principal Paying Agent, Euroclear, Clearstream, Luxembourg, DTC and/or the CMU Service, as applicable, and at least 30 days’ prior notice to the Noteholders in accordance with Condition 15, elect that, with effect from the Redenomination Date specified in the notice, the Notes shall be redenominated in euro.

The election will have effect as follows:

- (i) the Notes and the Receipts shall be deemed to be redenominated in euro in the denomination of €0.01 with a nominal amount for each Note and Receipt equal to the nominal amount of that Note or Receipt in the Specified Currency, converted into euro at the Established Rate, provided that, if the Issuer determines, with the agreement of the Principal Paying Agent, that the then market practice in respect of the redenomination in euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders, the stock exchange (if any) on which the Notes are for the time being listed and the Agents of such deemed amendments;
- (ii) save to the extent that an Exchange Notice has been given in accordance with paragraph (iv) below, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate nominal amount of Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest €0.01;
- (iii) if definitive Notes are required to be issued after the Redenomination Date, they shall be issued at the expense of the Issuer in the denominations of €1,000, €10,000, €100,000 and (but only to the extent of any remaining amounts less than €1,000 or such smaller denominations as the Issuer in conjunction with the Principal Paying Agent may determine) €0.01 and such other denominations as the Issuer in conjunction with the Principal Paying Agent shall determine and notify to the Noteholders;

- (iv) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date on which the Issuer gives notice (the “*Exchange Notice*”) that replacement euro-denominated Notes, Receipts and Coupons are available for exchange (provided that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Notes and Receipts so issued will also become void on that date although those Notes and Receipts will continue to constitute valid exchange obligations of the Issuer. New euro-denominated Notes, Receipts and Coupons will be issued in exchange for Notes, Receipts and Coupons denominated in the Specified Currency in such manner as the Principal Paying Agent may specify and as shall be notified to the Noteholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Notes;
- (v) after the Redenomination Date, all payments in respect of the Notes, the Receipts and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Notes to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque;
- (vi) if the Notes are Fixed Rate Notes and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated:
 - (A) in the case of the Notes represented by a Global Note, by applying the Rate of Interest to the aggregate outstanding nominal amount of the Notes represented by such Global Note; and
 - (B) in the case of definitive Notes, by applying the Rate of Interest to the Calculation Amount;and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding;
- (vii) if the Notes are Floating Rate Notes, the applicable Pricing Supplement will specify any relevant changes to the provisions relating to interest; and
- (viii) such other changes shall be made to these Conditions as the Issuer may decide, after consultation with the Principal Paying Agent, and as may be specified in the notice, to conform them to conventions then applicable to instruments denominated in euro.

(b) **Definitions**

In these Conditions, the following expressions have the following meanings:

“*Established Rate*” means the rate for the conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Union regulations) into euro established by the Council of the European Union pursuant to Article 140 of the Treaty;

“*euro*” and “*€*” means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty;

“**Redenomination Date**” means (in the case of interest bearing Notes) any date for payment of interest under the Notes or (in the case of Zero Coupon Notes) any date, in each case specified by the Issuer in the notice given to the Noteholders pursuant to paragraph (a) above and which falls on or after the date on which the country of the Specified Currency first participates in the third stage of European economic and monetary union; and

“**Treaty**” means the Treaty on the Functioning of the European Union, as amended.

6. INTEREST

(a) Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If the Notes are in definitive form, except as provided in the applicable Pricing Supplement, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Pricing Supplement, amount to the Broken Amount so specified.

As used in these Terms and Conditions, “**Fixed Interest Period**” means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

Except in the case of Notes in definitive form where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Pricing Supplement, interest shall be calculated in respect of any period by applying the Rate of Interest to:

- (A) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or
- (B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such amount by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest in accordance with this Condition 6(a):

- (i) if “Actual/Actual (ICMA)” is specified in the applicable Pricing Supplement:
 - (a) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the “**Accrual Period**”) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; or

- (b) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
- (1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
 - (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; or
- (ii) if “30/360” is specified in the applicable Pricing Supplement, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360; or
- (iii) if “Actual/365 (Fixed)” is specified in the applicable Pricing Supplement, the actual number of days in the Accrual Period divided by 365.

In the Conditions:

“***Determination Period***” means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

“***sub-unit***” means with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

(b) Interest on Floating Rate Notes and Index Linked Interest Notes

(i) *Interest Payment Dates*

Each Floating Rate Note and Index Linked Interest Note bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (A) the Specified Interest Payment Date(s) in each year specified in the applicable Pricing Supplement; or
- (B) if no Specified Interest Payment Date(s) is/are specified in the applicable Pricing Supplement, each date (each such date, together with each Specified Interest Payment Date, an “***Interest Payment Date***”) which falls the number of months or other period specified as the Specified Period in the applicable Pricing Supplement after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in the Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the applicable Pricing Supplement and (x) if there is no numerically corresponding day on the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (1) in any case where Specified Periods are specified in accordance with Condition 6(b)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply mutatis mutandis or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In the Conditions, “*Business Day*” means a day which is both:

- (A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in any Additional Business Centre specified in the applicable Pricing Supplement; and
- (B) either (1) in relation to any sum payable in a Specified Currency other than euro and Renminbi, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than Hong Kong and any Additional Business Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Melbourne and Wellington, respectively) or (2) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the “*TARGET2 System*”) is open or (3) in relation to any sum payable in Renminbi, a day (other than Saturday, Sunday or public holiday) on which commercial banks in Hong Kong are generally open for business and settlement of Renminbi payments in Hong Kong.

(ii) *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable Pricing Supplement.

(A) **ISDA Determination for Floating Rate Notes**

Where ISDA Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any). For the purposes of this

sub-paragraph (A), “*ISDA Rate*” for an Interest Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent under an interest rate swap transaction if the Principal Paying Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the “*ISDA Definitions*”) and under which:

- (1) the Floating Rate Option is as specified in the applicable Pricing Supplement;
- (2) the Designated Maturity is a period specified in the applicable Pricing Supplement; and
- (3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate (“*LIBOR*”), on the Euro-zone inter-bank offered rate (“*EURIBOR*”) or on the Hong Kong inter-bank offered rate (“*HIBOR*”) or the CNH Hong Kong interbank offered rate (“*CNH HIBOR*”), the first day of that Interest Period or (ii) in any other case, as specified in the applicable Pricing Supplement.

For the purposes of this sub-paragraph (A), “*Floating Rate*”, “*Calculation Agent*”, “*Floating Rate Option*”, “*Designated Maturity*” and “*Reset Date*” have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a per cent. rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR, or Hong Kong time, in the case of HIBOR) or as at 11.15 a.m. (Hong Kong time, in the case of CNH HIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any), all as determined by the Principal Paying Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (1) above, no such offered quotation appears or, in the case of (2) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Pricing Supplement as being other than LIBOR or EURIBOR or HIBOR or CNH HIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Pricing Supplement.

(iii) *Minimum Rate of Interest and/or Maximum Rate of Interest*

If the applicable Pricing Supplement specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Pricing Supplement specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(iv) *Determination of Rate of Interest and calculation of Interest Amounts*

The Principal Paying Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Index Linked Interest Notes, the Calculation Agent will notify the Principal Paying Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Principal Paying Agent will calculate the amount of interest (the “**Interest Amount**”) payable on the Floating Rate Notes or Index Linked Interest Notes for the relevant Interest Period by applying the Rate of Interest to:

- (A) in the case of Floating Rate Notes or Index Linked Interest Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or
- (B) in the case of Floating Rate Notes or Index Linked Interest Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note or an Index Linked Interest Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest in accordance with this Condition 6(b):

- (i) if “Actual/Actual (ISDA)” or “Actual/Actual” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (ii) if “Actual/365 (Fixed)” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365;

- (iii) if “Actual/365 (Sterling)” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if “Actual/360” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 360;
- (v) if “30/360”, “360/360” or “Bond Basis” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“ Y_1 ” is the year, expressed as a number, in which the first day of the Interest Period falls;

“ Y_2 ” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“ M_1 ” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“ M_2 ” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“ D_1 ” is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D_1 will be 30; and

“ D_2 ” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

- (vi) if “30E/360” or “Eurobond Basis” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“ Y_1 ” is the year, expressed as a number, in which the first day of the Interest Period falls;

“ Y_2 ” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“ M_1 ” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“ M_2 ” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“ D_1 ” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D_1 will be 30; and

“ D_2 ” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D_2 will be 30;

- (vii) if “30E/360 (ISDA)” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“ Y_1 ” is the year, expressed as a number, in which the first day of the Interest Period falls;

“ Y_2 ” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“ M_1 ” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“ M_2 ” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“ D_1 ” is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

“ D_2 ” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D_2 will be 30.

(v) *Notification of Rate of Interest and Interest Amounts*

The Principal Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and to the Noteholders, and notice thereof to be published in accordance with Condition 15 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter and if required by the rules of any stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed to such stock exchange, as soon as possible after their determination, but in no event later than the first day of the relevant Interest Period. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and to the Noteholders in accordance with Condition 15. For the purposes of this paragraph, the expression “**London Business Day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in London.

(vi) *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 6, whether by the Principal Paying Agent or, if applicable, the Calculation Agent, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Guarantor, the Principal Paying Agent, the Calculation Agent (if applicable), the other

Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Guarantor, the Noteholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent or the Calculation Agent (if applicable) in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) Interest on Dual Currency Interest Notes

The rate or amount of interest payable in respect of Dual Currency Interest Notes shall be determined in the manner specified in the applicable Pricing Supplement.

(d) Interest on Partly Paid Notes

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Pricing Supplement.

(e) Accrual of interest

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

- (1) the date on which all amounts due in respect of such Note have been paid; and
- (2) five days after the date on which the full amount of the moneys payable in respect of such Notes has been received by the Principal Paying Agent or the Registrar, as the case may be, and notice to that effect has been given to the Noteholders in accordance with Condition 15.

7. PAYMENTS

(a) Method of payment

Subject as provided below:

- (i) payments in a Specified Currency other than euro and Renminbi will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Melbourne and Wellington, respectively);
- (ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee; and
- (iii) payments in Renminbi will be made by transfer to a Renminbi account maintained by or on behalf of the payee with a bank in Hong Kong.

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 9 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the “*Code*”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 9) any law implementing an intergovernmental approach thereto.

(b) **Presentation of definitive Notes, Receipts and Coupons**

Payments of principal in respect of definitive Bearer Notes not held through the CMU Service will (subject as provided below) be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Bearer Notes, and payments of interest in respect of definitive Bearer Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Payments of Instalment Amounts (if any) in respect of definitive Bearer Notes not held through the CMU Service, other than the final instalment, will (subject as provided below) be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Bearer Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the definitive Bearer Note to which it appertains. Receipts presented without the definitive Bearer Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Bearer Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive bearer form not held through the CMU Service (other than Dual Currency Notes, Index Linked Notes or Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 9) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 10) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive bearer form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note, Index Linked Note or Long Maturity Note in definitive bearer form not held through the CMU Service becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A “**Long Maturity Note**” is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

In the case of definitive Bearer Notes held through the CMU Service, payment will be made to the person(s) for whose account(s) interests in the relevant definitive Bearer Note are credited as being held through the CMU Service in accordance with the CMU Rules at the relevant time as notified to the CMU Lodging Agent by the CMU Service in a relevant CMU Instrument Position Report or any relevant notification by the CMU Service, which notification, in either

case, shall be conclusive evidence of the records of the CMU Service as to the identity of any accountholder and the principal amount of any Note credited to its account (save in the case of manifest error) and payment made in accordance thereof shall discharge the obligations of the Issuer or, as the case may be, the Guarantor in respect of that payment.

If the due date for redemption of any definitive Bearer Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Bearer Note.

(c) Payments in respect of Bearer Global Notes

Payments of principal and interest (if any) in respect of Notes represented by any Bearer Global Note will (subject as provided below) be made in the manner specified above in relation to definitive Bearer Notes or and otherwise in the manner specified in the relevant Global Note (i) in the case of a Global Note lodged with the CMU Service, to the person(s) for whose account(s) interests in the relevant Global Note are credited as being held by the CMU Service in accordance with the CMU Rules, or (ii) in the case of a Global Note not lodged with the CMU Service, against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of any Bearer Global Note, distinguishing between any payment of principal and any payment of interest, will be made (in the case of a Global Note not lodged with the CMU Service) on such Global Note by the Paying Agent to which it was presented or (in the case of a Global Note lodged with the CMU Service) on withdrawal of the Global Note by the CMU Lodging Agent, or in the records of Euroclear, Clearstream, Luxembourg or the CMU Services, as applicable.

(d) Payments in respect of Registered Notes

Payments of principal (other than Instalment Amounts prior to the final instalment) in respect of each Registered Note (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Note at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Note appearing in the register of holders of the Registered Notes maintained by the Registrar (the “**Register**”) (i) where in global form, at the close of the business day (being for this purpose, in respect of Notes clearing through Euroclear and Clearstream, Luxembourg, a day on which Euroclear and Clearstream, Luxembourg are open for business, in respect of Notes clearing through the CMU Service, a day on which the CMU Service is open for business, and in respect of Rule 144A Global Notes, a day on which DTC is open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. Notwithstanding the previous sentence, if (i) a holder does not have a Designated Account or (ii) the principal amount of the Notes held by a holder is less than U.S.\$250,000 (or its approximate equivalent in any other Specified Currency), payment (in the case of a currency other than Renminbi) will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, “**Designated Account**” means the account (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account and, in the case of a payment in Renminbi, means the Renminbi account maintained by or on behalf of the payee with a bank in Hong Kong, details of which appear on the Register at the close of business on the fifth business day before the due date for payment) maintained by a holder with a Designated Bank and identified as such in the Register and “**Designated Bank**” means (in the case of payment in a Specified Currency other than euro and Renminbi) a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Melbourne and Wellington, respectively) and (in the case of a payment in euro) any bank which processes payments in euro and (in the case of a payment in Renminbi) a bank in Hong Kong.

Payments of interest and payments of Instalment Amounts (other than the final instalment) in respect of each Registered Note (whether or not in global form and in the case of a Specified Currency other than Renminbi) will be made on the due date by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Registered Note appearing in the Register (i) where in global form, at the close of the business day (being for this purpose, in respect of Notes clearing through Euroclear and Clearstream, Luxembourg, a day on which Euroclear and Clearstream, Luxembourg are open for business, in respect of Notes clearing through the CMU Service, a day on which the CMU Service is open for business, and in respect on Rule 144A Global Notes, a day on which DTC is open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the fifth day (in the case of Renminbi) and the fifteenth day (in the case of a currency other than Renminbi and whether or not such fifteenth day is a business day) before the relevant due date (the “**Record Date**”) at his address shown in the Register on the Record Date and at his risk. Payments of interest and payments of instalments of principal (other than the final instalment) in Renminbi shall be made by transfer to the registered account of the payee. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest or an instalment amount (other than the final instalment amount) in respect of a Registered Note, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) and Instalment Amounts (other than the final instalment) in respect of the Registered Notes which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Note on redemption and the final instalment of principal will be made in the same manner as payment of the principal amount of such Registered Note.

Holders of Registered Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Note as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Notes.

All amounts payable to DTC or its nominee as registered holder of a Registered Global Note in respect of Notes denominated in a Specified Currency other than U.S. dollars shall be paid by transfer by the Registrar to an account in the relevant Specified Currency of the Exchange Agent on behalf of DTC or its nominee for conversion into and payment in U.S. dollars in accordance with the provisions of the Agency Agreement.

In the case of Definitive Registered Notes or Registered Global Note held through the CMU Service, payment will be made at the direction of the registered holder to the CMU Accountholders and such payment shall discharge the obligations of the Issuer or, as the case may be, the Guarantor in respect of that payment.

None of the Issuer, the Guarantor or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

(e) General provisions applicable to payments

The holder of a Global Note (if the Global Note is not lodged with the CMU Service) or the CMU Accountholder at the direction of the holder of a Global Note (if the Global Note is lodged with the CMU Service), shall be the only person(s) entitled to receive payments in respect of Notes represented by such Global Note and the Issuer or, as the case may be, the Guarantor will be discharged by payment to, or to the order of, the holder of such Global Note or such CMU Accountholder (as the case may be) in respect of each amount so paid. Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg, the CMU Service or DTC, as the

beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear, Clearstream, Luxembourg, the CMU Service or DTC, as the case may be, for his share of each payment so made by the Issuer or, as the case may be, the Guarantor in respect of such Global Note.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Bearer Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States only if:

- (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Bearer Notes in the manner provided above when due;
- (ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer and the Guarantor, adverse tax consequences to the Issuer or the Guarantor.

(f) Payment Day

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, “*Payment Day*” means any day which (subject to Condition 10) is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
 - (A) in the case of Notes in definitive form only, the relevant place of presentation; and
 - (B) any Additional Financial Centre specified in the applicable Pricing Supplement;
- (ii) either (1) in relation to any sum payable in a Specified Currency other than euro and Renminbi, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Melbourne and Wellington, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open or (3) in relation to any sum payable in Renminbi, a day on which banks and foreign exchange markets are open for business and settlement of Renminbi payments in Hong Kong; and
- (iii) in the case of any payment in respect of a Registered Global Note denominated in a Specified Currency other than U.S. dollars and registered in the name of DTC or its nominee and in respect of which an accountholder of DTC (with an interest in such Registered Global Note) has elected to receive any part of such payment in U.S. dollars, a day other than a Saturday or Sunday or any other day on which commercial banks are not authorised or required by law or regulation to be closed in New York City.

(g) Interpretation of principal and interest

Any reference in the Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal under Condition 9;
- (ii) the Final Redemption Amount of the Notes;
- (iii) the Early Redemption Amount of the Notes;
- (iv) the Optional Redemption Amount(s) (if any) of the Notes;
- (v) in relation to Notes redeemable in instalments, the Instalment Amounts;
- (vi) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 8(e)); and
- (vii) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in the Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 9.

8. REDEMPTION AND PURCHASE

(a) Redemption at maturity

Unless previously redeemed or purchased and cancelled as specified below, each Note (including each Index Linked Redemption Note and Dual Currency Redemption Note) will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Pricing Supplement in the relevant Specified Currency on the Maturity Date.

(b) Redemption for tax reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note, an Index Linked Interest Note nor a Dual Currency Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note, an Index Linked Interest Note or a Dual Currency Interest Note), on giving not less than 30 nor more than 60 days' notice to the Principal Paying Agent and, in accordance with Condition 15, the Noteholders (which notice shall be irrevocable), if:

- (i) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 9 or the Guarantor would be unable for reasons outside its control to procure payment by the Issuer and in making payment itself would be required to pay such additional amounts, in each case as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 9) or any political subdivision of, or any authority in, or of, a Tax Jurisdiction having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and
- (ii) such obligation cannot be avoided by the Issuer or, as the case may be, the Guarantor taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or, as the case may be, the Guarantor would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Principal Paying Agent (1) a certificate signed by two Directors of the Issuer or, as the case may be, two Directors of the Guarantor stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and (2) an opinion of independent legal advisers of recognised standing to the effect that the Issuer or, as the case may be, the Guarantor has or will become obliged to pay such additional amounts as a result of such change or amendment.

Notes redeemed pursuant to this Condition 8(b) will be redeemed at their Early Redemption Amount referred to in paragraph (e) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

(c) Redemption at the option of the Issuer (Issuer Call)

If Issuer Call is specified in the applicable Pricing Supplement, the Issuer may, having given:

- (i) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 15; and
- (ii) not less than 15 days before the giving of the notice referred to in (i), notice to:
 - (a) the Principal Paying Agent; and
 - (b) in the case of a redemption of Registered Notes, the Registrar,

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Pricing Supplement. In the case of a partial redemption of Notes, the Notes to be redeemed ("*Redeemed Notes*") will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg and/or DTC and/or the CMU Service, (as appropriate) in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the "*Selection Date*"). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 15 not less than 15 days prior to the date fixed for redemption. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this paragraph (c) and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 15 at least five days prior to the Selection Date.

(d) Redemption at the option of the Noteholders (Investor Put)

If Investor Put is specified in the applicable Pricing Supplement, upon the holder of any Note giving to the Issuer in accordance with Condition 15 not less than 15 nor more than 30 days' notice the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Pricing Supplement, such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to

(but excluding) the relevant Optional Redemption Date. It may be that before an Investor Put can be exercised, certain conditions and/or circumstances will need to be satisfied. Where relevant, the provisions will be set out in the applicable Pricing Supplement. Registered Notes may be redeemed under this Condition 8(d) in any multiple of their lowest Specified Denomination.

To exercise the right to require redemption of this Note the holder of this Note must, if this Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver at the specified office of any Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) at any time during normal business hours of such Paying Agent or, as the case may be, the Registrar falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent or, as the case may be, the Registrar (a “*Put Notice*”) and in which the holder must specify a bank account to which payment is to be made under this Condition accompanied by this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control and, in the case of Registered Notes, the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Registered Notes so surrendered is to be redeemed, an address to which a new Registered Note in respect of the balance of such Registered Notes is to be sent subject to and in accordance with the provisions of Condition 2(b). Registered Notes may be redeemed under this Condition 8(d) in any multiple of their lowest Specified Denomination.

If this Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, DTC or the CMU Service, to exercise the right to require redemption of this Note the holder of this Note must, within the notice period, give notice to the Principal Paying Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg, DTC and the CMU Service (which may include notice being given on his instruction by Euroclear, Clearstream, Luxembourg, DTC or any common depositary for them to the Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) by electronic means or notice being given to the CMU Lodging Agent) in a form acceptable to Euroclear, Clearstream, Luxembourg, DTC and the CMU Service from time to time.

Any Put Notice given by a holder of any Note pursuant to this paragraph shall be irrevocable except where prior to the due date of redemption an Event of Default (as defined in Condition 11 below) shall have occurred and be continuing in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this paragraph and instead to declare such Note forthwith due and payable pursuant to Condition 11.

(e) Early Redemption Amounts

For the purpose of paragraph (b) above and Condition 11, each Note will be redeemed at its Early Redemption Amount calculated as follows:

- (i) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (ii) in the case of a Note (other than a Zero Coupon Note but including an Instalment Note and Partly Paid Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Note is denominated, at the amount specified in, or determined in the manner specified in, the applicable Pricing Supplement or, if no such amount or manner is so specified in the applicable Pricing Supplement, at its nominal amount;
or

- (iii) in the case of a Zero Coupon Note, at an amount (the “*Amortised Face Amount*”) calculated in accordance with the following formula:

where:

“*RP*” means the Reference Price; and

“*AY*” means the Accrual Yield expressed as a decimal; and

“*y*” is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator of which is 360,

or on such other calculation basis as may be specified in the applicable Pricing Supplement.

(f) Instalments

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to paragraph (e) above.

(g) Partly Paid Notes

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Pricing Supplement.

(h) Purchases

The Issuer, the Guarantor or any subsidiary of the Issuer or the Guarantor may at any time purchase Notes (provided that, in the case of definitive Bearer Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the Issuer or the Guarantor, surrendered to the Principal Paying Agent and/or the Registrar for cancellation.

(i) Cancellation

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and the Notes purchased and cancelled pursuant to paragraph (h) above (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent and cannot be reissued or resold.

(j) Late payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph (a), (b), (c) or (d) above or upon its becoming due and repayable as provided in Condition 11 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in paragraph (e)(iii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and

- (ii) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Principal Paying Agent or the Registrar and notice to that effect has been given to the Noteholders in accordance with Condition 15.

9. TAXATION

All payments of principal and interest in respect of the Notes, Receipts and Coupons by the Issuer or the Guarantor will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer or, as the case may be, the Guarantor will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

- (a) presented for payment by or on behalf of a holder who is liable for such taxes or duties in respect of such Note, Receipt or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note, Receipt or Coupon; or
- (b) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 7(f)); or
- (c) presented for payment by or on behalf of a holder of such Note, Receipt or Coupon who, at the time of such presentation, is able to avoid such withholding or deduction by making a declaration of non-residence or other similar claim for exemption and does not make such declaration or claim.

As used herein:

- (i) “**Tax Jurisdiction**” means the British Virgin Islands or any political subdivision or any authority thereof or therein having power to tax (in the case of payments by the Issuer) or Hong Kong or any political subdivision or any authority thereof or therein having power to tax (in the case of payments by the Guarantor); and
- (ii) the “**Relevant Date**” means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Paying Agent or the Registrar, as the case may be, on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 15.

10. PRESCRIPTION

The Notes (whether in bearer or registered form), Receipts and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 9) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 7(b) or any Talon which would be void pursuant to Condition 7(b).

11. EVENTS OF DEFAULT

If any one or more of the following events (each, an “*Event of Default*”) shall occur and be continuing:

- (a) **Non-Payment:** if default is made in the payment of any principal or any interest due in respect of the Notes or any of them and the default continues for a period of seven days (in the case of principal) or 15 days (in the case of interest); or
- (b) **Breach of Other Obligations:** if the Issuer or the Guarantor fails to perform or comply with any one or more of its other obligations under the Conditions, the Guarantee or the Agency Agreement and (except in any case where the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure is not remedied within 30 days after notice of such default shall have been given to the Issuer or the Guarantor by any Noteholder; or
- (c) **Cross-Default:** (i) any Indebtedness for Borrowed Money (as defined below) of the Issuer or the Guarantor becomes due and payable prior to its stated maturity by reason of any default, event of default or the like (howsoever described), or (ii) the Issuer or the Guarantor fails to make any payment in respect of any Indebtedness for Borrowed Money when due or, as the case may be, within any applicable grace period, or (iii) the Issuer or the Guarantor fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised provided that the aggregate amount of Indebtedness for Borrowed Money, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (c) have occurred equals or exceeds U.S.\$30,000,000 or its equivalent (on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any leading bank on the day on which this paragraph operates); or
- (d) **Enforcement Proceedings:** a distress, attachment, execution or other legal process is levied, enforced or sued out on or against all or a material part of the property, assets or revenues of the Issuer or the Guarantor and is not discharged or stayed within 45 days; or
- (e) **Security Enforced:** any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or the Guarantor becomes enforceable in respect of the whole or any material part of the business, undertaking, assets and revenues of the Issuer or the Guarantor and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar person or the initiation of any legal proceedings) and is not discharged or stayed within 45 days; or
- (f) **Insolvency:** (1) the Issuer or the Guarantor is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, as they fall due, (2) the Issuer or the Guarantor stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, (3) the Issuer or the Guarantor proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or of any part which it will or might otherwise be unable to pay when due), (4) the Issuer or the Guarantor proposes or makes a general assignment or any arrangement or composition with or for the benefit of its relevant creditors in respect of its debts or a moratorium is agreed or declared in respect of or affecting all or a material part of the debts of the Issuer or the Guarantor, (5) an administrator or liquidator of the Issuer or the Guarantor is appointed with respect to the whole or a material part of the business, undertaking, assets and revenues of the Issuer or the Guarantor; or

- (g) **Winding-up:** an order is made or an effective resolution passed for the winding-up, liquidation or dissolution of the Issuer or the Guarantor, or the Issuer or the Guarantor ceases or threatens to cease to carry on all or a material part of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by an Extraordinary Resolution of the Noteholders; or
- (h) **Illegality:** it is or will become unlawful for the Issuer or the Guarantor to perform or comply with any one or more of its obligations under any of the Notes or the Guarantee; or
- (i) **Ownership:** the Issuer ceases to be wholly-owned and controlled by the Guarantor; or
- (j) **Guarantee not in force:** the Guarantee is not (or is claimed by the Guarantor not to be) in full force and effect; or
- (k) **Analogous Event:** any event occurs which under the laws of the British Virgin Islands or Hong Kong has an analogous effect to any of the events referred to in (d) to (h) of the foregoing paragraphs,

then any holder of a Note may, by notice in writing to the Issuer at the specified office of the Principal Paying Agent, effective upon the date of receipt thereof by the Principal Paying Agent, declare any Note held by it to be immediately due and payable whereupon it shall become immediately due and payable at its Early Redemption Amount together with accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind without further formality.

For the purposes of this Condition:

“Indebtedness for Borrowed Money” means any indebtedness (whether being principal, premium, interest or other amounts) for or in respect of any notes, bonds, debentures, debenture stock, loan stock or other securities or any borrowed money or any liability under or in respect of any acceptance or acceptance credit.

12. REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent or the Paying Agent in Luxembourg (in the case of Bearer Notes, Receipts or Coupons) or the Registrar or the Transfer Agent in Luxembourg (in the case of Registered Notes) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer, the Principal Paying Agent and the Registrar (as the case may be) may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

13. AGENTS

The names of the initial Agents and their initial specified offices are set out below.

The Issuer is entitled to vary or terminate the appointment of any Agent and/or appoint additional or other Agents and/or approve any change in the specified office through which any Agent acts, provided that:

- (a) there will at all times be a Principal Paying Agent and a Registrar;
- (b) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent (in the case of Bearer Notes) and a Transfer Agent (in the case of Registered Notes) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority; and

- (c) so long as any of the Registered Global Notes payable in a Specified Currency other than U.S. dollars are held through DTC or its nominee, there will at all times be an Exchange Agent with a specified office in New York City.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 7(e). Any variation, termination, appointment or change referred to in the preceding paragraph and/or any appointment referred to in this paragraph shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 15.

In acting under the Agency Agreement, the Agents act solely as agents of the Issuer and the Guarantor and do not assume any obligation to, or relationship of agency or trust with, any Noteholders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

14. EXCHANGE OF TALONS

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 10.

15. NOTICES

All notices regarding the Bearer Notes will be deemed to be validly given if published in a leading daily newspaper of general circulation in Hong Kong. It is expected that such publication will be made in the South China Morning Post or The Standard in Hong Kong. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Bearer Notes are for the time being listed or by which they have been admitted to listing. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

All notices regarding the Registered Notes will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing and, in addition, for so long as any Registered Notes are listed on a stock exchange and the rules of that stock exchange or any other relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules of that stock exchange.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of (i) Euroclear and/or Clearstream, Luxembourg and/or DTC, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or DTC for communication by them to the holders of the Notes or (ii) the CMU Service, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to the persons shown in a CMU Instrument Position Report issued by the CMU Service on the second business day preceding the date of despatch of such notice as holding interests in the relevant Global Note and, in addition, in the case of both (i) and (ii) above, for so long as any Notes are listed on a stock exchange and the rules of that stock exchange or other relevant authority so require, such notice will be published in a daily newspaper of general

circulation in the place or places required by that stock exchange or other relevant authority. Any such notice shall be deemed to have been given to the holders of the Notes on the seventh day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg and/or DTC and/or the persons shown in the relevant CMU Instrument Position Report.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Principal Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes). Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Principal Paying Agent or the Registrar through Euroclear and/or Clearstream, Luxembourg and/or DTC and/or, in the case of Notes lodged with the CMU Service, by delivery by such holder of such notice to the CMU Lodging Agent in Hong Kong, as the case may be, in such manner as the Principal Paying Agent, the Registrar, the CMU Lodging Agent and Euroclear and/or Clearstream, Luxembourg and/or DTC and/or the CMU Service, as the case may be, may approve for this purpose.

Receiptholders and Couponholders will be deemed for all purposes to have notice of the contents of any notice given to Noteholders in accordance with this Condition 15.

16. MEETINGS OF NOTEHOLDERS, MODIFICATION AND WAIVER

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer or the Guarantor and shall be convened by the Issuer if required in writing by Noteholders holding not less than ten per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, the Receipts or the Coupons (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes, the Receipts or the Coupons), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

The Principal Paying Agent and the Issuer may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to:

- (a) any modification (except such modifications in respect of which an increased quorum is required as mentioned above) of the Notes, the Receipts, the Coupons or the Agency Agreement which is not prejudicial to the interests of the Noteholders; or
- (b) any modification of the Notes, the Receipts, the Coupons or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest or proven error or to comply with mandatory provisions of the law.

Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 15 as soon as practicable thereafter.

17. FURTHER ISSUES

The Issuer shall be at liberty from time to time without the consent of the Noteholders, the Receiptholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes.

18. CURRENCY INDEMNITY

The currency in which the Notes are denominated or, if different, payable, as specified in the applicable Pricing Supplement (the “*Contractual Currency*”), is the sole currency of account and payment for all sums payable by the Issuer or, as the case may be, the Guarantor, in respect of the Notes, the Receipts, the Coupons, the Guarantee and the Deed of Covenant, including damages. Any amount received or recovered in a currency other than the Contractual Currency (whether as a result of, or of the enforcement of, a judgement or order of a court of any jurisdiction or otherwise) by any Noteholder, Receiptholder or Couponholder in respect of any sum expressed to be due to it from the Issuer or, as the case may be, the Guarantor, shall only constitute a discharge to the Issuer or, as the case may be, the Guarantor, to the extent of the amount in the Contractual Currency which such Noteholder, Receiptholder or Couponholder is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that amount is less than the amount in the Contractual Currency expressed to be due to any Noteholder, Receiptholder or Couponholder in respect of such Note, Receipt or Coupon, the Issuer or, as the case may be, the Guarantor, shall indemnify such Noteholder, Receiptholder or Couponholder against any such loss sustained by such Noteholder, Receiptholder or Couponholder as a result. In any event, the Issuer or, as the case may be, the Guarantor, shall indemnify each such Noteholder, Receiptholder or Couponholder against any cost of making such purchase which is reasonably incurred. These indemnities constitute a separate and independent obligation from the Issuer’s or, as the case may be, the Guarantor’s other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Noteholder, Receiptholder or Couponholder and shall continue in full force and effect despite any judgement, order, claim or proof for a liquidated amount in respect of any sum due in respect of the Notes or any judgement or order. Any such loss aforesaid shall be deemed to constitute a loss suffered by the relevant Noteholder, Receiptholder or Couponholder and no proof or evidence of any actual loss will be required by the Issuer or, as the case may be, the Guarantor.

19. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term of this Note under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

20. GOVERNING LAW AND SUBMISSION TO JURISDICTION

(a) Governing law

The Agency Agreement, the Guarantee, the Deed of Covenant, the Deed Poll, the Notes, the Receipts and the Coupons and any non-contractual obligations arising out of or in connection with the Agency Agreement, the Guarantee, the Deed of Covenant, the Deed Poll, the Notes, the Receipts and the Coupons are governed by, and shall be construed in accordance with, English law.

(b) Submission to jurisdiction

- (i) Subject to Condition 20(b)(iii) below, the English courts have exclusive jurisdiction to settle any dispute arising out of or in connection with the Notes, the Receipts and/or the Coupons, including any dispute relating to any non-contractual obligations arising

out of or in connection with the Notes, the Receipts and/or the Coupons (a “*Dispute*”) and accordingly each of the Issuer and any Noteholders, Receiptholders or Couponholders in relation to any Dispute submits to the exclusive jurisdiction of the English courts.

- (ii) For the purposes of this Condition 20(b), the Issuer waives any objection to the English courts on the grounds that they are an inconvenient or inappropriate forum to settle any Dispute.
- (iii) To the extent allowed by law, the Noteholders, the Receiptholders and the Couponholders may, in respect of any Dispute or Disputes, take (i) proceedings in any other court with jurisdiction; and (ii) concurrent proceedings in any number of jurisdictions.

(c) Appointment of Process Agent

The Issuer appoints Law Debenture Corporate Services Limited at its registered office at Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom as its agent for service of process in any proceedings before the English courts in relation to any Dispute, and agrees that, in the event of Law Debenture Corporate Services Limited ceasing so to act or ceasing to be registered in England, it will appoint another person as its agent for service of process in England in respect of any Dispute. Nothing herein shall affect the right to serve process in any other manner permitted by law.

(d) Other documents and the Guarantor

The Issuer and, where applicable, the Guarantor have in the Agency Agreement, the Guarantee, the Deed of Covenant and the Deed Poll submitted to the jurisdiction of the English courts and appointed an agent for service of process in terms substantially similar to those set out above.

USE OF PROCEEDS

The net proceeds of the issue of each Tranche of Notes will be on-lent by the Issuer to the Guarantor to be used by the Guarantor for its general corporate purposes.

DESCRIPTION OF THE ISSUER

HISTORY AND INTRODUCTION

Hongkong Electric Finance Limited (the “*Issuer*”) was incorporated as a limited liability company under the laws of the British Virgin Islands on 12 April 2000 as a wholly-owned subsidiary of the Guarantor. Subject to the law for the time being in force in the British Virgin Islands, the Issuer has the power to carry on the business of a finance company and to carry out any object, and is capable of exercising any and all powers exercisable by a natural person or body corporate in doing whatever may be considered by it necessary or conducive to the conduct, promotion or attainment of the object of the Issuer. The Issuer is a wholly-owned subsidiary of the Guarantor and, as at the date hereof, carries on and has carried on no business other than entering into arrangements for the establishment and maintenance of the Programme and the lending of any issue proceeds thereof to the Guarantor. The Issuer is not required under British Virgin Islands law to audit or publish, and does not propose to publish, any financial statements. As at the date hereof, the Issuer has no subsidiaries.

The registered office of the Issuer is at the offices of Offshore Incorporations Limited, P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.

The Issuer has appointed the Guarantor of Hongkong Electric Centre, 44 Kennedy Road, Hong Kong to accept, on behalf of the Issuer, service of process and notices pursuant to the HKSE Rules.

CAPITALISATION

The following table sets out the capitalisation of the Issuer as at 31 December 2015:

Shareholders’ Funds

	<u>U.S.\$</u>
Share Capital (Authorised U.S.\$50,000: issued 1 share of U.S.\$1.00) Issued.....	<u>1.00</u>
Total Capitalisation	<u>1.00</u>

INDEBTEDNESS

As at the date of this Offering Circular, the Issuer had outstanding Notes issued under the Programme of U.S.\$2,644 million (converted at an exchange rate of USD1.0 = HKD7.8).

Description and principal amount of debt security	Coupon	Year of Maturity
HK\$500,000,000 Notes	4.55% per annum	2016
HK\$400,000,000 Notes	4.32% per annum	2016
HK\$300,000,000 Notes	1.65% per annum	2017
HK\$330,000,000 Notes	3.28% per annum	2019
US\$750,000,000 Notes	4.25% per annum	2020
HK\$300,000,000 Notes	3.40% per annum	2023
HK\$300,000,000 Notes	3.70% per annum	2024
HK\$300,000,000 Notes	3.38% per annum	2025
US\$750,000,000 Notes	2.875% per annum	2026
HK\$500,000,000 Notes	3.40% per annum	2027
HK\$500,000,000 Notes	3.10% per annum	2028
HK\$200,000,000 Notes	3.00% per annum	2028
HK\$300,000,000 Notes	3.84% per annum	2029
HK\$470,000,000 Notes	3.95% per annum	2030
HK\$1,055,500,000 Notes	Zero Coupon (IRR at 3.50% per annum)	2030
HK\$110,000,000 Notes	4.00% per annum	2031
HK\$500,000,000 Notes	3.00% per annum	2031
HK\$600,000,000 Notes	2.90% per annum	2031
HK\$310,000,000 Notes	2.58% per annum	2031
US\$135,000,000 Notes	Zero Coupon (IRR at 4.60% per annum)	2035
US\$115,000,000 Notes	Zero Coupon (IRR at 4.80% per annum)	2045

MANAGEMENT

The Directors of the Issuer as at 31 December 2015 were:

Name

Wan Chi Tin
Chan Loi Shun
Wong Kim Man

The business address of all the Directors of the Issuer is at Hongkong Electric Centre, 44 Kennedy Road, Hong Kong.

The Secretary of the Issuer is Ng Wai Cheong, Alex. The Issuer has no employees.

CAPITALISATION AND INDEBTEDNESS OF THE GUARANTOR

The following table sets out the non-consolidated capitalisation and indebtedness of the Guarantor as at 31 December 2015 and 2014:

	2015	2014
	(HK\$ million)	
Short-term debt (including current portion of long-term debt):	3,859	2,801
Long-term debt (net of current portion):	37,646	38,703
Shareholders' funds:		
Share capital (<i>Note 1</i>)	2,411	2,411
Reserves	780	966
Total shareholders' equity	3,191	3,377
Total capitalisation (<i>Note 2</i>)	<u>40,837</u>	<u>42,080</u>
Total short-term debt and capitalisation	<u>44,696</u>	<u>44,881</u>

Notes:

- (1) As at 31 December 2015, the Guarantor had an issued and fully paid share capital of HK\$2,411.6 million consisting of 1,205.8 million ordinary shares.
- (2) Total capitalisation is defined to be the sum of total shareholders' equity and total long-term debt.

Subsequent to 31 December 2015 and up to and including 30 June 2016, the Guarantor prepaid term loans amounting to HK\$20.4 billion funded by 5-years term loans, a 10-years US\$ public bond issue and private placements and internal resources. There has been no other material change in the Guarantor's total non-consolidated capitalisation and indebtedness since 31 December 2015.

SUMMARY FINANCIAL INFORMATION

The financial information contained in this section titled “SUMMARY FINANCIAL INFORMATION” of this Offering Circular does not constitute the Guarantor’s statutory annual financial statements for either of the years ended 31 December 2015 or 2014 but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance (Cap. 622) of the Laws of Hong Kong (“Companies Ordinance”) is as follows: The Guarantor has delivered the financial statements for both years to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance. The Guarantor’s auditor has reported on these financial statements for both years. The auditor’s reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis; and did not contain a statement under either sections 406(2), 407(2) or (3) of the Companies Ordinance.

The following tables highlight certain non-consolidated financial information with respect to the Guarantor for the two financial years ended 31 December 2015 and 2014:

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER

	2015	2014
	(HK\$ million)	
Revenue	11,210	11,186
Standard fuel costs	(1,837)	(1,824)
Direct costs	(2,651)	(2,507)
	6,721	6,855
Other revenue and other net income	78	84
Other operating costs	(744)	(681)
Finance costs	(839)	(790)
Profit before taxation	5,217	5,468
Income tax	(875)	(911)
Profit after taxation	4,342	4,557
Scheme of Control transfers (to)/from:		
Tariff Stabilisation Fund	84	(249)
Smart Power Fund	(5)	(10)
Rate Reduction Reserve	(1)	—
Profit attributable to equity shareholders of the Company	4,420	4,298
Dividends paid/payable to equity shareholders of the Company attributable to the year	4,370	4,303

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER

	<u>2015</u>	<u>2014</u>
	(HK\$ million)	
Non-Current Assets		
Fixed assets	49,482	49,198
Employee retirement benefit scheme assets	580	668
Derivative financial instruments	<u>314</u>	<u>352</u>
	<u>50,376</u>	<u>50,218</u>
Current Assets		
Coal, fuel oil and natural gas	525	572
Stores and materials	357	361
Trade and other receivables	1,155	1,129
Bank deposits and cash	6,155	4,629
	<u>8,192</u>	<u>6,691</u>
Current Liabilities		
Bank loans and other borrowings	(3,859)	(2,801)
Trade and other payables	(2,560)	(2,459)
Current taxation	(360)	(219)
Fuel Clause Recovery Account	<u>(2,283)</u>	<u>(631)</u>
	<u>(9,062)</u>	<u>(6,110)</u>
Net Current (Liabilities)/Assets	<u>(870)</u>	<u>581</u>
Total Assets Less Current Liabilities	49,506	50,799
Non-Current Liabilities		
Bank loans and other borrowings	(37,646)	(38,703)
Customers' deposits	(2,001)	(1,937)
Employee retirement benefit scheme liabilities	(587)	(499)
Deferred tax liabilities	(5,698)	(5,927)
Derivative financial instruments	<u>(168)</u>	<u>(63)</u>
	<u>(46,100)</u>	<u>(47,129)</u>
Scheme of Control Fund and Reserve	<u>(215)</u>	<u>(293)</u>
NET ASSETS	<u><u>3,191</u></u>	<u><u>3,377</u></u>
CAPITAL AND RESERVES		
Share capital	2,411	2,411
Reserves	<u>780</u>	<u>966</u>
TOTAL EQUITY	<u><u>3,191</u></u>	<u><u>3,377</u></u>

DESCRIPTION OF THE GUARANTOR

HISTORY AND INTRODUCTION

Founded in 1889, The Hongkong Electric Company, Limited 香港電燈有限公司 (the “*Guarantor*”) is one of the world’s oldest power companies. The first electric street lights on Hong Kong Island were illuminated on 1 December 1890 and since then, the Guarantor has been supplying Hong Kong Island with electricity for over 125 years.

The Guarantor is a vertically integrated power utility company with a distribution network covering Hong Kong Island and Lamma Island. Its first power station, located in Wanchai, had an initial installed capacity of 100 kW. Subsequent expansion in demand for electricity led to the commissioning of a second power station in North Point in 1919 and then a third in Ap Lei Chau in the 1960s. When this fully computerised, oil-fired power station was completely developed in 1981, its installed capacity was 1,060 MW. To meet electricity demand in the 1980s and beyond, construction of a new power station on Lamma Island commenced in 1978. The uncertainty of oil supply at that time was of major concern and led to the installation of coal-fired generating units at this new power station. The Lamma Power Station was developed in three stages: Stage I comprising three 250 MW units, with the first unit commissioned in 1982, was completed in 1983; Stage II, comprising three 350 MW coal-fired units, and one 55 MW and six 125 MW gas turbines, was completed in 1993; Stage III, comprising two 350 MW coal-fired units, was completed in 2001. The Ap Lei Chau Power Station was decommissioned in December 1989, after which electricity has been entirely generated at the Lamma Power Station. In 2002, one reheat steam turbine was added to two 125 MW gas turbines to form a 345 MW oil-fired combined cycle unit. An 800 kW wind turbine on Lamma Island first started to generate electricity in September 2005 and commenced full commercial operations from February 2006. In October 2006, the first 335 MW gas-fired combined cycle unit started its commercial operations. In July 2010, a 550kW thin film photovoltaic system, the largest solar power system in Hong Kong, was commissioned at the Lamma Power Station. At the end of 2015, the Lamma Power Station had an installed capacity of 3,737 MW, of which 2,500 MW is provided by eight coal-fired generators, 555 MW by five oil-fired gas turbines, 680 MW by two gas-fired combined cycle units, 800 kW by the wind turbine and 1 MW by the thin film photovoltaic system. The power station serves approximately 572,000 customers and accounts for about 25 per cent of Hong Kong’s total electricity supply.

The Guarantor’s principal activity of generation, transmission, distribution and supply of electricity in Hong Kong is regulated by a Scheme of Control Agreement (the “*Scheme of Control*”) executed with the Government of the Hong Kong SAR (the “*Government*”). The Guarantor first entered into a Scheme of Control in 1979 for a term of fifteen years, which was renewed in 1993 for a similar term through to 31 December 2008. The current Scheme of Control was signed with the Government in early 2008 for ten years commencing 1 January 2009 with an option for the Government to extend it for a further term of five years. The Government did not exercise its option to extend the current Scheme of Control for a period of five years starting 1 January 2019. The Government and the Guarantor have already started negotiations on the regulatory regime beyond 2018. In the opinion of the Guarantor, the future agreed scheme must retain the key elements of the current Scheme of Control including an acceptable level of rate of return to enable operators to make long-term investments conducive to the continued provision of safe, reliable and clean electricity to customers at affordable prices.

For the year ended 31 December 2015, the Guarantor’s revenue and profit attributable to shareholders were HK\$11,210 million and HK\$4,420 million respectively. As at 31 December 2015, the Guarantor’s total fixed assets was HK\$49,482 million.

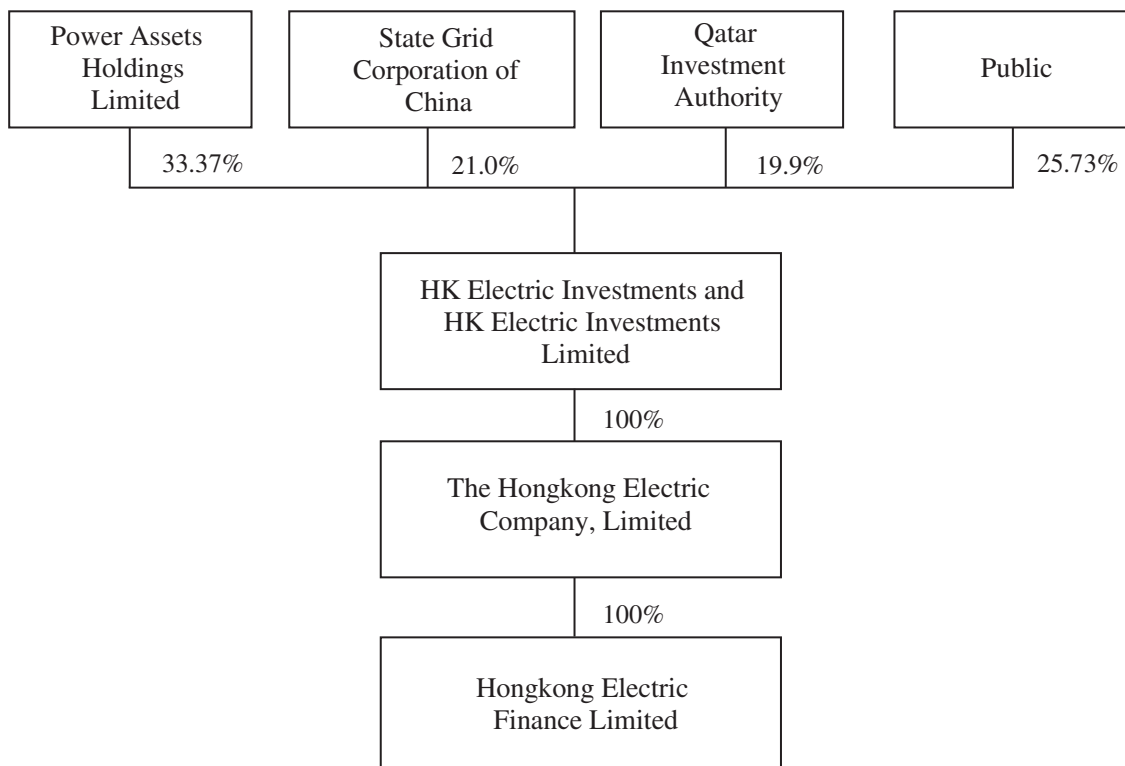
CORPORATE STRUCTURE

In its circular dated 16 December 2013, Power Assets, which then owned 100% of the Guarantor, proposed to spin off and separately list its Hong Kong electricity business operated by the Guarantor, by way of the listing of share stapled units (the “*Share Stapled Units*”) to be jointly issued by HK Electric Investments and HK Electric Investments Limited (collectively, the “*HKEL*”) on the Main Board of the Hong Kong Stock Exchange.

The spin-off was completed on 29 January 2014 with Power Assets taking a 49.9% interest in the Share Stapled Units on issue. Accordingly, the Guarantor ceased to be a subsidiary of Power Assets, and became an indirectly wholly owned subsidiary of HKEI.

On 9 June 2015, Power Assets announced its sale of 16.53% of the total number of Share Stapled Units in issue to Qatar Holding LLC, an investment holding company wholly owned by Qatar Investment Authority, reducing its holdings of Share Stapled Units in HKEI to 33.37%. Following this disposal, Power Assets remains the controlling holder of Share Stapled Units in HKEI.

As at 5 July 2016, based on publicly available information and the Guarantor's and the Issuer's shareholding registers, the simplified corporate holding structure of the Guarantor and the Issuer was as follows:



BUSINESS STRATEGY

The Guarantor's strategy is to be a reliable, environmentally friendly, cost-effective producer, distributor and supplier of electricity within its service area, offering superior customer service while maintaining earnings growth and return to its shareholders. The Guarantor's intention is to continue its emphasis on system reliability, compliance with safety standards and emission caps, exercising environmental care and providing efficient customer service at a reasonable cost.

PRINCIPAL OPERATION

The principal operation of the Guarantor is the generation, transmission, distribution and supply of electricity to Hong Kong Island and Lamma Island. Electricity is entirely generated at the Lamma Power Station. The activities of the Guarantor are regulated and governed by the Scheme of Control (see "*Scheme of Control*" below). The Scheme of Control does not establish the Guarantor as a monopoly, nor does it define a licensed area for its operations.

SCHEME OF CONTROL

The Guarantor's electricity-related business activities are regulated by a Scheme of Control entered into with the Government. The current Scheme of Control was entered into on 7 January 2008 for a term of ten years commencing from 1 January 2009 and expiring on 31 December 2018. The Government had an option until January 2016 to extend the term by five years to 31 December 2023 but the option was not exercised before its expiry. The current Scheme of Control has been posted on the Government's Environment Bureau website:
http://www.enb.gov.hk/en/resources_publications/agreement/index.html.

In return for complying with its obligations under the Scheme of Control, the Guarantor is entitled to charge tariff rates not only to cover its total operating costs but also to enable its shareholders to earn a return in relation to the risks involved and the capital invested in and retained in the business.

Pursuant to the terms of the current Scheme of Control, the Government monitors the Guarantor's financial affairs and operating performance through development plan reviews, auditing reviews and tariff reviews. The current Scheme of Control provides for an interim review once every five years during its 10-year term, with the Guarantor and the Government having the right to request modifications. The latest interim review was completed in 2013. As the agreement of all parties is required for any amendments, no party can unilaterally change the terms and conditions of the Scheme of Control.

Permitted Return and Allowed Net Return

The Scheme of Control provides for the Guarantor to earn a permitted return of 9.99 per cent. of the Guarantor's average net fixed assets other than those attributable to renewable energy infrastructure investments in Hong Kong. The Scheme of Control also provides for the Guarantor to earn a permitted return of 11 per cent. of the Guarantor's average net fixed assets attributable to renewable energy infrastructure investments within Hong Kong. The following items are subtracted from the permitted return:

- (i) interest up to a maximum of 8 per cent. per annum on borrowings to finance fixed assets which have been capitalised or charged to operating costs;
- (ii) interest up to a maximum of 8 per cent. per annum on borrowings which have been swapped into another currency to finance fixed assets;
- (iii) a charge of average 1-month HIBOR per annum on the average balance of the Tariff Stabilisation Fund (see below);
- (iv) an excess capacity adjustment which is equal to 9.99 per cent. on the average excess capacity expenditure less an allowed interest charge of up to 8 per cent. per annum on the average excess capacity expenditure, if any; and
- (v) interest up to a maximum of 8 per cent. per annum on the increase in average balance of the customers' deposits in excess of the balance at 31 December 1998.

The Scheme of Control also contains performance based incentives and penalties which encourage emission reduction, energy efficiency, operational performance and service quality.

Tariff Stabilisation Fund

A tariff stabilisation fund ("*Tariff Stabilisation Fund*") is maintained by the Guarantor. The main purpose of the Tariff Stabilisation Fund is to accumulate and provide funds to ameliorate tariff adjustments. In each year where the Gross Tariff Revenue (being defined as the aggregate of revenue from the sale of electricity, transfers from/to Fuel Clause Recovery Account (see below) and other Scheme of Control revenue) exceeds the total of operating costs of the Guarantor, allowed net permitted return and Scheme of Control taxation charges, the amount of such excess is added to the Tariff Stabilisation Fund. Conversely, when the Gross Tariff Revenue is less than the total operating

costs of the Guarantor, allowed net permitted return and Scheme of Control taxation charges, the amount of such deficiency is transferred from the Tariff Stabilisation Fund to the statement of profit or loss for that year, provided that the amount transferred cannot exceed the balance of the Tariff Stabilisation Fund which cannot go into a deficit position.

Smart Power Fund

The Guarantor established a smart power fund (the “*Smart Power Fund*”) on 26 June 2014 to help owners of residential buildings (located within the Guarantor’s service territory) enhance their energy efficiency performance by offering technical advice and subsidies (on a 50/50 matching basis) for improvement works. The Smart Power Fund is open for application by owners of residential buildings until the end of 2018 or until the Smart Power Fund has been fully disbursed. The Smart Power Fund was set up following the conclusion of the 2013 Interim Review (see “*2013 Interim Review*” below) with the Guarantor agreeing to inject into the Smart Power Fund the energy efficiency financial incentives earned from its out-performing the stipulated targets set out in the Scheme of Control Agreement on a yearly basis. The total size of the Smart Power Fund is estimated to reach HK\$25 million for the five years ending 2018. As of 31 December 2015, 21 projects with subsidies totalling around HK\$3 million have been approved.

Development Plan Review

The Scheme of Control provides for a tariff setting mechanism for the electricity supplied by the Guarantor. A development plan (“*Development Plan*”) review is conducted jointly by the Government and the Guarantor to review the financial projections and to agree on levels of projected Basic Tariff Rate (see below) for a Development Plan period which covers a period of five successive years or for the remaining term of the Scheme of Control, whichever is shorter. Such plan sets out the projected Basic Tariff Rate for each of the years covered and is submitted to the Executive Council of Hong Kong for approval. A Development Plan review is also conducted when a major system expansion is proposed, an increase in excess of 10 per cent. of the previously projected Basic Tariff Rates for that particular year is proposed, or whenever major variations to the Guarantor’s system, which would increase the projected Basic Tariff Rates significantly above those in the previously approved Development Plan have been proposed. Subsequent to the approval of a Development Plan, an annual tariff review is carried out to determine the Basic Tariff Rate for the following year. The Guarantor can increase the Basic Tariff Rate by up to 5 per cent. above the level in the approved Development Plan for a particular year without any need for further approval. An increase of a further 5 per cent. is permitted with the approval of the Executive Council of Hong Kong without necessitating a Development Plan review.

The Guarantor’s current Development Plan for the period from 1 January 2014 to 31 December 2018 was approved by the Executive Council of the Government on 10 December 2013. The current Development Plan provides for an estimated total investment by the Guarantor of approximately HK\$13.0 billion in new and existing capital projects over its five-year term, of which approximately HK\$6.1 billion will be spent on its power generation system (inclusive of an estimated HK\$3.0 billion in relation to the building of a gas-fired generating unit (“*L10 Project*”)), approximately HK\$5.3 billion on its transmission and distribution networks and approximately HK\$1.6 billion on its customer and corporate services development. The Government included the L10 Project in the 2014-2018 Development Plan on a provisional basis only and the Guarantor subsequently received the Government’s confirmation to proceed with the L10 Project in November 2015.

2013 Interim Review

The Scheme of Control provides that each of the Guarantor and the Government has the right during the year ended 31 December 2013, and if the term of the current Scheme of Control is extended until 2023, during the year ending 31 December 2018, to request modifications to the Scheme of Control. However, any modifications must be mutually agreed to by the parties in writing before they take effect. In November 2013, as part of the 2013 interim review of the Scheme of Control, the Guarantor agreed in principle with the Government to implement certain modifications to the Scheme of Control, which are broadly in relation to the following:

- (i) an energy efficiency fund will be established to provide, subject to a ceiling, subsidies to owners of non-commercial buildings to carry out improvement works to enhance the energy efficiency of their buildings. The amount to be paid by the Guarantor into the energy efficiency fund will be equal to the financial incentive payment that the Guarantor will from time to time receive under the energy efficiency incentive mechanism in the Scheme of Control for outperforming the energy audits and energy saving targets. In addition, a loan fund of HK\$12.5 million per annum over a five-year period established by the Guarantor to provide interest-free loans to non-Government customers to implement energy-saving initiatives will be extended for a further period of five years;
- (ii) the performance thresholds will be raised for incentive payments and penalties payable in respect of supply reliability, operational efficiency and customer services;
- (iii) the cap on the balance of the Tariff Stabilisation Fund will be lowered from 8% to 5% of the Guarantor's annual total revenues from sales of electricity to customers (including fuel cost account adjustment and excluding rebates and charges during that year);
- (iv) improvement will be made in the public disclosure of certain financial and operational data relating to the latest approved Development Plan and the proposed tariff adjustments for the upcoming year upon the conclusion of each annual tariff review exercise;
- (v) the Guarantor will streamline the administration of the rate reduction reserve ("**Rate Reduction Reserve**") from the end of 2013 such that the year-end balance of the Rate Reduction Reserve for any given year will be transferred to the Tariff Stabilisation Fund in the subsequent year; and
- (vi) relevant expenditures incurred in respect of the Guarantor's pre-project studies and assessments will be initially placed in a separate suspense account, and such expenditures will be included as fixed assets for calculating the permitted return only after a decision is made to proceed with the projects.

The above modifications have been fully taken up in the supplemental agreement and undertaking concluded in December 2014.

Auditing Review

An annual auditing review ("**Auditing Review**") is performed jointly by the Guarantor and the Government not later than three months after the close of the Guarantor's financial year. The objective of the auditing review is to provide sufficient information to the Government to enable it to monitor the Guarantor's activities under the Scheme of Control. The Auditing Review contains an analysis of prior-year actual results and projections of sales, capital and operating expenditure and other financial and operating data for the remaining years of the Development Plan.

Tariff Setting Mechanism

The net tariff charged to consumers consists of the Basic Tariff Rate, a Fuel Clause Charge or Rebate and a Rate Reduction Rebate.

(i) Basic Tariff Rate

The Guarantor calculates its annual projected basic tariff rates ("**Basic Tariff Rate**") by aggregating the annual forecasts of its operating costs, allowed net permitted return and transfers to or from the Tariff Stabilisation Fund and dividing that aggregate amount by its forecast unit sales of electricity. Operating costs include, among other things, the standard cost of fuel, generation, transmission, distribution and administration expenses, depreciation, interest expense and tax.

(ii) *Fuel Clause Charge or Rebate*

In setting the Basic Tariff Rate, the Guarantor and the Government agree upon a standard cost of fuel as an operating cost. The difference between the actual cost of fuel (including coal, gas and oil) and the standard cost recovered through the Basic Tariff Rate is charged or credited to a Fuel Clause Recovery Account maintained in the Guarantor's books and passed on to the consumers by way of a charge or a rebate. The Guarantor is not required to obtain any Government approval to recover the difference in the cost of fuel.

(iii) *Rate Reduction Rebate*

The Tariff Stabilisation Fund represents a liability in the financial statements of the Guarantor and it is obliged to pay a rate equal to average 1-month HIBOR per annum on the average balance of the Tariff Stabilisation Fund. Such payment is credited to the Rate Reduction Reserve and the balance in this Rate Reduction Reserve is used to reduce, by means of rebates, electricity tariffs.

The following table shows selected Scheme of Control figures for the five years ended 31 December 2015:

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
	(HK\$ million)				
Sales of electricity	11,165	11,165	10,176	10,364	10,140
Transfer from Fuel Clause Recovery Account	1,861	2,994	3,510	3,867	3,755
Other Scheme of Control revenue	<u>74</u>	<u>63</u>	<u>67</u>	<u>74</u>	<u>100</u>
Gross tariff revenue	13,100	14,222	13,753	14,305	13,995
Fuel costs	(3,697)	(4,818)	(5,271)	(5,673)	(5,538)
Operating costs	(1,277)	(1,143)	(995)	(1,040)	(1,040)
Interest	(838)	(789)	(285)	(264)	(248)
Depreciation and amortisation	<u>(2,054)</u>	<u>(1,988)</u>	<u>(1,982)</u>	<u>(1,919)</u>	<u>(1,836)</u>
Net revenue before taxation	5,234	5,484	5,220	5,409	5,333
Scheme of Control taxation	<u>(1,140)</u>	<u>(1,009)</u>	<u>(988)</u>	<u>(856)</u>	<u>(794)</u>
Net revenue after taxation	4,094	4,475	4,232	4,553	4,539
Interest on borrowed capital	<u>729</u>	<u>690</u>	<u>288</u>	<u>271</u>	<u>239</u>
Scheme of Control net revenue	4,823	5,165	4,520	4,824	4,778
Transfer from/(to) Tariff Stabilisation Fund	<u>84</u>	<u>(249)</u>	<u>389</u>	<u>72</u>	<u>46</u>
Permitted return	4,907	4,916	4,909	4,896	4,824
Interest on borrowed capital	(729)	(690)	(288)	(271)	(239)
Transfer to Rate Reduction Reserve/Smart Power Fund	<u>(6)</u>	<u>(10)</u>	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>
Net return	<u><u>4,172</u></u>	<u><u>4,216</u></u>	<u><u>4,620</u></u>	<u><u>4,624</u></u>	<u><u>4,584</u></u>

GENERATION AND TRANSMISSION

Since 1990, electricity generation has been entirely carried out at Lamma Power Station which is located on an 85.8-hectare site at Po Lo Tsui on Lamma Island. At the end of 2015, it had a total installed capacity of 3,737 MW with eight coal-fired units, five oil-fired gas turbine units, two gas-fired combined cycle units, one wind turbine unit and one thin film photovoltaic system. While the eight coal-fired generating units are basically designed for 100 per cent. coal firing, the capability

for oil firing has also been catered for in order to maintain the flexibility in fuel selection. All eight coal-fired units burn 100 per cent. coal under normal operating conditions, with oil firing limited to start-up, shutdown or flame stabilisation at low loads. Two gas-fired units have been run on base-load (meaning the units will be used first to support normal electricity supply) as from 2010. The eight coal-fired units will be operated next in line with the gas-fired units to meet demand.

As part of the 2014-2018 Development Plan and in line with the Government's plan to increase gas generation to around 50% of the total fuel mix for electricity generation in Hong Kong by 2020, the Guarantor will further increase its gas-fired generation capacity accordingly. During 2014, the Guarantor commenced preparatory work for the L10 Project. In November 2015, the Guarantor received the Government's confirmation to proceed with the L10 Project with completion scheduled in 2020. A capital expenditure of HK\$3 billion has been included in the current approved Development Plan for the L10 Project. The new L10 unit is a 350MW-class base load unit comprising a gas turbine, a steam turbine, a generator, a heat recovery steam generator, auxiliary equipment, and an NOx emission control system. It will replace older generating units due to retire at Lamma Power Station and help meet the stringent emission requirements set by the Government.

Set out below are selected operating statistics of the Guarantor for each of the five years ended 31 December 2015:

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Installed Capacity (MW)					
Gas Turbines and Standby Units	555	555	555	555	555
Coal-fired Units	2,500	2,500	2,500	2,500	2,500
Gas-fired Combined Cycle Unit	680	680	680	680	680
Wind Turbine and photovoltaic system	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>1</u>
Total Installed Capacity (MW)	<u>3,737</u>	<u>3,737</u>	<u>3,737</u>	<u>3,737</u>	<u>3,736</u>
System Maximum Demand (MW)	2,427	2,460	2,453	2,494	2,498
Annual (Decrease)/Increase (%)	(1.3)	0.3	(1.6)	(0.2)	(0.5)
Thermal Efficiency (%)	36.2	36.1	36.3	36.0	36.2
Plant Availability (%)	85.5	88.4	85.7	84.6	84.4
Number of Switching Stations	24	24	24	25	25
Number of Zone Substations	27	27	27	27	27
Number of Consumer Substations	3,818	3,793	3,776	3,755	3,741

The transmission and distribution ("**T&D**") system of the Guarantor consists of about 6,200 km of transmission lines and distribution lines used for distributing electrical power to customers on Hong Kong Island and Lamma Island. The transmission network mainly comprises 275kV and 132kV underground and submarine cables. At present, only a few 132kV overhead lines remain in the system. The use of underground cables enhances supply reliability even in inclement weather and is ideal for a densely populated area such as Hong Kong.

The functioning and monitoring of the T&D networks, including 24 switching stations, 27 zone-substations and 3,818 consumer substations, are controlled by the Guarantor's computerised System Control Centre at Ap Lei Chau. The supply reliability rating attained in 2015 was better than 99.999 per cent.

To serve future needs and enhance reliability, the Guarantor will expand the transmission system and phase out the 132 kV overhead lines. In 2014, the Guarantor installed and commissioned two new transformers at Heung Yip Road Substation, together with the associated cable circuits from the Wong Chuk Hang 132 kV Switching Station, to meet the new electricity demand of the Mass Transit Railway South Island Line. One of the two aging transformers at Admiralty Substation supplying the existing Mass Transit Railway Island Line was replaced in 2015 and the second was also replaced in June 2016 to enhance supply reliability. The Mass Transit Railway Corporation's proposed Shatin-to-Central Link will extend its East Rail Line across Victoria Harbour to Wan Chai North and Admiralty. To supply power for this project, the Guarantor will install two 132/25 kV single-phase transformers fed by two 132kV single-phased cable circuits from the Marsh Road 132kV Switching Station. Design and trenching work are under way for the supply to go live in March 2020.

Fuel Supply

The primary fuel sources of Lamma Power Station are coal and natural gas. During 2015, over 3 million metric tonnes of coal were purchased. The Guarantor's coal supplies are sourced from Australia, Indonesia and Russia. All of the coal purchased by the Guarantor is paid for in U.S. dollars. There has been no significant interruption in coal supplies over the past five years.

In addition to a 335 MW gas-fired combined cycle unit (L9) which was commissioned in 2006, in January 2010, an in-service oil-fired combined cycle unit (GT57) was converted into a gas-fired combined cycle unit to burn natural gas. The natural gas is supplied from Western Australia and Qatar in liquefied form and re-gasified at a liquefied natural gas terminal in Shenzhen. A submarine pipeline owned by the Guarantor is used to transport the natural gas from the terminal in Shenzhen to Lamma Power Station. The natural gas is supplied under long-term take-or-pay gas sale contracts.

CUSTOMERS AND SALES

The Guarantor currently has approximately 572,000 registered customers comprising approximately 460,000 residential, 107,000 commercial and 5,000 industrial customers. For the year ended 31 December 2015, the Guarantor recorded a total of 10,879 million kWh unit sales, with commercial sales accounting for approximately 73.6 per cent. and residential sales accounting for approximately 23.4 per cent. of the Guarantor's total sales. The following table sets out the units sold and the average net tariff of different categories of customer for the five years ended 31 December 2015:

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Units Sold (Millions of kWh)					
Commercial	8,012	8,015	8,011	8,164	8,081
Residential	2,541	2,610	2,437	2,541	2,482
Industrial	<u>326</u>	<u>330</u>	<u>325</u>	<u>331</u>	<u>334</u>
Total (Millions of kWh)	<u>10,879</u>	<u>10,955</u>	<u>10,773</u>	<u>11,036</u>	<u>10,897</u>
Annual (Decrease)/Increase (%)	(0.7)	1.7	(2.4)	1.3	(0.3)
Average Net Tariff (Cents per kWh)					
Basic Tariff	102.6	101.9	94.4	93.9	93.0
Fuel Clause Charge	32.3	33.1	40.2	37.0	30.2
Rate Reduction Rebate ¹	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(0.1)</u>
Net Tariff (Cents per kWh)	<u>134.9</u>	<u>135.0</u>	<u>134.6</u>	<u>130.9</u>	<u>123.1</u>

¹ Rate Reduction Rebate in 2011 was only applicable from January 2011 to May 2011.

As a customer-focused and service-oriented company, the Guarantor strives to provide quality services to customers. These include the setting up of a Customer Liaison Group in 1992 as a channel for the exchange of views between itself and its customers, the provision of concessionary tariff schemes for the elderly and the under-privileged, large-font bills and booklets as well as a mini-website “Web for the Elderly” for senior citizens, the provision of Braille bills and brochures as well as a voice-assisted e-bill service, and a text-based homepage for the visually-impaired, SMS enquiry service and sign language communication for the hearing-impaired, and the publication of services pamphlets in eight minority languages. In order to facilitate the settlement of customer bills, the Guarantor offers a variety of payment methods including autopay, payment by various electronic means, via Cheque Deposit Machines at designated banks, by mail and in person at its Customer Centre or any Hong Kong Post Office or The Bank of East Asia, Limited or any 7-Eleven or Circle K or VanGO convenience stores or CRVanguard superstores/shops. The Guarantor recognises the importance of using advanced internet technology to connect with its customers and since October 1999, customers have been able to review account information and opt for monthly electronic bills via the internet through the Guarantor’s Account-On-Line. The Guarantor also features on its website the interactive energy surveys “Electricity@Home” and “Electricity@Office”, to help residential and commercial customers devise energy-saving plans by estimating their monthly and annual electricity charges. In 2015, the Guarantor revamped its website to further enhance its online engagement with customers. To date, the Guarantor has published a total of 18 service standards which cover core customer service activities, and has obtained nine ISO 9001 certifications for customer-related services and major business processes which reflect its dedication to providing quality service.

Over the past few years, the Guarantor has won various customer relationship excellence awards, including the following:

- “*Public Service of the Year (Public Utility)*” Award for 2014 and 2015, which was awarded by the Asia Pacific Customer Service Consortium. The Guarantor has received this award for eight consecutive years since 2008;
- “*Mystery Caller Assessment Award — Gold*” Award for 2014 and 2015, which was awarded by the Hong Kong Call Centre Association. The Guarantor has received this award for five consecutive years since 2011;
- “*Service Retailers of the Year — Retail (Services) Category*” Award for 2014 and 2015, which was awarded by the Hong Kong Retail Management Association. The Guarantor has received this award for five consecutive years since 2011;
- “*Service Retailers of the Year — Grand Award*” for 2013 and 2015, which was awarded by the Hong Kong Retail Management Association;
- “*Best Practice Award in the Customer Experience Management Category*” for 2014, which was awarded by the Best Practice Management Group;
- “*The Best SME’s Partner*” Award for 2014 and 2015, which was awarded by the Hong Kong General Chamber of Small and Medium Business. The Guarantor has received this award for five consecutive years since 2011; and
- “*Hong Kong Star Brands Award (Enterprise)*” for 2014 and 2015, which was awarded by the Hong Kong Small and Medium Enterprises Association, Hong Kong Trade Development Council and Hong Kong Productivity Council. The Guarantor has received this award for three consecutive years since 2013.

COMPETITION AND REGULATORY ENVIRONMENT

Although the current Scheme of Control does not define a licensed area for the Guarantor’s operations, in practice, the Guarantor is the only supplier of electricity to customers on Hong Kong Island and Lamma Island. The other major generator and supplier of electricity in Hong Kong, CLP Power Hong Kong Limited, provides electricity to customers in Kowloon, the New Territories, Lantau and other outlying islands.

CAPITAL EXPENDITURE AND FINANCIAL RESOURCES

The Guarantor invested HK\$2,516 million and HK\$2,252 million in 2015 and 2014, respectively, in fixed assets, primarily in the upgrading of its generation and transmission and distribution equipment. The Guarantor continues to finance its capital expansion programme from internal cash flow and, to the extent required, external borrowings from banks and debt capital markets.

As at 31 December 2015, the Guarantor had outstanding borrowings of HK\$41,505 million, comprising unsecured external borrowings of HK\$38,546 million and intra-group loans of HK\$2,959 million.

Over 99 per cent. of the Guarantor's external borrowings as at 31 December 2015 were denominated or effectively hedged in Hong Kong dollars. The Guarantor maintains a prudent policy towards the use of derivative instruments and transactions are only entered into for hedging purposes.

EMPLOYEES

The Guarantor adopts a longstanding policy of maintaining an efficient and lean workforce while reviewing its manpower requirements and improving employee productivity. Over the past few years, the headcount continued to fall by natural attrition as productivity gains were realised and work practices streamlined. As at 31 December 2015, the Guarantor had a total of 1,801 permanent employees (2014: 1,814 permanent employees).

The Guarantor has not over the last ten years experienced any strikes, work stoppages, labour disputes or actions which have materially affected its operations.

INSURANCE

The Guarantor maintains a comprehensive insurance programme. The insurance policies are tailor-made to provide a wide scope of coverage and the risks are shared by a number of leading underwriters. The levels of coverage are assessed relative to the risk exposure. On 1 October 2012, one of the Guarantor's vessels was involved in a serious collision accident. In light of the loss of life and injuries as a result of the collision, claims have been made and legal proceedings have been commenced against it. As at 5 July 2016, the total amount of liabilities against the Guarantor is not quantifiable. However, the Guarantor has insurance policies taken out for the vessels, its employees and other passengers, which the Guarantor believes will provide sufficient insurance coverage for such liabilities. Other than this, there have been no major insurance claims made by the Guarantor under such policies over the past ten years. The insurance programme is reviewed by management to cater for any expansion or development of the Guarantor.

ENVIRONMENTAL INITIATIVES

As a major utility company in Hong Kong, the Guarantor recognises its responsibility to preserve the environment of Hong Kong.

Public Awareness

Over the years the Guarantor has sponsored and participated in various environmental projects including major clean-up events, green walkathons and tree planting activities. Since 2010, the Guarantor has launched an e-bill promotion campaign every year to encourage more customers to reduce paper consumption by switching to e-bills. In 2011, the Guarantor not only set up a Smart Power Centre showcasing various energy conservation measures to promote the smart and safe use of electricity to the public, but also launched an iPhone App, "HK Electric Low Carbon App", to promote a low carbon lifestyle. In 2013, an Android version of the HK Electric Low Carbon App was introduced. The Guarantor has also launched the Smart Power Campaign to promote energy efficiency and conservation among school students.

Electric Vehicles

The Guarantor actively promotes the use of electric vehicle (“*EV*”) for combatting roadside air pollution. As of 31 December 2015, its EV fleet comprised of about 100 vehicles including private cars, 16-seater light buses, mini-pickup trucks, mini-goods vans and a scooter for operational use on Hong Kong Island and at Lamma Power Station. In addition to expanding the EV charging infrastructure on Hong Kong Island, the Guarantor has strengthened its support for EV through launching a special advisory service to facilitate the setting up of EV charging facilities at both residential and commercial buildings. As of 31 December 2015, the Guarantor operates six EV standard charging stations and four EV quick charging stations at various locations on Hong Kong Island. These charging stations have been made free for public use.

Renewable Energy

The Guarantor added Lamma Winds, Hong Kong’s first commercial scale wind turbine of 800 kW, to its generating capacity in 2006. An exhibition centre with renewable energy exhibits has been built adjacent to the wind turbine to enable the public to learn about wind power and its benefits. To celebrate the commissioning of Lamma Winds, the Guarantor established a Clean Energy Fund in 2006 to promote better understanding and to encourage the application of renewable energy in the education sector in Hong Kong.

In July 2010, the Guarantor installed a 550kW thin photovoltaic system on the roofs of the main station buildings at the Lamma Power Station. The system has further been expanded to 1 MW by March 2013. It is currently the largest solar power system in Hong Kong.

With a total of 1,841 MWh generated in 2015, the Guarantor’s renewable energy initiatives have reduced 1,530 tons of carbon dioxide emission or equivalent to planting 66,000 trees.

To further expand its renewable energy generating capacity, in February 2010 the Guarantor submitted a proposal to the Government for the development of an offshore wind farm in the Southwest Lamma Channel. In May 2010, the Government approved the environmental impact assessment report for the proposed offshore wind farm and an environmental permit for the project was issued in June 2010.

Full year wind measurements for the proposed offshore wind farm were completed in February 2013 and a project feasibility study was submitted in April 2013 to the Government for approval. Results from the wind measurements have indicated better-than-expected power generation capacity. Subject to the Government’s approval, the Guarantor plans to conduct a further study to investigate the soil conditions at the proposed site and to ascertain the seabed conditions to facilitate the conceptual design of the wind turbine foundation.

The proposed offshore wind farm is currently intended to be located at an approximately 600-hectare site featuring up to 33 wind turbines, each with a generation capacity of up to approximately 3.0 MW to 3.6 MW. It is expected that the offshore wind farm will have a total generating capacity of up to approximately 100 MW and an annual production of up to approximately 175 million kWh of electricity, which will represent approximately 1% to 2% of the Guarantor’s annual electricity output, and is capable of meeting electricity demand of approximately 50,000 households on Hong Kong Island. The operation of the proposed offshore wind farm is expected to save approximately 62,000 tonnes of coal from being used and avoid approximately 150,000 tonnes of carbon dioxide emissions each year. The Government has not yet deliberated on whether to approve the proposed wind farm.

Emission Control

To support the Government’s air quality improvement policy for the Pearl Delta Region, the Guarantor has installed flue gas desulphurisation (“*FGD*”) plants for six coal-fired generating units and low nitrogen oxide burners for five coal-fired generating units. Currently, over 95 per cent. of the electricity output at Lamma Power Station is generated by gas-fired units and coal-fired units fitted with FGD and/or low nitrogen oxide burners. Continuing its efforts to improve air quality, the

Guarantor converted the start-up and shutdown fuel systems of six coal-fired generating units from heavy fuel oil to ultra-low sulphur diesel. As a result, all coal-fired units at Lamma Power Station currently use ultra-low sulphur diesel for start-up and shutdown. The heavy fuel oil storage tanks at Lamma Power Station were also converted to store ultra-low sulphur diesel in 2013.

In 2015, emission levels of sulphur dioxide, nitrogen oxides and respirable suspended particulates remained below mandatory levels. Carbon dioxide emission was comparable to that of 2014.

The Guarantor strives to constantly improve its emission performance through agreeing to more stringent environmental targets as contained in the 5th Technical Memorandum issued under the Air Pollution Control Ordinance, which will come into force from 2020 onwards.

Recycling

A significant percentage of Lamma Power Station's solid wastes is recycled and used as raw materials in the construction industry. The processes by which water is collected, used, reused and discharged at the Lamma Power Station is monitored so that the minimum quantity of water is used in the generation process and so that discharged water will not have an adverse impact on the environment. An Environment Management System has been implemented at Lamma Power Station. Noise levels at the Lamma Power Station and throughout the transmission and distribution system are monitored to ensure that they are within prescribed statutory limits.

2016 TARIFF

In order to pass on the benefits of low international fuel prices to customers, the Guarantor has reduced net tariffs across the board by an average of 1.1% in 2016. This goes one step beyond its December 2013 commitment to keep tariffs unchanged till the end of 2018, based on which it had frozen tariffs for the past two years.

FUTURE FUEL MIX CONSULTATION

In March 2014, the Government launched a three-month public consultation on the Future Fuel Mix for Electricity Generation for Hong Kong in order to replace local generating units to be retired, to meet projected demand for electricity and to meet environmental targets for improving air quality and for combating climate change. In its consultation paper, the Government provided two options for achieving its goals — option 1 provides for additional import of electricity from China through the purchase of electricity from the China Southern Grid, while option 2 provides for the increased use of natural gas for local generation. The Guarantor is of the view that option 2 is the right option taking into account reliability, affordability and environmental performance. The public consultation ended on 18 June 2014. In March 2015, the Government announced that amongst the 86,000 responses received, the majority of the respondents preferred option 2, that is local generation. Having considered the public's views, the Government plans to increase the percentage of natural gas generation to around 50 per cent. by 2020.

PUBLIC CONSULTATION ON THE FUTURE DEVELOPMENT OF THE ELECTRICITY MARKET

On 31 March 2015, the Government launched a three-month public consultation on the Future Development of the Electricity Market noting that the current Scheme of Control Agreements will expire in 2018 and that Hong Kong needs to consider how to further develop the electricity market having regard to the four energy policy objectives of safety, reliability, affordability and environmental protection, as well as to introduce competition when the requisite market conditions are present. The Guarantor is of the view that the current Scheme of Control has served Hong Kong well and that all the four energy policy objectives have been achieved. In November 2015, the Government

announced that it had received a total of 15,762 submissions to its public consultation on the future development of the electricity market in Hong Kong. The Guarantor is encouraged by the following findings:

- (a) almost all respondents considered that the current contractual arrangement by Scheme of Control Agreements had generally worked well and allowed the Government to achieve its energy policy objectives of safety, reliability, affordability and environmental protection;
- (b) the majority of the respondents considered that currently the power supply in Hong Kong was reliable and safe at an affordable price, and they did not see a need for introducing competition for the sake of bringing in choices;
- (c) the majority of the respondents agreed that the duration of the future contractual arrangement should be maintained at ten years, with an option exercisable by the government to extend for five more years; and
- (d) more than half of the submissions supported maintaining the Rate of Return at the current level of 9.99% to provide the necessary incentive to the power companies to make investment.

The Government's paper to the Legislative Council Panel in Economic Development can be found at: <http://www.legco.gov.hk/yr15-16/english/panels/e/dev/papers/e/dev20151123cb4-217-3-e.pdf>

MANAGEMENT

The Directors and Alternate Directors of the Guarantor as at 5 July 2016 were as follows:

Directors

FOK Kin Ning, Canning, *Chairman*, appointed to the Board in 1985. Mr. Fok was also appointed to the Boards of HK Electric Investments Manager Limited ("*Trustee-Manager*"), the trustee-manager of HK Electric Investments, and HK Electric Investments Limited ("*HKEIL*"), and as the Chairman of the Boards since December 2013. He is the Chairman of Power Assets. Mr. Fok has been a Non-executive Director of CK Hutchison Holdings Limited ("*CKH Holdings*") since January 2015 and has been re-designated as an Executive Director and Group Co-Managing Director of CKH Holdings since June 2015. He is also a Director of Cheung Kong (Holdings) Limited ("*Cheung Kong*") and Hutchison Whampoa Limited ("*HWL*"), and the Deputy Chairman of Cheung Kong Infrastructure Holdings Limited ("*CKI*"). Mr. Fok is the Chairman of Hutchison Telecommunications (Australia) Limited ("*HTAL*"), Hutchison Telecommunications Hong Kong Holdings Limited ("*HTHKH*") and Hutchison Port Holdings Management Pte. Limited ("*HPHMPL*") which is the trustee-manager of Hutchison Port Holdings Trust ("*HPH Trust*"), and the Co-Chairman of Husky Energy Inc. ("*Husky Energy*"). Mr. Fok is also an Alternate Director of HTHKH. Mr. Fok holds a Bachelor of Arts degree and a Diploma in Financial Management, and is a Fellow of Chartered Accountants Australia and New Zealand.

WAN Chi Tin, *Managing Director*, appointed to the Board in 2005. Mr. Wan was also appointed to the Boards of the Trustee-Manager and HKEIL since their incorporation in September 2013 and as Chief Executive Officer of HKEIL since December 2013. Mr. Wan is also a Director of all the subsidiaries of HKEIL. He is an Executive Director of Power Assets and has worked for the Power Assets Group and the Group since 1978, holding various positions including Group Managing Director and Director of Engineering (Planning & Development) of Power Assets, and Chief Executive Officer of Powercor Australia Limited and CitiPower Pty., associate companies of the Power Assets Group in Australia. Mr. Wan holds a Bachelor of Science degree in Electrical Engineering and is also a Chartered Engineer. He is an Honorary Fellow of the Energy Institute, a Fellow of the Institution of Engineering and Technology and a Fellow of the Hong Kong Institution of Engineers. He is a member of the Engineers Registration Board of Hong Kong and a member of the Audit Committee of The University of Hong Kong.

Fahad Hamad A H AL-MOHANNADI, appointed to the Board in June 2015. Mr. Al-Mohannadi was also appointed to the Boards of the Trustee-Manager and HKEIL in June 2015. Mr. Al-Mohannadi is the Managing Director, General Manager and a board member of Qatar Electricity & Water Co. (“*QEW*”), which is listed on the Qatar Stock Exchange. He has worked for QEW since 1992 and, prior to joining QEW, he worked at the Qatar Ministry of Electricity and Water. Mr. Al-Mohannadi is the Chairman of Board of Directors of each of Qatar Power Company, Ras Laffan Power Company, Nebras Power Q.S.C. and Umm Al Houl Power Co., and is also a board member of Qatar Science & Technology Park. He holds a Bachelor’s degree in Mechanical Engineering.

Ronald Joseph ARCULLI, appointed to the Board in 1997. Mr. Arculli was also appointed to the Boards of the Trustee-Manager and HKEIL in December 2013. Mr. Arculli is a practising solicitor and was a Member of the Legislative Council of Hong Kong from 1988 to 2000, representing the Real Estate and Construction functional constituency between 1991 and 2000. He was a non-official member of the Executive Council of the Hong Kong Special Administrative Region (“*HKSAR*”) from November 2005 to June 2012, and served as Convenor from October 2011 to June 2012. He has a distinguished record of public service and has served on numerous government committees and advisory bodies. Mr. Arculli is an Independent Non-executive Director of Hang Lung Properties Limited, and is a Non-executive Director of HKR International Limited, Sino Hotels (Holdings) Limited, Sino Land Company Limited and Tsim Sha Tsui Properties Limited. He was previously an Independent Non-executive Director of Hong Kong Exchanges and Clearing Limited and SCMP Group Limited, and a Non-executive Director of Power Assets.

CHAN Loi Shun, appointed to the Board in 2012. Mr. Chan was also appointed to the Boards of the Trustee-Manager and HKEIL since their incorporation in September 2013. Mr. Chan is also a Director of all the subsidiaries of HKEIL. He is an Executive Director and Chief Financial Officer of CKI and an Executive Director of Power Assets. Mr. Chan joined HWL in January 1992 and has been with the Cheung Kong Group since May 1994. Mr. Chan is a fellow of the Hong Kong Institute of Certified Public Accountants (“*HKICPA*”) and the Association of Chartered Certified Accountants, and is also a member of the Institute of Certified Management Accountants (Australia).

CHENG Cho Ying, Francis, appointed to the Board in January 2014. Mr. Cheng was appointed to the Boards of the Trustee-Manager and HKEIL in December 2013. He is also General Manager (Generation) of the Guarantor. Mr. Cheng joined the Group in 1979 and had worked in the Technical Services, Operations and Maintenance Departments of the Generation Division of the Guarantor. He holds a Bachelor’s degree in Chemistry and is a Fellow of the Royal Society of Chemistry in the United Kingdom. He is also a member of the Hong Kong Institution of Engineers.

DU Zhigang, appointed to the Board in January 2015. Mr. Du was also appointed to the Boards of the Trustee-Manager and HKEIL in January 2015. He is the Vice President of State Grid Corporation of China (“*State Grid*”), Chairman of National Grid Corporation of the Philippines and Chairman of SGSP (Australia) Assets Pty Ltd. Mr. Du oversees State Grid’s overseas business. He previously held the positions of Chairman of State Grid International Development Limited, Chief Economist, Director General of Department of Development and Planning and Director General of International Cooperation Department of State Grid, and Deputy Chief Engineer, Chief Engineer and Vice President of Shandong Electric Power Company. Mr. Du holds a PhD Degree in Power System and Automation from Shandong University, and is Senior Member of The Institute of Electrical and Electronics Engineers of the United States.

FONG Chi Wai, Alex, appointed to the Board in 2012. Mr. Fong was also appointed to the Boards of the Trustee-Manager and HKEIL in December 2013. Mr. Fong was CEO of the Hong Kong General Chamber of Commerce (“*Chamber*”) from 2006 to 2011. Prior to joining the Chamber, he served in the civil service for over 25 years, holding various senior positions in the Government of Hong Kong. Mr. Fong has a long record of public service providing both operational and policy-formulation expertise. He was previously an Independent Non-executive Director of Power Assets. Mr. Fong holds a Bachelor of Social Science degree in Business and Economics, a Master of Technology Management degree in Global Logistics Management and a Master of Science degree in Global Finance.

JIANG Xiaojun, appointed to the Board in January 2015. Mr. Jiang was also appointed to the Boards of the Trustee-Manager and HKEIL in January 2015. He is the Senior-Vice President of State Grid International Development Co., Limited since 2008 and a Board Director of ElectraNet in South Australia since 2012. Mr. Jiang has almost 30 years of experience within the operation and corporate management of China power companies. Since 2000, Mr. Jiang has worked for State Power Corporation of China and subsidiaries of State Grid in charge of operation and corporate management and overseas asset acquisition and operation. Mr. Jiang holds an MBA degree from Shanghai University of Finance and Economics, and a Doctoral Degree in Business Management from Sun Yat-sen University.

Deven Arvind KARNIK, appointed to the Board in June 2015. Mr. Karnik was also appointed to the Boards of the Trustee-Manager and HKEIL in June 2015. Mr. Karnik is the Head of Infrastructure at Qatar Investment Authority (“*QIA*”). Prior to joining QIA in 2013, Mr. Karnik worked for about 7 years in Hong Kong where he was a Managing Director at Morgan Stanley and a Managing Director at Dresdner Kleinwort. Mr. Karnik also serves as an alternative director of Heathrow Airport Holdings Limited. Mr. Karnik holds a Bachelor of Commerce degree and is a member of the Institute of Chartered Accountants in England and Wales.

KWAN Kai Cheong, appointed to the Board in January 2015. Mr. Kwan was also appointed to the Boards of the Trustee-Manager and HKEIL in January 2015. He is President of Morrison & Company Limited, a business consultancy firm. Mr. Kwan worked for Merrill Lynch & Co., Inc. for over 10 years during the period from 1982 to 1993, with his last position as President for its Asia Pacific region. He was formerly Joint Managing Director of Pacific Concord Holding Limited. Mr. Kwan is an Independent Non-executive Director of Greenland Hong Kong Holdings Limited, Henderson Sunlight Asset Management Limited (as manager of Sunlight Real Estate Investment Trust), United Photovoltaics Group Limited, Win Hanverky Holdings Limited, Dynagreen Environmental Protection Group Co., Ltd. and CK Life Sciences Int’l., (Holdings) Inc. (“*CK Life Sciences*”) and a Non-executive Director of China Properties Group Limited, all being listed companies (except Sunlight Real Estate Investment Trust being a listed real estate investment trust). He was previously an Independent Non-executive Director of Galaxy Resources Limited. Mr. Kwan holds a Bachelor of Accountancy (Honours) degree and is a fellow of the HKICPA, The Institute of Chartered Accountants in Australia and The Hong Kong Institute of Directors Limited. He completed the Stanford Executive Program in 1992.

LEE Lan Yee, Francis, appointed to the Board in 1997. Mr. Lee was also appointed to the Boards of the Trustee-Manager and HKEIL in December 2013. Mr. Lee was previously an Independent Non-executive Director of Power Assets. He had served the Power Assets Group for over 40 years in various capacities and while being Director & General Manager (Engineering) from 1997 to 2008, Mr. Lee was responsible for all the engineering activities of the Power Assets Group, including the development and operation of power generation, transmission and distribution systems. He holds a Bachelor of Science degree and a Master of Science degree in Engineering. He is a Chartered Engineer and a Fellow of the Institute of Mechanical Engineers in Hong Kong and the United Kingdom.

LI Tzar Kuoi, Victor, appointed to the Board in November 2014. Mr. Li was also appointed to the Boards of the Trustee-Manager and HKEIL, and as Deputy Chairman of HKEIL in November 2014. Mr. Li is a Non-executive Director of Power Assets. He has been a Director of CKH Holdings since December 2014, and has been designated as an Executive Director, Managing Director and Deputy Chairman of CKH Holdings since January 2015 and re-designated as an Executive Director, Group Co-Managing Director and Deputy Chairman of CKH Holdings since June 2015. Mr. Li has been a Director of Cheung Kong Property Holdings Limited (“*CK Property*”) since January 2015 and has been designated as an Executive Director, Managing Director and Deputy Chairman of CK Property since February 2015. He has been the Chairman of the Executive Committee of CK Property since June 2015. He is also a Director of Cheung Kong and HWL. He is the Chairman of CKI and CK Life Sciences and the Co-Chairman of Husky Energy. He is also the Deputy Chairman of Li Ka Shing Foundation Limited, Li Ka Shing (Overseas) Foundation and Li Ka Shing (Canada) Foundation, and a Director of The Hongkong and Shanghai Banking Corporation Limited. Mr. Li serves as a member of the Standing Committee of the 12th National People’s Congress of the Chinese People’s Political Consultative Conference of the People’s Republic of China. He is a member of the Commission on

Strategic Development of the HKSAR and Vice Chairman of the Chamber. Mr. Li is also the Honorary Consul of Barbados in Hong Kong. He holds a Bachelor of Science degree in Civil Engineering, a Master of Science degree in Civil Engineering and an honorary degree, Doctor of Laws, honoris causa (LL.D.).

George Colin MAGNUS, appointed to the Board in 1985. Mr. Magnus was also appointed to the Boards of the Trustee-Manager and HKEIL in December 2013. He was previously the Chairman of Power Assets from 1993 to 2005, a Non-executive Director from 2005 to 2012 and an Independent Non-executive Director until January 2014. He has been a Non-executive Director of CKH Holdings since January 2015. He is also a Non-executive Director of CKI having served previously as Deputy Chairman of the company. He was previously Deputy Chairman and then a Non-executive Director of Cheung Kong and HWL. Mr. Magnus is also a Director of Husky Energy. He holds a Master's degree in Economics.

Donald Jeffrey ROBERTS, appointed to the Board in January 2014. Mr. Roberts was appointed to the Boards of the Trustee-Manager and HKEIL in December 2013. Mr. Roberts joined the HWL Group in 1988 and was the Group Deputy Chief Financial Officer of HWL from 2000 until his retirement in 2011. Mr. Roberts is a Member of the Listing Committee of the Main Board and Growth Enterprise Market of the Stock Exchange. Mr. Roberts holds a Bachelor of Commerce degree. He is a Chartered Accountant with the Chartered Professional Accountants of Canada, Chartered Professional Accountants of Alberta and British Columbia, and also a fellow of the HKICPA.

SHAN Shewu, appointed to the Board in January 2015. Mr. Shan was appointed to the Boards of the Trustee-Manager and HKEIL in January 2015. Mr. Shan is also the Co-General Manager (Transmission & Distribution) of the Guarantor. He has around 25 years of experience in electrical technology development and management. Since 2008, Mr. Shan began involved in international operations of overseas power companies of State Grid and was arranged to act as Assistant Chief Technical Officer, Board Director and Chief Executive Adviser of National Grid Corporation of the Philippines, Deputy Director General of State Grid Representative Office in the Philippines, as well as Chief Technical Officer and Vice Chairman of the Strategic Partnership Committee in Redes Energéticas Nacionais, SGPS, S.A., the national electric and gas grid corporation of Portugal. He is also involved in the management of State Grid International Development Co., Limited. Mr. Shan holds a Bachelor and a Master Degree in Electrical Engineering from Xi'an Jiaotong University.

Ralph Raymond SHEA, appointed to the Board in October 2015. Mr. Shea was also appointed to the Boards of the Trustee-Manager and HKEIL in October 2015. Mr. Shea is an Independent Non-executive Director of Power Assets. He is a solicitor of England and Wales and of Hong Kong.

YUEN Sui See, appointed to the Board in 2008. Mr. Yuen was also appointed to the Boards of the Trustee-Manager and HKEIL in December 2013. He was previously an Executive Director of Power Assets. Mr. Yuen joined the Group in 1986, holding various positions including General Manager (Transmission & Distribution) and Director of Operations. Mr. Yuen has over 30 years of experience in the electricity industry. He holds a Bachelor of Science degree and a Master of Science degree in Engineering. He is a Chartered Engineer in the United Kingdom, a Registered Professional Engineer in Hong Kong and a Fellow of the Hong Kong Institution of Engineers.

Alternate Directors

CHOW WOO Mo Fong, Susan, appointed Alternate Director to Mr. Fok Kin Ning, Canning, the Chairman in 1993. Mrs. Chow was also appointed Alternate Director to Mr. Fok Kin Ning, Canning, the Chairman of the Trustee-Manager and HKEIL, in November 2014. Mrs. Chow has been appointed as an Executive Director and Group Deputy Managing Director of CKH Holdings since June 2015. She is a Director of HWL, an Executive Director and an Alternate Director of CKI, a Non-executive Director of HTHKH, and a Director and an Alternate Director of HTAL. Mrs. Chow is also an Alternate Director of TOM Group Limited ("**TOM**"). Mrs. Chow is a qualified solicitor and holds a Bachelor's degree in Business Administration.

Frank John SIXT, appointed Alternate Director to Mr. Li Tzar Kuoi, Victor in June 2015. Mr. Sixt was also appointed Alternate Director to Mr. Li Tzar Kuoi, Victor, the Deputy Chairman of HKEIL and Non-executive Director of the Trustee-Manager and HKEIL, in June 2015. Mr. Sixt is a Non-executive Director of Power Assets. He has been a Non-executive Director of CKH Holdings since January 2015 and has been re-designated as an Executive Director, Group Finance Director and Deputy Managing Director of CKH Holdings since June 2015. Mr. Sixt has been a Director of Cheung Kong and HWL since 1991. Mr. Sixt is the Non-executive Chairman of TOM and an Executive Director of CKI. He is also a Non-executive Director of HTHKH and HPHMPL which is the trustee-manager of HPH Trust, a Director of HTAL and Husky Energy, and an Alternate Director of HTAL. Mr. Sixt holds a Master's degree in Arts and a Bachelor's degree in Civil Law, and is a member of the Bar and of the Law Society of the Provinces of Québec and Ontario, Canada.

BOOK-ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear, Clearstream, Luxembourg or the CMU Service (together, the “Clearing Systems”) currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer and the Guarantor believe to be reliable, but neither the Issuer, the Guarantor nor any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. Neither the Issuer, the Guarantor nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to, or payments made on account of, such beneficial ownership interests.

Book-entry Systems

DTC

DTC has advised the Issuer that it is a limited purpose trust company organised under the New York Banking Law, a “banking organisation” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its participants (“**Participants**”) deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerised book-entry changes in Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants, as the term is used herein, includes securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“**DTCC**”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“**Indirect Participants**”).

Under the rules, regulations and procedures creating and affecting DTC and its operations (the “**Rules**”), DTC makes book-entry transfers of Registered Notes among Direct Participants on whose behalf it acts with respect to Notes accepted into DTC’s book-entry settlement system (“**DTC Notes**”) as described below and receives and transmits distributions of principal and interest on DTC Notes. The Rules are on file with the Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Notes (“**Owners**”) have accounts with respect to the DTC Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Notes through Direct Participants or Indirect Participants will not possess Registered Notes, the Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest(s) in respect of the DTC Notes.

Purchases of DTC Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Notes on DTC’s records. The ownership interest of each actual purchaser of each DTC Note (“**Beneficial Owner**”) is in turn to be recorded on the Direct and Indirect Participant’s records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in

the DTC Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Notes, except in the event that use of the book-entry system for the DTC Notes is discontinued.

To facilitate subsequent transfers, all DTC Notes deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of DTC Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the DTC Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to DTC Note unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the DTC Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

Under certain circumstances, including if there is an Event of Default under the Notes, DTC will exchange the DTC Notes for definitive Registered Notes, which it will distribute to its Participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Note, will be legended as set forth under "*Subscription and Sale and Transfer and Selling Restrictions*".

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Owner desiring to pledge DTC Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Notes, will be required to withdraw its Registered Notes from DTC as described below.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

All payments in respect of Registered Global Notes held with Euroclear and Clearstream, Luxembourg will be made to, or to the order of, the person whose name is entered in the Register at the close of business on the Clearing System Business Day immediately prior to the date of payment, where “*Clearing System Business Day*” means Monday to Friday inclusive except 25 December and 1 January.

CMU

The CMU Service is a central depository service provided by the Central Moneymarkets Unit of the HKMA for the safe custody and electronic trading between the members of this service (“*CMU Members*”) of capital markets instruments (“*CMU Instruments*”) which are specified in the CMU Reference Manual as capable of being held within the CMU Service.

The CMU Service is only available to CMU Instruments issued by a CMU Member or by a person for whom a CMU Member acts as agent for the purposes of lodging instruments issued by such persons. Membership of the services is open to all members of the Hong Kong Capital Markets Association, “authorised institutions” under the Banking Ordinance (Cap. 155) of Hong Kong and other domestic or overseas financial institutions subject to the discretion of the HKMA.

Compared to clearing services provided by Euroclear and Clearstream, Luxembourg, the standard custody and clearing service provided by the CMU Service is limited. In particular (and unlike the European clearing systems), the HKMA does not as part of this service provide any facilities for the dissemination to the relevant CMU Members of payments (of interest or principal) under, or notices pursuant to the notice provisions of, the CMU Instruments. Instead, the HKMA advises the lodging CMU Member (or a designated paying agent) of the identities of the CMU Members to whose accounts payments in respect of the relevant CMU Instruments are credited, whereupon the lodging CMU Member (or the designated paying agent) will make the necessary payments of interest or principal or send notices directly to the relevant CMU Members. Similarly, the HKMA will not obtain certificates of non-U.S. beneficial ownership from CMU Members or provide any such certificates on behalf of CMU Members. The CMU Lodging Agent will collect such certificates from the relevant CMU Members identified from an instrument position report obtained by request from the HKMA for this purpose.

An investor holding an interest in the Notes through an account with either Euroclear or Clearstream, Luxembourg will hold that interest through the respective accounts which Euroclear and Clearstream, Luxembourg each have with the CMU Service.

Book-entry Ownership of and Payments in respect of DTC Notes

The Issuer may apply to DTC in order to have any Tranche of Notes represented by a Registered Global Note accepted in its book-entry settlement system. Upon the issue of any such Registered Global Note, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Registered Global Note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in such a Registered Global Note will be limited to Direct Participants or Indirect Participants, including, in the case of any Regulation S Global Note, the respective depositaries of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in a Registered Global Note accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of principal and interest in respect of a Registered Global Note accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Note. In the case of any payment in a currency other than U.S. dollars, payment will be made to the Exchange Agent on behalf of DTC or its nominee and the Exchange Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Registered Global Note in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable Participants' account.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Participants to beneficial owners of Notes will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the Principal Paying Agent, the Registrar or the Issuer. Payment of principal, premium, if any, and interest, if any, on Notes to DTC is the responsibility of the Issuer.

Transfers of Notes Represented by Registered Global Notes

Transfers of any interests in Notes represented by a Registered Global Note within DTC, Euroclear and Clearstream, Luxembourg and/or the CMU Service will be effected in accordance with the customary rules and operating procedures of the relevant Clearing System.

The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Notes represented by a Registered Global Note to such persons may depend upon the ability to exchange such Notes for Notes in definitive form. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Notes represented by a Registered Global Note accepted by DTC to pledge such Notes to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Notes may depend upon the ability to exchange such Notes for Notes in definitive form. The ability of any holder of Notes represented by a Registered Global Note accepted by DTC to resell, pledge or otherwise transfer such Notes may be impaired if the proposed transferee of such Notes is not eligible to hold such Notes through a direct or indirect participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described under "Subscription and Sale and Transfer and Selling Restrictions", cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders, on the other, will be effected by the relevant Clearing System in accordance with its rules and through action taken by the Registrar, the Principal Paying Agent and any custodian ("*Custodian*") with whom the relevant Registered Global Notes have been deposited.

On or after the Issue Date for any Series, transfers of Notes of such Series between accountholders in Clearstream, Luxembourg and Euroclear and transfers of Notes of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream, Luxembourg or Euroclear and DTC Participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant Registered Global Notes will be effected through the Registrar, the Principal Paying Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC Participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream, Luxembourg, Euroclear and the CMU Service have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among Participants of DTC, the accountholders of Clearstream, Luxembourg and Euroclear and the CMU Accountholders. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Guarantor, the Agents or any Dealer will be responsible for any performance by DTC, Clearstream, Luxembourg, Euroclear or the CMU Service or their respective Direct or Indirect Participants or accountholders (as appropriate) of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

TAXATION

The following is a general description of certain tax considerations relating to the Notes and is based on law and relevant interpretations thereof in effect as at the date of this Offering Circular (which could be made on a retroactive basis), all of which are subject to change, and does not constitute legal or taxation advice. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective holders of Notes who are in any doubt as to their tax position or who may be subject to tax in any jurisdiction are advised to consult their own professional advisers.

Hong Kong

Withholding Tax

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

Profits Tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

- (i) interest on the Notes is derived from Hong Kong and is received by or accrued to a corporation carrying on a trade, profession or business in Hong Kong;
- (ii) interest on the Notes is derived from Hong Kong and is received by or accrued to a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business; or
- (iii) interest on the Notes is received by or accrued to a financial institution (as defined in the Inland Revenue Ordinance (Cap. 112) of Hong Kong) and arises through or from the carrying on by the financial institution of its business in Hong Kong.

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal or redemption of the Notes will be subject to profits tax.

Sums derived from the sale, disposal or redemption of the Notes may be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source. Similarly, such sums in respect of Registered Notes received by or accrued to either the aforementioned person and/or a financial institution will be subject to Hong Kong profits tax if such sums have a Hong Kong source. The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired and disposed.

Stamp Duty

Stamp duty will not be payable on the issue of Bearer Notes provided either:

- (i) such Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or
- (ii) such Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap. 117) of Hong Kong).

If stamp duty is payable it is payable by the Issuer on issue of Bearer Notes at a rate of 3 per cent. of the market value of the Notes at the time of issue.

No stamp duty will be payable on any subsequent transfer of Bearer Notes.

No stamp duty is payable on the issue of Registered Notes. Stamp duty may be payable on any transfer of Registered Notes if the relevant transfer is required to be registered in Hong Kong. Stamp duty will, however, not be payable on any transfers of Registered Notes provided that either:

- (i) the Registered Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or
- (ii) the Registered Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap. 117) of Hong Kong).

If stamp duty is payable in respect of the transfer of Registered Notes it will be payable at the rate of 0.2 per cent. (of which 0.1 per cent. is payable by the seller and 0.1 per cent. is payable by the purchaser) normally by reference to the value of the consideration. If, in the case of either the sale or purchase of such Registered Notes, stamp duty is not paid, both the seller and the purchaser may be liable jointly and severally to pay any unpaid stamp duty and also any penalties for late payment. If stamp duty is not paid on or before the due date (two days after the sale or purchase if effected in Hong Kong or 30 days if effected elsewhere) a penalty of up to 10 times the duty payable may be imposed. In addition, stamp duty is payable at the fixed rate of HK\$5 on each instrument of transfer executed in relation to any transfer of the Registered Notes if the relevant transfer is required to be registered in Hong Kong.

British Virgin Islands

The Issuer is exempt from all obligations to pay income tax in the British Virgin Islands and the payment of principal and interest in respect of the Notes is not subject to taxation in the British Virgin Islands. The Issuer has no liability to British Virgin Islands payroll taxes as it has not employees in the British Virgin Islands and there are no estate, inheritance, succession or gift taxes payable in the British Virgin Islands with respect to the Notes. The Notes are not liable to any stamp duty in the British Virgin Islands.

Compliance with Automatic Exchange of Information Legislation

US Foreign Account Tax Compliance Act

Sections 1471 through 1474 of the US Internal Revenue Code (“**FATCA**”) will impose a withholding tax of 30 per cent on certain US-sourced gross amounts paid to certain “Foreign Financial Institutions”, including the Issuer, unless various information reporting requirements are satisfied. Amounts subject to withholding under these rules generally include gross US-source dividend and interest income, gross proceeds from the sale of property that produces dividend or interest income from sources within the US and certain other payments made by “Participating Foreign Financial Institutions” to “recalcitrant account holders” (so called “foreign pass thru payments”).

The Government of the British Virgin Islands has entered into a Model 1 intergovernmental agreement with the United States (the “**US IGA**”) and implemented domestic legislation to facilitate compliance with FATCA. To comply with its obligations under applicable legislation, the Issuer will be required to report FATCA information to the British Virgin Islands International Tax Authority (the “**BVI ITA**”) which in turn will report relevant information to the United States Internal Revenue Service (“**IRS**”). To avoid withholding under FATCA, the Issuer may request additional information from any Noteholders (that may be disclosed to the BVI ITA and the IRS) to identify whether Notes are held directly or indirectly by “Specified US Persons” (as defined in the US IGA). If the Issuer is not able to comply with reporting requirements under the US IGA (whether due to a failure of one or more Noteholders to provide adequate information or otherwise), the 30 per cent withholding tax under FATCA could apply to the Issuer.

UK requirements regarding tax reporting

The Government of the British Virgin Islands has also signed an intergovernmental agreement with the United Kingdom (the “**UK IGA**”) in a broadly similar form to the US IGA. The UK IGA and the Mutual Legal Assistance (Tax Matters) (No.2) Order, 2015 impose similar requirements to the US IGA, so that the Issuer will be required to identify Notes held directly or indirectly by “Specified United Kingdom Persons” (as defined in the UK IGA) and report information on such Specified United Kingdom Persons to the BVI ITA. The BVI ITA will then exchange such information annually with HM Revenue & Customs, the United Kingdom tax authority.

OECD Common Reporting Standard requirements regarding tax reporting

The OECD has adopted a “Common Reporting Standard” (“**CRS**”), which is intended to become an international standard for financial account reporting. The Government of the British Virgin Islands is a signatory to the multi-lateral competent authority agreement (“**MCAA**”) that will be adopted by all jurisdictions committing to the CRS (each a “**Reportable Jurisdiction**”). Other governments that have signed up to the CRS and the MCAA will implement local legislation and the first exchanges of information under this regime will begin in 2017. Under the Mutual Legal Assistance (Tax Matters) (Amendment) (No.2) Act, 2015, which implements the MCAA in the British Virgin Islands (the “**CRS Amendment Act**”) the Issuer will be required to make an annual filing in respect of Noteholders who are resident in a Reportable Jurisdiction and who are not covered by one of the exemptions in the CRS Amendment Act. The MCAA and reporting obligations under the CRS Amendment Act are very similar to the UK IGA and are expected to replace the UK IGA. A list of Reportable Jurisdictions has been published by the BVI ITA.

Implications for Noteholders

In order to comply with the US IGA, the UK IGA, the MCAA and the relevant domestic legislation (collectively “**AEOI Legislation**”), the Issuer may be required to disclose certain confidential information provided by Noteholders to the BVI ITA, which in turn will report the information to the relevant foreign fiscal authority. In addition, the Issuer may at any time require a Noteholder to provide additional information and/or documentation which the Issuer may be required to disclose to the BVI ITA.

If a Noteholder does not provide the requested information and/or documentation, whether or not that actually leads to compliance failures by the Issuer, or a risk of the Issuer being subject to any withholding tax or other liability or being required to withhold amounts from distributions to be made to any Noteholder, the Issuer may take any action and/or pursue any remedy at its disposal.

Noteholders are encouraged to consult their own advisors regarding the possible application of the AEOI Legislation and the potential impact of the same, on any their investment in the Notes.

The proposed financial transactions tax (“FTT”)

On 14 February 2013, the European Commission published a proposal (the “**Commission’s Proposal**”) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “**participating Member States**”). However, Estonia has since stated that it will not participate.

The Commission’s Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

Under the Commission’s Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, “established” in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

PRC CURRENCY CONTROLS

Renminbi is not a freely convertible currency. The remittance of Renminbi into and out of the PRC is subject to controls imposed under PRC law.

Current Account Items

Under PRC foreign exchange control regulations, current account items refer to any transaction for international receipts and payments involving goods, services, earnings and other frequent transfers.

Since July 2009, the PRC has commenced a pilot scheme pursuant to which Renminbi may be used for settlement of imports and exports of goods between approved pilot enterprises in designated cities in the PRC including Shanghai, Guangzhou, Dongguan, Shenzhen and Zhuhai and enterprises in five designated offshore jurisdictions including Hong Kong and Macau. In June 2010, July 2011 and February 2012 respectively, the PRC government promulgated the Circular on Issues concerning the Expansion of the Scope of the Pilot Programme of Renminbi Settlement of Cross-border Trades, the Circular on Expanding the Regions of Crossborder Trade Renminbi Settlement and the Notice on Matters Relevant to the Administration of Enterprises Engaged in Renminbi Settlement of Export Trade in Goods, and the Circulars with regard to the expansion of designated cities and offshore jurisdictions implementing the pilot Renminbi settlement scheme for cross-border trades. Pursuant to these circulars (i) Renminbi settlement of imports and exports of goods and of services and other current account items became permissible, (ii) the list of designated pilot districts was expanded to cover all provinces and cities in the PRC, (iii) the restriction on designated offshore districts has been uplifted, and (iv) any enterprise qualified for the export and import business is permitted to use Renminbi as settlement currency for exports of goods, provided that the relevant provincial government has submitted to the People's Bank of China ("**PBOC**") and five other PRC authorities (the "**Six Authorities**") a list of key enterprises subject to supervision and the Six Authorities have verified and signed off such list (the "**Supervision List**"). On 12 June 2012, the PBOC issued a notice stating that the Six Authorities had jointly verified and announced a Supervision List and as a result any enterprise qualified for the export and import business is permitted to use Renminbi as settlement currency for exports.

On 5 September 2015, PBOC promulgated the Circular on Further Facilitating the Cross-Border Bi-directional Renminbi Cash Pooling Business by Multinational Enterprise Groups (關於進一步便利跨國企業集團開展跨境雙向人民幣資金池業務的通知) (the "**2015 PBOC Circular**"), which, among others, have lowered the eligibility requirements for multinational enterprise groups and increased the cap for net cash inflow. The 2015 PBOC Circular also provides that enterprises in the China (Shanghai) Free Trade Pilot Zone ("**Shanghai FTZ**") may establish an additional cash pool in the local scheme in the Shanghai FTZ, but each onshore company within the group may only elect to participate in one cash pool.

As new regulations, the circulars will be subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying the circulars and impose conditions for settlement of current account items. Further, if any new PRC regulations are promulgated in the future which have the effect of permitting or restricting (as the case may be) the use of Renminbi for payment of transactions categorised as current account items, then such settlement will need to be made subject to the specific requirements or restrictions set out in such rules.

Capital Account Items

Under PRC foreign exchange control regulations, capital account items include cross-border transfers of capital, direct investments, securities investments, derivative products and loans. Capital account payments are generally subject to approval of the relevant PRC authorities.

Settlements for capital account items are generally required to be made in foreign currencies. For instance, foreign investors (including any Hong Kong investors) are generally required to make any capital contribution to foreign invested enterprises in a foreign currency in accordance with the terms set out in the relevant joint venture contracts and/or articles of association as approved by the relevant

authorities. Foreign invested enterprises or any other relevant PRC parties are also generally required to make capital item payments including proceeds from liquidation, transfer of shares, reduction of capital, interest and principal repayment to foreign investors in a foreign currency. That said, the relevant PRC authorities may approve a foreign entity to make a capital contribution or a shareholder's loan to a foreign invested enterprise with Renminbi lawfully obtained by it outside the PRC and for the foreign invested enterprise to service interest and principal repayment to its foreign investor outside the PRC in Renminbi on a trial basis. The foreign invested enterprise may also be required to complete a registration and verification process with the relevant PRC authorities before such Renminbi remittances.

On 7 April 2011, the State Administration of Foreign Exchange ("**SAFE**") promulgated the "Circular on Issues Concerning the Capital Account Items in connection with Cross-border Renminbi" (the "**SAFE Circular**"), which clarifies that foreign debts borrowed, and foreign guarantee provided, by an onshore entity (including a financial institution) in Renminbi shall, in principle, be regulated under the current PRC foreign debt and foreign guarantee regime.

On 13 October 2011, the PBOC promulgated the "Measures on Administration of the Renminbi Settlement in relation to Foreign Direct Investment" (the "**PBOC RMB FDI Measures**"), pursuant to which, PBOC special approval for foreign direct investment ("**FDI**") and shareholder loans which was required by an earlier circular of PBOC is no longer necessary. The new rules replace the PBOC approval requirement with less onerous post-event registration and filing requirements. Foreign invested enterprises, whether established or acquired by foreign investors, shall complete the corporate information registration after the completion of relevant RMB FDI transactions, and shall make post-event registration or filing with the PBOC of increases or decreases in registered capital, equity transfers or swaps, merger or acquisition or other changes to registered information.

On 19 November 2012, SAFE promulgated the "Circular on Further Improving and Adjusting the Foreign Exchange Administration Policies on Direct Investment" (the "**SAFE Circular on DI**"), which became effective on 17 December 2012. According to the SAFE Circular on DI, SAFE removes or adjusts certain administrative licensing items with regard to foreign exchange administration over direct investments to promote investment, including, but not limited to, the abrogation of SAFE approval for opening of and payment into foreign exchange accounts under direct investment accounts, the abrogation of SAFE approval for reinvestment with legal income generated within the PRC of foreign investors, the simplification of the administration of foreign exchange reinvestments by foreign investment companies, and the abrogation of SAFE approval for purchase and external payment of foreign exchange under direct investment accounts.

On 3 December 2013, the Ministry of Commerce ("**MOFCOM**") promulgated the "Circular on Issues in relation to Cross-border Renminbi Foreign Direct Investment" ("**MOFCOM Circular**"), which became effective on 1 January 2014, to further facilitate FDI by simplifying and streamlining the applicable regulatory framework. The MOFCOM Circular replaced the "Notice on Issues in relation to Cross-border Renminbi Foreign Direct Investment" promulgated by MOFCOM on 12 October 2011 (the "**2011 MOFCOM Notice**"). Pursuant to the MOFCOM Circular, written approval from the appropriate office of MOFCOM and/or its local counterparts specifying "Renminbi Foreign Direct Investment" and the amount of capital contribution is required for each FDI. Unlike the 2011 MOFCOM Notice, the MOFCOM Circular has also removed the approval requirement for foreign investors who intend to change the currency of their existing capital contribution from a foreign currency to Renminbi. In addition, the MOFCOM Circular also clearly prohibits FDI funds from being used for any investments in securities and financial derivatives (except for investments in PRC listed companies by strategic investors) or for entrustment loans in the PRC.

On 5 September 2015, PBOC promulgated the 2015 PBOC Circular. According to the 2015 PBOC Circular, qualified multinational enterprise groups can extend Renminbi-denominated loans to, or borrow Renminbi-denominated loans from, eligible offshore member entities within the same group by leveraging the cash pooling arrangements. The Renminbi funds will be placed in a special deposit account and may not be used to invest in stocks, financial derivatives, or non-self-use real estates, or purchase wealth management products or extend loans to enterprises outside the group. Enterprises within the Shanghai FTZ may establish another cash pool under the Shanghai FTZ rules to extend inter-company loans, although Renminbi funds obtained from financing activities may not be pooled under this arrangement. Enterprises within the Shanghai FTZ can borrow Renminbi from offshore

lenders under a pilot account-based settlement scheme within the prescribed macro prudential management limit. In addition, non- financial enterprises in the Shanghai FTZ are allowed to settle the foreign debt proceeds into Renminbi on a voluntary basis, provided that the proceeds should not be used beyond their business scope or in violation of relevant laws and regulations. Pilot schemes relating to cross-border Renminbi loans, bonds, or equity investments have also been launched for, among others, enterprises in Shenzhen Qianhai, Jiangsu Kunshan, Jiangsu Suzhou Industrial Park.

As new regulations, such measures and circulars will be subject to interpretation and application by the relevant PRC authorities. There is no assurance that approval of such remittances, borrowing or provision of external guarantee in Renminbi will continue to be granted or will not be revoked in the future. Further, since the remittance of Renminbi by way of investment or loans are now categorised as capital account items, such remittances will need to be made subject to the specific requirements or restrictions set out in the relevant SAFE rules. If any new PRC regulations are promulgated in the future which have the effect of permitting or restricting (as the case may be) the remittance of Renminbi for payment of transactions categorised as capital account items, then such remittances will need to be made subject to the specific requirements or restrictions set out in such rules.

SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

The Dealers have, in an amended and restated programme agreement dated 31 July 2014 (such agreement as further amended and/or supplemented and/or restated from time to time, the “**Programme Agreement**”), agreed with the Issuer and the Guarantor a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “*Form of the Notes*” and “*Terms and Conditions of the Notes*”. In the Programme Agreement, the Issuer (failing which, the Guarantor) has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

The Dealers and certain of their affiliates may have performed certain investment banking and advisory services for the Issuer, the Guarantor and/or their respective affiliates from time to time for which they have received customary fees and expenses and may, from time to time, engage in transactions with and perform services for the Issuer, the Guarantor and/or their respective affiliates in the ordinary course of their business. The Dealers or certain of their affiliates may purchase Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution.

The Dealers or their respective affiliates may purchase Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to Notes and/or other securities of the Issuer, the Guarantor or their respective subsidiaries or associates at the same time as the offer and sale of Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of Notes to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of Notes).

Transfer Restrictions

As a result of the following restrictions, purchasers of Notes in the United States are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Notes.

Each purchaser of Registered Notes (other than a person purchasing an interest in a Registered Global Note with a view to holding it in the form of an interest in the same Global Note) or person wishing to transfer an interest from one Registered Global Note to another or from global to definitive form or vice versa, will be required to acknowledge, represent and agree as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

- (i) that either: (a) it is a QIB, purchasing (or holding) the Notes for its own account or for the account of one or more QIBs and it is aware that any sale to it is being made in reliance on Rule 144A or (b) it is an Institutional Accredited Investor which has delivered an IAI Investment Letter or (c) it is outside the United States and is not a U.S. person;
- (ii) that the Notes are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Notes have not been and will not be registered under the Securities Act or any other applicable U.S. State securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;
- (iii) that, unless it holds an interest in a Regulation S Global Note and is a person located outside the United States who is not a U.S. person, if in the future it decides to resell, pledge or otherwise transfer the Notes or any beneficial interests in the Notes, it will do so, prior to the date which is one year after the later of the last Issue Date for the Series and the last date on which the Issuer or an affiliate of the Issuer was the owner of such Notes, only (a) to the Issuer or any affiliate thereof, (b) inside the United States to a person whom the seller reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (c) outside the United

States in compliance with Rule 903 or Rule 904 under the Securities Act, (d) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available), (e) to an institutional “accredited investor” within the meaning of subparagraph (a)(1), (2), (3) or (7) of Rule 501 under the Securities Act that is acquiring the Notes for its own account or for the account of such an institutional “accredited investor” for investment purposes and not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the Securities Act (f) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. State securities laws. If any resale or other transfer of the Notes is proposed to be made pursuant to clause (e) above, the transferor shall deliver (i) an IAI Investment Letter to the Registrar, which shall provide, among other things, that the transferee is an institutional “accredited investor” within the meaning of subparagraph (a)(1), (2), (3) or (7) of Rule 501 under the Securities Act, that it is acquiring such Notes for investment purposes and not for distribution in violation of the Securities Act, and that it will acquire Notes having a minimum purchase price of at least U.S.\$500,000 (or the approximate equivalent in another specified currency (as defined in the Agency Agreement)); and (ii) such other satisfactory evidence as the Issuer may reasonably require from the transferor, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States, and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction;

- (iv) it will, and will require each subsequent holder to, notify any purchaser of the Notes from it of the resale restrictions referred to in paragraph (iii) above, if then applicable;
- (v) that Notes initially offered in the United States to QIBs will be represented by one or more Rule 144A Global Notes, that Notes offered to Institutional Accredited Investors will be in the form of Definitive IAI Registered Notes and that Notes offered outside the United States in reliance on Regulation S will be represented by one or more Regulation S Global Notes;
- (vi) that the Notes, other than the Regulation S Global Notes, will bear a legend to the following effect unless otherwise agreed to by the Issuer:

“THIS SECURITY AND THE GUARANTEE HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT (1) IT IS A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING THE SECURITIES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS OR (2) IT IS AN INSTITUTIONAL “ACCREDITED INVESTOR” (AS DEFINED IN RULE 501(A)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT) (AN “**INSTITUTIONAL ACCREDITED INVESTOR**”); (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE SECURITIES EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND, PRIOR TO THE DATE WHICH IS ONE YEAR AFTER THE LATER OF THE LAST ISSUE DATE FOR THE SERIES AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH SECURITIES OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) INSIDE THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), (5) TO AN INSTITUTIONAL “ACCREDITED INVESTOR” WITHIN THE MEANING OF SUBPARAGRAPH (A)(1), (2), (3) OR (7) OF RULE 501 UNDER THE SECURITIES ACT THAT IS ACQUIRING

THE NOTES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF SUCH AN INSTITUTIONAL “ACCREDITED INVESTOR” FOR INVESTMENT PURPOSES AND NOT WITH A VIEW TO, OR FOR OFFER OR SALE IN CONNECTION WITH, ANY DISTRIBUTION THEREOF IN VIOLATION OF THE SECURITIES ACT (6) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; IF ANY RESALE OR OTHER TRANSFER OF THE NOTES IS PROPOSED TO BE MADE PURSUANT TO CLAUSE (5) ABOVE, THE TRANSFEROR SHALL DELIVER A LETTER SUBSTANTIALLY IN THE FORM SET OUT IN SCHEDULE 9 TO THE AGENCY AGREEMENT TO THE REGISTRAR, WHICH SHALL PROVIDE, AMONG OTHER THINGS, THAT THE TRANSFEREE IS AN INSTITUTIONAL “ACCREDITED INVESTOR” WITHIN THE MEANING OF SUBPARAGRAPH (A)(1), (2), (3) OR (7) OF RULE 501 UNDER THE SECURITIES ACT, THAT IT IS ACQUIRING SUCH NOTES FOR INVESTMENT PURPOSES AND NOT FOR DISTRIBUTION IN VIOLATION OF THE SECURITIES ACT, AND THAT IT WILL ACQUIRE NOTES HAVING A MINIMUM PURCHASE PRICE OF AT LEAST U.S.\$500,000 (OR THE APPROXIMATE EQUIVALENT IN ANOTHER SPECIFIED CURRENCY (AS DEFINED IN THE AGENCY AGREEMENT)) AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

“THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF SUCH SECURITIES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR REALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO REALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS SECURITY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).”;

- (vii) if it is outside the United States and is not a U.S. person, that if it should resell or otherwise transfer the Notes prior to the expiration of the Distribution Compliance Period (defined as 40 days after the later of the commencement of the offering and the closing date with respect to the original issuance of the Notes), it will do so only (i) outside the United States in compliance with Rule 903 or 904 under the Securities Act or (ii) upon receipt by the Registrar of a written certification substantially in the form set out in Schedule 8 to the Agency Agreement, amended as appropriate (a “*Transfer Certificate*”), copies of which are available from the specified office of the Registrar or any Transfer Agent, from the transferor of the Note or beneficial interest therein to the effect that such transfer is being made: (a) to a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A; or (b) to a person who is an Institutional Accredited Investor, together with, in the case of (b), a duly executed investment letter from the relevant transferee substantially in the form set out in Schedule 9 to the Agency Agreement and such other satisfactory evidence as the Issuer may reasonably require from the transferor, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States; (iii) to the Issuer or any affiliate thereof; or (if available) (iv) otherwise pursuant to an effective registration statement under the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable

securities laws of any State of the United States, and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction; and it acknowledges that the Regulation S Global Notes will bear a legend to the following effect unless otherwise agreed to by the Issuer:

“THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. THIS LEGEND SHALL CEASE TO APPLY UPON THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE NOTES OF THE TRANCHE OF WHICH THIS NOTE FORMS PART.”; and

- (viii) that the Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Notes as a fiduciary or agent for one or more accounts it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Institutional Accredited Investors who purchase Registered Notes in definitive form offered and sold in the United States in reliance upon the exemption from registration provided by Regulation D of the Securities Act are required to execute and deliver to the Registrar an IAI Investment Letter. Upon execution and delivery of an IAI Investment Letter by an Institutional Accredited Investor, Notes will be issued in definitive registered form, see “*Form of the Notes*”.

The IAI Investment Letter will state, among other things, the following:

- (i) that the Institutional Accredited Investor has received a copy of the Offering Circular and such other information as it deems necessary in order to make its investment decision;
- (ii) that the Institutional Accredited Investor understands that any subsequent transfer of the Notes is subject to certain restrictions and conditions set forth in the Offering Circular and the Notes (including those set out above) and that it agrees to be bound by, and not to resell, pledge or otherwise transfer the Notes except in compliance with, such restrictions and conditions and the Securities Act;
- (iii) that, in the normal course of its business, the Institutional Accredited Investor invests in or purchases securities similar to the Notes;
- (iv) that the Institutional Accredited Investor is an Institutional Accredited Investor within the meaning of Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act and has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its investment in the Notes, and it and any accounts for which it is acting are each able to bear the economic risk of its or any such accounts’ investment for an indefinite period of time;
- (v) that the Institutional Accredited Investor is acquiring the Notes purchased by it for its own account or for one or more accounts (each of which is an Institutional Accredited Investor) as to each of which it exercises sole investment discretion and not with a view to any distribution of the Notes, subject, nevertheless, to the understanding that the disposition of its property shall at all times be and remain within its control; and

- (vi) that, in the event that the Institutional Accredited Investor purchases Notes, it will acquire Notes having a minimum purchase price of at least U.S.\$500,000 (or the approximate equivalent in another Specified Currency).

No sale of Legended Notes in the United States to any one purchaser will be for less than U.S.\$100,000 (or its foreign currency equivalent) nominal amount or, in the case of sales to Institutional Accredited Investors, U.S.\$500,000 (or its foreign currency equivalent) nominal amount and no Legended Note will be issued in connection with such a sale in a smaller nominal amount. If the purchaser is a non-bank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least U.S.\$100,000 (or its foreign currency equivalent) or, in the case of sales to Institutional Accredited Investors, U.S.\$500,000 (or its foreign currency equivalent) nominal amount of Registered Notes.

Selling Restrictions

United States

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that:

- (i) The Notes have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.
- (ii) The Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.
- (iii) In connection with any Notes which are offered or sold outside the United States in reliance on an exemption from the registration requirements of the Securities Act provided under Regulation S (“**Regulation S Notes**”), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver such Regulation S Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Regulation S Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Regulation S Notes during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Regulation S Notes within the United States or to, or for the account or benefit of, U.S. persons.
- (iv) Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.
- (v) Notwithstanding anything above to the contrary, Dealers may arrange for the resale of Notes to QIBs pursuant to Rule 144A and each such purchaser of Notes is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. The minimum aggregate nominal amount of Notes which may be purchased by a QIB pursuant to Rule 144A is U.S.\$100,000 (or the approximate equivalent thereof in any other currency). To the extent that each of the Issuer and the Guarantor is not subject to or does not comply with the reporting requirements of

Section 13 or 15(d) of the Exchange Act or the information furnishing requirements of Rule 12g3-2(b) thereunder, each of the Issuer and the Guarantor has agreed to furnish to holders of Notes and to prospective purchasers designated by such holders, upon request, such information as may be required by Rule 144A(d)(4).

- (vi) Notwithstanding anything above to the contrary, it is understood that Registered Notes may be offered and sold pursuant to a private placement in the United States to Institutional Accredited Investors, and in connection therewith each Dealer represents and agrees that:
 - (a) offers, sales, resales and other transfers of Notes made in the United States made or approved by a Dealer (including offers, resales or other transfers made or approved by a Dealer in connection with secondary trading) shall be made with respect to Registered Notes only and shall be effected pursuant to an exemption from the registration requirements of the Securities Act;
 - (b) offers, sales, resales and other transfers of Notes made in the United States will be made only in private transactions to a limited number of Institutional Accredited Investors;
 - (c) the Notes will be offered in the United States only by approaching prospective purchasers on an individual basis. No general solicitation or general advertising within the meaning of Rule 502(c) under the Securities Act will be used in connection with the offering of the Notes in the United States; and
 - (d) no sale of Notes in the United States to any one Institutional Accredited Investor will be for less than U.S.\$500,000 principal amount and if such purchaser is a non-bank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least U.S.\$500,000 principal amount of the Notes.
- (vii) Each issuance of Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Pricing Supplement.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “**Relevant Implementation Date**”) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) if the Pricing Supplement in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a “**Non-exempt Offer**”), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the Pricing Supplement contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or Pricing Supplement, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;
- (b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

- (c) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer, the Guarantor or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “*offer of Notes to the public*” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “*Prospectus Directive*” means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

The Netherlands

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes will only be offered in the Netherlands to Qualified Investors (as defined in the Prospectus Directive), unless such offer is made in accordance with the Dutch Financial Supervision Act (“*Wet op het financieel toezicht*”).

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (i) in relation to Notes which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the “*FSMA*”) by the Issuer;
- (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and
- (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the “*FIEA*”) and each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign

Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Hong Kong

In relation to each Tranche of Notes issued by the Issuer, each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that:

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

Singapore

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore, and the Notes will be offered pursuant to exemptions under the Securities and Futures Act, Chapter 289 of Singapore (the “*Securities and Futures Act*”). Each Dealer has represented, warranted and agreed and each further Dealer appointed under the Programme will be required to represent, warrant and agree that the Notes may not be offered or sold or made the subject of an invitation for subscription or purchase nor may this Offering Circular or any other document or material in connection with the offer or sale or invitation for subscription or purchase of any Notes be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor pursuant to Section 274 of the Securities and Futures Act, (b) to a relevant person under Section 275(1) of the Securities and Futures Act, or to any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act, or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Where the Notes are subscribed or purchased under Section 275 of the Securities and Futures Act by a relevant person who is:

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

securities (as defined in Section 239(1) of the Securities and Futures Act) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within 6 months after that corporation or that trust has acquired the Notes pursuant to an offer under Section 275 of the Securities and Futures Act except:

- (i) to an institutional investor or to a relevant person defined in Section 275(2) of the Securities and Futures Act, or any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the Securities and Futures Act; or
- (ii) where no consideration is or will be given for the transfer; or
- (iii) where the transfer is by operation of law; or
- (iv) pursuant to Section 276(7) of the Securities and Futures Act or Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

British Virgin Islands

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

For Residents of the British Virgin Islands only

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

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

Taiwan

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes have not been, and will not be, offered or sold, directly or indirectly, in Taiwan, to investors other than “professional institutional investors” as defined under Article 4 of the Financial Consumer Protection Act, unless otherwise permitted by the laws and regulations of Taiwan.

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer, the Guarantor nor any of the other Dealers shall have any responsibility therefor. If a jurisdiction requires that an offering of Notes be made by a licensed broker or dealer and the Dealers or any affiliate of the Dealers is a licensed broker or dealer in that jurisdiction, such offering shall be deemed to be made by the Dealers or such affiliate on behalf of the Issuer in such jurisdiction.

None of the Issuer, the Guarantor and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Issuer, the Guarantor and the relevant Dealer shall agree and as shall be set out in the applicable Pricing Supplement.

GENERAL INFORMATION

Authorisation

The establishment of the Programme and the issue of Notes have been duly authorised by resolutions of the Board of Directors of the Issuer dated 2 December 2002, 10 November 2004, 3 July 2006, 29 July 2009, 11 November 2011 and 17 July 2014 respectively and the giving of the Guarantee has been duly authorised by resolutions of the Board of Directors of the Guarantor dated 17 December 2002, 10 November 2004, 3 July 2006, 29 July 2009, 11 November 2011 and 17 July 2014 respectively.

Listing of Notes on the Hong Kong Stock Exchange

Application has been made to the Hong Kong Stock Exchange for the listing of the Programme. A separate application will be made for permission to deal in and the listing of Notes issued under the Programme on the Hong Kong Stock Exchange. However, Notes may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer, the Guarantor and the relevant Dealer in relation to each Series. Unlisted Notes may also be issued.

The issue price of Notes listed on the Hong Kong Stock Exchange will be expressed as a percentage of their nominal amount. Transactions will normally be effected for settlement in the relevant specified currency and for delivery by the end of the second trading day after the date of the transaction. It is expected that dealings will, if permission is granted to deal in and for the listing of such Notes, commence on or about the date of the listing of the relevant Notes.

Documents Available

So long as Notes are capable of being issued under the Programme, copies of the following documents will be available without charge from the registered office of the Issuer and the Guarantor and from the specified office of the Paying Agent for the time being in Hong Kong:

- (i) the Memorandum and Articles of Association of the Issuer and the Guarantor;
- (ii) the audited non-consolidated financial statements (in English) of the Guarantor in respect of the two financial years ended 31 December 2014 and 2015 (the Guarantor currently prepares audited non-consolidated accounts on an annual basis and does not prepare any interim accounts or any audited consolidated accounts and the Issuer has not published any audited or unaudited financial statements and does not propose to publish any financial statements);
- (iii) the Programme Agreement, the Agency Agreement, the Guarantee, the Deed of Covenant, the Deed Poll, the forms of the Global Notes, the Notes in definitive form and the Receipts, the Coupons and the Talons (each as defined under “*Terms and Conditions of the Notes*”);
- (iv) this Offering Circular and any document incorporated by reference herein; and
- (v) any future offering circulars, prospectuses and information memoranda relating to the Programme and supplements, including Pricing Supplements (save that a Pricing Supplement relating to an unlisted Series of Notes will only be available for inspection by a holder of any such Notes and such holder must produce evidence satisfactory to the Issuer, the Guarantor and the relevant Paying Agent as to its holding of Notes and identity) to this Offering Circular and any other documents incorporated herein or therein by reference.

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code and ISIN for each Tranche of Bearer Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Pricing Supplement. The Issuer may also apply to have Bearer Notes accepted for clearance through the CMU Service. The relevant CMU instrument number will be specified in the applicable Pricing Supplement. In addition, the Issuer may make an application for any Registered Notes to be accepted for trading in book-entry form by DTC. The CUSIP and/or CINS numbers for each Tranche of Registered Notes, together with the relevant ISIN and common code, will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Pricing Supplement.

Significant or Material Change

Save as disclosed in this Offering Circular, there has been no significant or material adverse change in the financial or trading position of the Guarantor since 31 December 2015 and there has been no significant or material adverse change in the financial or trading position of the Issuer since its date of incorporation.

Litigation

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

Auditors

The Issuer has not published and does not propose to publish financial statements. The auditors of the Guarantor are KPMG, independent Certified Public Accountants who have audited the Guarantor's non-consolidated financial statements, without qualification, in accordance with generally accepted auditing standards in Hong Kong for the financial year ended 31 December 2015.

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INDEPENDENT AUDITOR'S REPORT TO THE SOLE MEMBER OF

THE HONGKONG ELECTRIC COMPANY, LIMITED

香港電燈有限公司

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of The Hongkong Electric Company, Limited (the "Company") set out on pages 5 to 47, which comprise the statement of financial position as at 31 December 2015, the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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

OPINION

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2015 and of the Company's financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
15 March 2016

THE HONGKONG ELECTRIC COMPANY, LIMITED
香港電燈有限公司
STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2015

(Expressed in Hong Kong Dollars)

	<u>Note</u>	<u>2015</u> \$'000	<u>2014</u> \$'000
Revenue	4	11,209,564	11,185,716
Standard fuel costs	5	(1,836,657)	(1,823,718)
Direct costs		(2,650,600)	(2,507,483)
		<hr/>	<hr/>
		6,722,307	6,854,515
Other revenue and other net income	6	77,466	83,740
Other operating costs		(743,611)	(680,654)
Finance costs ^{8(a)}		(838,976)	(789,569)
		<hr/>	<hr/>
Profit before taxation	8	5,217,186	5,468,032
Income tax	9	(875,136)	(911,505)
		<hr/>	<hr/>
Profit after taxation		4,342,050	4,556,527
Scheme of Control transfers	10(b)	78,456	(258,972)
		<hr/>	<hr/>
Profit attributable to equity shareholders of the Company		<u>4,420,506</u>	<u>4,297,555</u>

The notes on pages 10 to 47 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 11.

THE HONGKONG ELECTRIC COMPANY, LIMITED
香港電燈有限公司
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015

(Expressed in Hong Kong Dollars)

	<u>2015</u>	<u>2014</u>
	\$'000	\$'000
Profit attributable to equity shareholders of the Company	4,420,506	4,297,555
Other comprehensive income for the year, after tax and reclassification adjustments		
Items that will not be reclassified to profit or loss		
Defined benefit retirement schemes:		
Remeasurement of net defined benefit asset/liability	(158,031)	8,675
Deferred tax credited/(charged) to other comprehensive income	26,074	(1,431)
	(131,957)	7,244
Items that may be reclassified subsequently to profit or loss		
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the year	(147,753)	(62,178)
Reclassification adjustments for amounts transferred to profit or loss	4,478	(88)
Amounts transferred to initial carrying amount of hedged items	18,618	270
Net deferred tax credited to other comprehensive income	20,569	10,229
	(104,088)	(51,767)
	(236,045)	(44,523)
Total comprehensive income for the year and attributable to equity shareholders of the Company	4,184,461	4,253,032

The notes on pages 10 to 47 form part of these financial statements.

THE HONGKONG ELECTRIC COMPANY, LIMITED
香港電燈有限公司
STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2015
(Expressed in Hong Kong Dollars)

	Note	2015 \$'000	2014 \$'000
Non-Current Assets			
Property, plant and equipment		47,616,334	47,273,750
Interests in leasehold land held for own use under finance leases		1,865,670	1,923,984
	12	49,482,004	49,197,734
Investment in a subsidiary	13	-	-
Employee retirement benefit scheme assets	24(a)	579,942	667,630
Derivative financial instruments	22	314,539	352,233
		<u>50,376,485</u>	<u>50,217,597</u>
Current Assets			
Inventories	14	882,227	932,689
Trade and other receivables	15	1,154,417	1,129,349
Bank deposits and cash		6,154,527	4,628,240
		<u>8,191,171</u>	<u>6,690,278</u>
Current Liabilities			
Loan from a subsidiary	17	(899,774)	(499,933)
Amount due to ultimate holding company	18	(2,534)	(5,334)
Amount due to immediate holding company	18	(2,956,865)	(2,275,547)
Amount due to a subsidiary	18	(39,668)	(42,413)
Current portion of bank loans	19	-	(20,000)
Fuel Clause Recovery Account	16	(2,283,201)	(631,165)
Trade and other payables	20	(2,520,097)	(2,416,507)
Current taxation	21(a)	(359,477)	(218,580)
		<u>(9,061,616)</u>	<u>(6,109,479)</u>
Net Current (Liabilities)/Assets		<u>(870,445)</u>	<u>580,799</u>
Total Assets Less Current Liabilities		<u>49,506,040</u>	<u>50,798,396</u>
Non-Current Liabilities			
Loan from a subsidiary	17	(12,260,257)	(10,581,002)
Bank loans	19	(25,386,652)	(28,121,520)
Derivative financial instruments	22	(167,940)	(62,315)
Customers' deposits		(2,000,452)	(1,937,062)
Deferred tax liabilities	21(b)	(5,697,436)	(5,927,450)
Employee retirement benefit scheme liabilities	24(a)	(586,995)	(499,117)
		<u>(46,099,732)</u>	<u>(47,128,466)</u>
Scheme of Control Fund and Reserve	10(c)	<u>(214,711)</u>	<u>(293,185)</u>
NET ASSETS		<u><u>3,191,597</u></u>	<u><u>3,376,745</u></u>
CAPITAL AND RESERVES			
Share capital	26(a)	2,411,600	2,411,600
Reserves		779,997	965,145
TOTAL EQUITY		<u><u>3,191,597</u></u>	<u><u>3,376,745</u></u>

Approved and authorised for issue by the Board of Directors on 15 March 2016

Wan Chi Tin
Director

Chan Loi Shun
Director

The notes on pages 10 to 47 form part of these financial statements.

THE HONGKONG ELECTRIC COMPANY, LIMITED
香港電燈有限公司
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

(Expressed in Hong Kong Dollars)

	Attributable to equity shareholders of the Company				Total
	Share capital	Hedging reserve	Revenue reserve	Loan capital	
	(note 26(a))	(note 26(b))			
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 January 2014	2,411,600	14,931	999,864	8,845,000	12,271,395
Changes in equity for 2014:					
Profit attributable to equity shareholders	-	-	4,297,555	-	4,297,555
Other comprehensive income	-	(51,767)	7,244	-	(44,523)
Total comprehensive income for the year	-	(51,767)	4,304,799	-	4,253,032
Repayment of loan capital from PAH	-	-	-	(8,845,000)	(8,845,000)
Interim dividend paid (see note 11)	-	-	(4,302,682)	-	(4,302,682)
Balance at 31 December 2014 and 1 January 2015	2,411,600	(36,836)	1,001,981	-	3,376,745
Changes in equity for 2015:					
Profit attributable to equity shareholders	-	-	4,420,506	-	4,420,506
Other comprehensive income	-	(104,088)	(131,957)	-	(236,045)
Total comprehensive income for the year	-	(104,088)	4,288,549	-	4,184,461
Interim dividend paid (see note 11)	-	-	(4,369,609)	-	(4,369,609)
Balance at 31 December 2015	2,411,600	(140,924)	920,921	-	3,191,597

The notes on pages 10 to 47 form part of these financial statements.

THE HONGKONG ELECTRIC COMPANY, LIMITED
香港電燈有限公司
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2015

(Expressed in Hong Kong Dollars)

	<u>Note</u>	2015 \$'000	2014 \$'000
Operating activities			
Cash generated from operations	25	9,859,678	8,955,287
Interest received		48,823	41,291
Interest paid		(756,591)	(896,487)
Hong Kong Profits Tax paid		(917,610)	(1,051,805)
Net cash generated from operating activities		8,234,300	7,048,286
Investing activities			
Payment for the purchase of property, plant and equipment and capital stock		(2,237,147)	(1,783,122)
Capitalised interest paid		(67,223)	(81,357)
Decrease/(increase) in bank deposits with more than three months to maturity when placed		1,214,063	(1,394,063)
Proceeds from disposal of property, plant and equipment		156	1,563
Net cash used in investing activities		(1,090,151)	(3,256,979)
Financing activities			
Repayment of loan and loan capital from Power Assets Holdings Limited		-	(27,456,990)
Increase/(decrease) in loan from a subsidiary		2,067,405	(500,000)
Proceeds from bank loans		-	28,333,747
Repayment of bank loans		(2,845,820)	-
New customers' deposits		282,100	273,424
Repayment of customers' deposits		(218,710)	(236,574)
Dividends paid		(4,369,609)	(4,302,682)
Increase in amount due to immediate holding company		681,318	2,275,547
Net cash used in financing activities		(4,403,316)	(1,613,528)
Increase in cash and cash equivalents		2,740,833	2,177,779
Cash and cash equivalents at 1 January		3,234,177	1,056,968
Effect of foreign exchange rate changes		(483)	(570)
Cash and cash equivalents at 31 December		5,974,527	3,234,177
Analysis of the balances of cash and cash equivalents			
Deposits with banks and other financial institutions		5,891,363	4,609,944
Cash at bank and in hand		263,164	18,296
Bank deposits and cash in the statement of financial position		6,154,527	4,628,240
Deposits with banks and other financial institutions with more than 3 months to maturity when placed		(180,000)	(1,394,063)
Cash and cash equivalents at 31 December		5,974,527	3,234,177

The notes on pages 10 to 47 form part of these financial statements.

THE HONGKONG ELECTRIC COMPANY, LIMITED
香港電燈有限公司
NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

1. **GENERAL INFORMATION**

The Hongkong Electric Company, Limited (the “Company”) is a limited company incorporated and domiciled in Hong Kong. The address of its registered office is Hongkong Electric Centre, 44 Kennedy Road, Hong Kong.

2. **SIGNIFICANT ACCOUNTING POLICIES**

(a) **Statement of compliance**

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the Company is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Company for the current and prior accounting periods reflected in these financial statements.

(b) **Basis of preparation of the financial statements**

The measurement basis used in the preparation of the financial statements is the historical cost basis except as explained in the accounting policies set out below.

At 31 December 2015, the Company recorded net current liabilities of \$870,445,000. The Company had undrawn committed bank facilities of \$1,000,000,000 (see note 27(b)) at 31 December 2015 which are available longer than one year together with strong cashflow which will enable the Company to return to a net current assets position in near future. In light of the foregoing, the financial statements have been prepared on a going concern basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 32.

(c) Subsidiary

A subsidiary is an entity controlled by the Company. The Company controls an entity when it is exposed to, or has right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Company has power, only substantive rights (held by the Company and other parties) are considered.

Investment in a subsidiary is stated at cost less any impairment losses (see note 2(f)(ii)).

(d) Property, plant and equipment, interests in leasehold land and depreciation and amortisation

- (i) Property, plant and equipment, other than assets under construction, are stated at cost less accumulated depreciation (see note 2(d)(viii)) and impairment losses (see note 2(f)(ii)).
- (ii) Assets under construction are stated at cost less impairment losses (see note 2(f)(ii)), and are not depreciated. Assets under construction are transferred to appropriate class of property, plant and equipment when completed and ready for use.
- (iii) The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located and an appropriate proportion of production overheads and borrowing costs (see note 2(s)).
- (iv) Subsequent expenditure to replace a component of an item of property, plant and equipment that is accounted for separately, or to improve its operational performance is included in the item's carrying amount or recognised as a separate item as appropriate when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Company and the cost of such asset can be measured reliably. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.
- (v) Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.
- (vi) Leasehold land held for own use under finance leases is stated at cost less accumulated amortisation (see note 2(d)(vii)) and impairment losses (see note 2(f)(ii)).
- (vii) The cost of acquiring land held under a finance lease is amortised on a straight-line basis over the shorter of the estimated useful lives of the leased assets and the unexpired lease term.

- (viii) Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

	<u>Years</u>
Cable tunnels	100
Buildings	60
Ash lagoon and gas pipeline	60
Transmission and distribution equipment, overhead lines and cables	60
Generating plant and machinery	35
Gas turbines and gas turbine combined cycle	30
Mechanical meters	30
Photovoltaic systems	25
Wind turbines	20
Electronic meters, microwave and optical fibre equipment and trunk radio systems	15
Furniture and fixtures, sundry plant and equipment	10
Computers	5 to 10
Motor vehicles and marine craft	5 to 6
Workshop tools and office equipment	5

Immovable assets are amortised on a straight-line basis over the unexpired lease terms of the land on which the immovable assets are situated if the unexpired lease terms of the land are shorter than the estimated useful lives of the immovable assets.

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(e) Leased assets and operating lease charges

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Company determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Where the Company has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

Where the Company acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Company will obtain ownership of the asset, the life of the asset, as set out in note 2(d)(viii). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(f)(ii). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(f) Impairment of assets(i) Impairment of trade and other receivables and other financial assets

Trade and other receivables and other financial assets that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Company about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For trade and other receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of the asset), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that items of property, plant and equipment, interests in leasehold land and investment in a subsidiary may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

- Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(g) Short-term employee benefits

Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(h) Retirement scheme obligations

(i) Defined benefit retirement scheme obligations

The Company's net obligation in respect of defined benefit retirement schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any scheme assets is deducted. The discount rate is the yield at the end of the reporting period on Hong Kong Special Administrative Region Government Exchange Fund Notes that have maturity dates approximating the terms of the Company's obligations. The calculation is performed by a qualified actuary using the "Projected Unit Credit Method".

Where the calculation of the Company's net obligation results in a negative amount, the asset recognised is limited to the present value of any future refunds from or reductions in future contributions to the defined benefit retirement scheme.

Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in the revenue reserve and will not be reclassified to profit or loss.

The Company determines the net interest expense or income for the period on the net defined benefit liability or asset by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability or asset, taking into account any changes in the net defined liabilities or assets during the year as a result of contributions and benefit payments.

(ii) Contributions to defined contribution retirement schemes

Obligations for contributions to defined contribution retirement schemes, including contributions payable under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in profit or loss as incurred.

(i) Inventories

Inventories are carried at the lower of cost and net realisable value.

Coal, stores, fuel oil and natural gas are valued at cost measured on a weighted average basis.

Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost of inventories recognised as an expense includes the write-off and all losses of inventories.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

(j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 2(f)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(k) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, with the exception of fixed interest borrowings that are designated as hedged items in fair value hedges (see note 2(n)(i)), interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

For fixed interest borrowings that are designated as hedged items in fair value hedges, fair value changes that are attributable to the hedged risk are recognised in profit or loss (see note 2(n)(i)).

(l) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 2(t)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see note 2(n)).

(n) Hedging

(i) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss, along with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

(ii) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gains or losses on remeasurement of the derivative financial instrument to fair value are recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gain or loss is recognised immediately in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is reclassified from equity and included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (such as when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the Company revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from equity to profit or loss immediately.

(o) Revenue recognition(i) Regulation of earnings under the Scheme of Control Agreement

The earnings of the Company are regulated by the Hong Kong SAR Government ("the Government") under a Scheme of Control Agreement ("SoCA") which provides for a permitted level of earnings based principally on a return on the Company's capital investment in electricity generation, transmission and distribution assets (the "Permitted Return"). The SoCA also provides for performance based incentives and penalties which encourage emission reduction, customer service quality, energy efficiency and the use of renewable energy. The Net Return of the Company under the SoCA is determined by deducting from the Permitted Return interest and excess capacity adjustments, if any, and adjusting for the abovementioned incentives and penalties. The Company is required to submit detailed Development Plans for approval by the Government which project the key determinants of the Net Return to which the Company will be entitled over the Development Plan period.

The Government has approved the 2014 to 2018 Development Plan covering the period from 1 January 2014 to 31 December 2018. No further Government approval is required during this period unless a need for significant Basic Tariff increases, over and above those set out in the Development Plan, is identified during the Annual Tariff Review conducted with the Government under the terms of the SoCA.

(ii) Fuel Clause Recovery Account

Under the SoCA, any difference between the standard cost of fuel, as agreed with the Government, and the actual cost of fuel consumed is transferred to the Fuel Clause Recovery Account ("Fuel Cost Account Adjustments").

Fuel Clause Charges (or Rebates) are charged (or given) to customers by adding to (or deducting from) the Basic Tariff to produce a Net Tariff payable by customers and are credited (or debited) to the Fuel Clause Recovery Account.

The balance on the Fuel Clause Recovery Account at the end of a financial year represents the difference between Fuel Clause Charges (or Rebates) and Fuel Cost Account Adjustments during the year, together with any balance brought forward from the prior year and interest thereon based on prevailing market interest rates. Any debit balance is carried forward as a deferred receivable to be recovered from Fuel Clause Charges and/or Fuel Cost Account Adjustments and any credit balance is carried forward as a deferred payable to be cleared by Fuel Clause Rebates and/or Fuel Cost Account Adjustments.

Fuel Clause Charges or Rebates are utilised to smooth increases in Net Tariffs paid by customers. The impact of tariff smoothing is to reduce the Net Tariffs payable by customers in certain years and increase the Net Tariffs in other years. However, the tariff smoothing has no impact on the Company's total earnings and the related balance on the Fuel Clause Recovery Account is expected to be recovered by Fuel Clause Charges and/or Fuel Cost Account Adjustments.

(iii) Income recognition

Electricity income is recognised based on the actual and accrued units of electricity consumed by customers during the year at the Basic Tariff, which is the unit charge agreed with the Government during the Annual Tariff Review for each financial year.

Electricity-related income is recognised when the related services are rendered.

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

(p) Translation of foreign currencies

The financial statements are presented in Hong Kong dollars which is the Company's functional and presentation currency.

Foreign currency transactions during the year are translated into Hong Kong dollars at the foreign exchange rates ruling at the transaction dates, or at contract rates if foreign currencies are hedged by forward foreign exchange contracts. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the foreign exchange rates ruling at the end of the reporting period.

Exchange gains and losses in respect of assets under construction are, up to the date of commissioning, incorporated in the cost of the assets. All other exchange differences are dealt with in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

All deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset.

(s) Borrowing costs

Borrowing costs that 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 or sale are capitalised as part of the cost of the asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(t) Financial guarantees issued, provisions and contingent liabilities(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

When consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in profit or loss.

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

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. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(u) Consolidated financial statements

The Company is a wholly-owned subsidiary of another body corporate and, therefore, in accordance with section 379(3) of the Hong Kong Companies Ordinance is not required to prepare consolidated financial statements.

For the purposes of compliance with sections 379, 380 and 383 of the Hong Kong Companies Ordinance, these financial statements have been prepared to present a true and fair view of the financial position and financial performance of the Company only. Consequently, they have been prepared in accordance with all applicable HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance which apply to the preparation of separate unconsolidated financial statements.

In accordance with the criteria set out in paragraph 4(a) of HKFRS 10, *Consolidated financial statements*, the Company is exempt from the preparation of consolidated financial statements as HK Electric Investments Limited (“HKEIL”), the ultimate parent of the Company, produces consolidated financial statements in accordance with HKFRSs which are available for public use. HKEIL is incorporated in the Cayman Islands and its consolidated financial statements are available from its principal place of business at Hongkong Electric Centre, 44 Kennedy Road, Hong Kong. Consequently, the financial statements do not give all the information about the economic activities of the group of which the Company is the parent which would have been disclosed had the Company prepared consolidated financial statements.

(v) Related parties

- (i) A person or a close member of that person's family is related to the Company if that person:
- (1) has control or joint control over the Company;
 - (2) has significant influence over the Company; or
 - (3) is a member of the key management personnel of the Company or the Company's parent.
- (ii) An entity is related to the Company if any of the following conditions apply:
- (1) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (3) Both entities are joint ventures of the same third party.
 - (4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (5) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company.
 - (6) The entity is controlled or jointly controlled by a person identified in (v)(i).
 - (7) A person identified in (v)(i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (8) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the Company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a few amendments to HKFRSs that are first effective for the current accounting period of the Company. Of these, the following developments are relevant to the Company's financial statements:

- Amendments to HKAS 19, *Employee benefits: Defined benefit plans: Employee contributions*
- *Annual Improvements to HKFRSs 2010-2012 Cycle*
- *Annual Improvements to HKFRSs 2011-2013 Cycle*

The adoption of these amendments to HKFRSs has no material impact on the Company's results and financial position for the current or prior periods. The Company has not applied any new standard or amendment that is not effective for the current accounting period.

4. REVENUE

The principal activity of the Company is the generation and supply of electricity to Hong Kong Island and Lamma Island.

Revenue is analysed as follows:

	<u>2015</u> \$'000	<u>2014</u> \$'000
Sales of electricity	11,165,266	11,165,023
Concessionary discount on sales of electricity	(6,056)	(6,206)
Electricity-related income	50,354	26,899
	<u>11,209,564</u>	<u>11,185,716</u>

5. STANDARD FUEL COSTS

Standard fuel costs represent the standard cost of fuel as agreed with the Government including the actual fuel costs and Fuel Cost Account Adjustments as follows:

	<u>2015</u> \$'000	<u>2014</u> \$'000
Actual fuel costs	3,697,521	4,818,030
Fuel Cost Account Adjustments (see note 16)	(1,860,864)	(2,994,312)
Standard fuel costs	<u>1,836,657</u>	<u>1,823,718</u>

6. OTHER REVENUE AND OTHER NET INCOME

	<u>2015</u> \$'000	<u>2014</u> \$'000
Net profit on sale of property, plant and equipment	20	70
Interest income from financial assets not at fair value through profit or loss	46,476,478,850	
Sundry income	30,970,358,200	
	<u>77,466</u>	<u>83,740</u>

7. DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	<u>2015</u> \$'000	<u>2014</u> \$'000
Directors' fees	Nil	Nil
Salaries, allowances and benefits in kind, discretionary bonuses and retirement scheme contributions (see note below)	32,403	32,968

The benefits in kind are electricity allowances to Directors for residential use. For Directors who are employees of the Company, the benefits in kind also include insurance and medical benefits entitled by the employees of the Company.

8. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	<u>2015</u> \$'000	<u>2014</u> \$'000
(a) Finance costs		
Interest on overdrafts, bank loans and other borrowings	934,418	888,794
Less: interest capitalised to assets under construction	(77,735)	(81,074)
interest transferred to fuel costs	(17,707)	(18,151)
	<u>838,976</u>	<u>789,569</u>
(b) Depreciation	1,996,937	1,930,907
(c) Amortisation of leasehold land	58,314	58,313
(d) Costs of inventories	3,728,066	4,833,276
(e) Staff costs	634,666	562,580
(f) Net loss on disposal and written off of property, plant and equipment	56,478	63,821
(g) Auditor's remuneration	3,736	3,312
(h) Write down of inventories	<u>6,169</u>	<u>5,482</u>

Interest expenses have been capitalised at the average rate of approximately 2.1% p.a. (2014: 2.1% p.a.) for assets under construction.

9. INCOME TAX

(a) Taxation in the statement of profit or loss represents:

	<u>2015</u> \$'000	<u>2014</u> \$'000
<u>Current tax</u>		
Provision for Hong Kong Profits Tax for the year	1,058,527	932,067
Over-provision in respect of prior years	(20)	(1,254)
	<u>1,058,507</u>	<u>930,813</u>
<u>Deferred tax</u> (see note 21(b))		
Reversal and origination of temporary differences	(183,371)	(19,308)
	<u>875,136</u>	<u>911,505</u>

The provision for Hong Kong Profits Tax for 2015 is calculated at 16.5% (2014: 16.5%) of the estimated assessable profits for the year.

(b) Reconciliation between tax expense and accounting profit at applicable tax rate:

	<u>2015</u> \$'000	<u>2014</u> \$'000
Profit before taxation	5,217,186	5,468,032
Notional tax on profit before taxation, calculated at the Hong Kong Profits Tax rate of 16.5% (2014: 16.5%)	860,836	902,225
Tax effect of non-deductible expenses	24,312	21,504
Tax effect of non-taxable income	(9,992)	(10,970)
Over-provision in respect of prior years	(20)	(1,254)
Actual tax expense	<u>875,136</u>	<u>911,505</u>

10. SCHEME OF CONTROL TRANSFERS

- (a) The financial operations of the Company are governed by the SoCA agreed with the Government which provides for the Company to earn a Permitted Return (see note 2(o)(i)). Any excess or deficiency of the gross tariff revenue over the sum of total operating costs, Scheme of Control Net Return and Scheme of Control taxation charges is transferred to/(from) a Tariff Stabilisation Fund from/(to) the statement of profit or loss of the Company. When transfer from the Tariff Stabilisation Fund to the statement of profit or loss is required, the amount transferred shall not exceed the balance of the Tariff Stabilisation Fund. In addition, a charge calculated by applying the average one-month Hong Kong Interbank Offered Rate on the average balance of the Tariff Stabilisation Fund is transferred from the statement of profit or loss of the Company to a Rate Reduction Reserve.

Pursuant to 2013 mid-term review of Scheme of Control, a Smart Power Fund was established in June 2014 to support the carrying out of improvement works to upgrade the energy efficiency performance of building services installations for communal use in non-commercial buildings. Specifically, the Company consented to contribute to the Smart Power Fund each year during the period from 1 January 2014 to 31 December 2018 an amount being deducted from the Company's financial incentive under the energy efficiency incentive mechanism in the SoCA for outperforming the energy audit and energy saving targets (if any) each year during the period from 1 January 2013 to 31 December 2017.

- (b) Scheme of Control transfers (to)/from the statement of profit or loss represents:

	<u>2015</u> \$'000	<u>2014</u> \$'000
Tariff Stabilisation Fund	(83,983)	248,744
Rate Reduction Reserve	575	354
Smart Power Fund		
- Injection during the year	-	4,940
- Provisional sum to be injected in the following year	4,952	4,934
	<u>(78,456)</u>	<u>258,972</u>

A provisional sum of \$4,952,000, representing deduction of the Company's 2015 financial incentive (2014: \$4,934,000), was transferred from the statement of profit or loss and included in the trade and other payables for injection into the Smart Power Fund in the following year.

(c) Scheme of Control Fund and Reserve in the statement of financial position represents:

	<u>2015</u> \$'000	<u>2014</u> \$'000
Tariff Stabilisation Fund	204,262	287,891
Rate Reduction Reserve	575	354
Smart Power Fund	9,874	4,940
	<u>214,711</u>	<u>293,185</u>

(d) Movements in the Tariff Stabilisation Fund, Rate Reduction Reserve and Smart Power Fund are as follows:

	<u>2015</u> \$'000	<u>2014</u> \$'000
(i) Tariff Stabilisation Fund		
At 1 January	287,891	36,013
Transfer from Rate Reduction Reserve (see note below)	354	3,134
Transfer (to)/from the statement of profit or loss	(83,983)	248,744
At 31 December	<u>204,262</u>	<u>287,891</u>
(ii) Rate Reduction Reserve		
At 1 January	354	3,134
Transfer to Tariff Stabilisation Fund (see note below)	(354)	(3,134)
Transfer from the statement of profit or loss	575	354
At 31 December	<u>575</u>	<u>354</u>
(iii) Smart Power Fund		
At 1 January	4,940	-
Injection for the year (see note (b) above)	4,934	4,940
At 31 December	<u>9,874</u>	<u>4,940</u>

Pursuant to mid-term review of Scheme of Control, the year-end balance of the Rate Reduction Reserve of a year has to be transferred to the Tariff Stabilisation Fund in the following year starting from end 2013.

11. DIVIDENDS

Dividends payable to equity shareholders of the Company attributable to the year

	<u>2015</u> \$'000	<u>2014</u> \$'000
First interim dividend declared and paid of \$1.31 per share (2014: \$0.41 per share)	1,580,536	498,511
Second interim dividend declared and paid of \$2.31 per share (2014: \$0.07 per share)	2,789,073	85,000
Third interim dividend declared and paid of \$Nil per share (2014: \$1.31 per share)	-	1,573,800
Fourth interim dividend declared and paid of \$Nil per share (2014: \$1.78 per share)	-	2,145,371
	<u>4,369,609</u>	<u>4,302,682</u>

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2015.

12. PROPERTY, PLANT AND EQUIPMENT AND INTERESTS IN LEASEHOLD LAND

	Site formation and <u>buildings</u> \$'000	Plant, machinery and <u>equipment</u> \$'000	Fixtures, fittings and motor <u>vehicles</u> \$'000	Assets under <u>construction</u> \$'000	<u>Sub-total</u> \$'000	Interests in leasehold land held for own use under finance <u>leases</u> \$'000	<u>Total</u> \$'000
Cost							
At 1 January							
2014	14,147,165	63,381,631	984,245	3,057,567	81,570,608	2,809,481	84,380,089
Additions	8,107	427,175	45,290	1,771,185	2,251,757	-	2,251,757
Disposals	(1,625)	(191,073)	(14,164)	-	(206,862)	-	(206,862)
Transfers	359,479	1,328,952	81,652	(1,770,083)	-	-	-
At 31 December	<u>14,513,126</u>	<u>64,946,685</u>	<u>1,097,023</u>	<u>3,058,669</u>	<u>83,615,503</u>	<u>2,809,481</u>	<u>86,424,984</u>
2014							
At 1 January							
2015	14,513,126	64,946,685	1,097,023	3,058,669	83,615,503	2,809,481	86,424,984
Additions	5,880	578,749	87,547	1,844,301	2,516,477	-	2,516,477
Disposals	(2,358)	(282,896)	(14,103)	-	(299,357)	-	(299,357)
Transfers	36,666	1,015,885	41,310	(1,093,861)	-	-	-
At 31 December	<u>14,553,314</u>	<u>66,258,423</u>	<u>1,211,777</u>	<u>3,809,109</u>	<u>85,832,623</u>	<u>2,809,481</u>	<u>88,642,104</u>
2015							
Accumulated depreciation and amortisation							
At 1 January							
2014	5,691,179	27,996,917	727,919	-	34,416,015	827,184	35,243,199
Written back on disposals	(1,283)	(108,382)	(13,877)	-	(123,542)	-	(123,542)
Charge for the year	257,842	1,719,926	71,512	-	2,049,280	58,313	2,107,593
At 31 December	<u>5,947,738</u>	<u>29,608,461</u>	<u>785,554</u>	<u>-</u>	<u>36,341,753</u>	<u>885,497</u>	<u>37,227,250</u>
2014							
At 1 January							
2015	5,947,738	29,608,461	785,554	-	36,341,753	885,497	37,227,250
Written back on disposals	(1,789)	(209,780)	(13,961)	-	(225,530)	-	(225,530)
Charge for the year	263,037	1,755,960	81,069	-	2,100,066	58,314	2,158,380
At 31 December	<u>6,208,986</u>	<u>31,154,641</u>	<u>852,662</u>	<u>-</u>	<u>38,216,289</u>	<u>943,811</u>	<u>39,160,100</u>
2015							
Net book value							
At 31 December							
2015	<u>8,344,328</u>	<u>35,103,782</u>	<u>359,115</u>	<u>3,809,109</u>	<u>47,616,334</u>	<u>1,865,670</u>	<u>49,482,004</u>
At 31 December							
2014	<u>8,565,388</u>	<u>35,338,224</u>	<u>311,469</u>	<u>3,058,669</u>	<u>47,273,750</u>	<u>1,923,984</u>	<u>49,197,734</u>

The above are mainly electricity-related property, plant and equipment in respect of which financing costs capitalised during the year amounted to \$77,735,000 (2014: \$81,074,000).

Depreciation charges for the year included \$103,129,000 (2014: \$118,373,000), relating to assets utilised in development activities, which has been capitalised.

13. INVESTMENT IN A SUBSIDIARY

	<u>2015</u> \$	<u>2014</u> \$
Unlisted shares, at cost	8	8

Details of the subsidiary at 31 December 2015 are as follows:

<u>Name of subsidiary</u>	<u>Issued share capital</u>	<u>Percentage of equity held</u>	<u>Place of incorporation/operation</u>	<u>Principal activity</u>
Hongkong Electric Finance Limited	US\$1	100	British Virgin Islands/Hong Kong	Financing

The subsidiary has no post-acquisition profits or losses attributable to the Company.

14. INVENTORIES

	<u>2015</u> \$'000	<u>2014</u> \$'000
Coal	176,105	211,846
Fuel oil and natural gas	348,961	359,851
Stores and materials (see note below)	357,161	360,992
	<u>882,227</u>	<u>932,689</u>

Included in stores and materials is capital stock of \$205,487,000 (2014: \$212,679,000) which was purchased for future maintenance of capital assets.

15. TRADE AND OTHER RECEIVABLES

	<u>2015</u> \$'000	<u>2014</u> \$'000
Trade debtors (see note (a) below)	678,270	667,822
Other receivables	459,185	448,454
	<u>1,137,455</u>	<u>1,116,276</u>
Derivative financial instruments (see note 22)	1,805	2,962
Deposits and prepayments	15,157	10,111
	<u>1,154,417</u>	<u>1,129,349</u>

All of the trade and other receivables are expected to be recovered within one year.

Other receivables included unbilled electricity charges of \$407,989,000 (2014: \$406,216,000) to be received from electricity customers.

(a) Ageing analysis

The ageing analysis of trade debtors, based on the invoice date, that are neither individually nor collectively considered to be impaired is as follows:

	<u>2015</u> \$'000	<u>2014</u> \$'000
Current and within 1 month	624,889	610,060
1 to 3 months	35,784	37,966
More than 3 months but less than 12 months	17,597	19,796
	<hr/>	<hr/>
Total trade debtors	678,270	667,822
	<hr/> <hr/>	<hr/> <hr/>

Electricity bills issued to domestic, small industrial, commercial and miscellaneous customers for electricity supplies are due upon presentation whereas maximum demand customers are allowed a credit period of 16 working days. If settlements by maximum demand customers are received after the credit period, a surcharge of 5% can be added to the electricity bills.

Trade debtors for electricity charges that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Trade debtors for electricity charges that were past due but not impaired relate to a number of independent customers. The Company obtains collateral in the form of security deposits or bank guarantees from customers (see note 27(a)) and the balances are considered to be fully recoverable.

(b) Impairment of trade and other receivable

The Company's trade debtors are individually assessed for impairment. Any impairment losses are written off against the trade debtors directly. No separate account is maintained for impairment losses. During the year ended 31 December 2015, impairment of trade and other receivables of \$1,364,000 (2014: \$1,354,000) was charged to profit or loss.

16. FUEL CLAUSE RECOVERY ACCOUNT

	<u>2015</u> \$'000	<u>2014</u> \$'000
At 1 January	(631,165)	491
Transferred to profit or loss (see note 5)	1,860,864	2,994,312
Fuel Clause Charges during the year	(3,512,900)	(3,625,968)
	<hr/>	<hr/>
At 31 December	(2,283,201)	(631,165)
	<hr/> <hr/>	<hr/> <hr/>

The Fuel Clause Charges per unit for electricity sales was 32.3 cents from 1 January 2015 (2014: 33.1 cents).

This account, inclusive of interest, has been and will continue to be used to stabilise electricity tariffs (see note 2(o)(ii)).

17. LOAN FROM A SUBSIDIARY

	<u>2015</u> \$'000	<u>2014</u> \$'000
Loan from a subsidiary	13,160,031	11,080,935
Current portion	<u>(899,774)</u>	<u>(499,933)</u>
Non-current portion	<u>12,260,257</u>	<u>10,581,002</u>

The loan from a subsidiary is unsecured, interest-bearing at rates representing the cost of funds to the subsidiary and is repayable on the maturity of the subsidiary's external financing arrangements as disclosed in note 23.

18. AMOUNTS DUE TO ULTIMATE HOLDING COMPANY, IMMEDIATE HOLDING COMPANY AND A SUBSIDIARY

The amounts due to ultimate holding company, immediate holding company and a subsidiary are unsecured, interest-free and repayable on demand.

19. BANK LOANS

	<u>2015</u> \$'000	<u>2014</u> \$'000
Unsecured bank loans	25,386,652	28,141,520
Current portion	<u>-</u>	<u>(20,000)</u>
Non-current portion	<u>25,386,652</u>	<u>28,121,520</u>

Some banking facilities of the Company are subject to the fulfilment of covenants relating to certain of the Company's statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Company were to breach the covenants, the drawn down facilities would become payable on demand. The Company regularly monitors its compliance with these covenants. Further details of the Company's management of liquidity risk are set out in note 27(b). As at 31 December 2015 and 2014, none of the covenants relating to drawn down facilities had been breached.

20. TRADE AND OTHER PAYABLES

	<u>2015</u> \$'000	<u>2014</u> \$'000
Creditors measured at amortised cost	2,490,760	2,394,293
Derivative financial instruments (see note 22)	<u>29,337</u>	<u>22,214</u>
	<u>2,520,097</u>	<u>2,416,507</u>

All of the trade and other payables are expected to be settled within one year or are repayable on demand.

21. INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION(a) Current taxation in the statement of financial position represents:

	<u>2015</u> \$'000	<u>2014</u> \$'000
Provision for Hong Kong Profits Tax for the year	1,058,527	932,067
Provisional Profits Tax paid for the year	(699,050)	(713,487)
	<u>359,477</u>	<u>218,580</u>

(b) Deferred tax liabilities/(assets) recognised:

The components of deferred tax liabilities/(assets) recognised in the statement of financial position and the movements during the year are as follows:

	<u>Depreciation allowances in excess of the related depreciation</u> \$'000	<u>Fuel Clause Recovery Account</u> \$'000	<u>Defined Benefit Retirement Schemes</u> \$'000	<u>Others</u> \$'000	<u>Total</u> \$'000
At 1 January 2014	6,004,741	81	(45,148)	(4,118)	5,955,556
Charged/(credited) to profit or loss	76,589	(104,223)	8,571	(245)	(19,308)
Charged/(credited) to other comprehensive income	-	-	1,431	(10,229)	(8,798)
At 31 December 2014	<u>6,081,330</u>	<u>(104,142)</u>	<u>(35,146)</u>	<u>(14,592)</u>	<u>5,927,450</u>
At 1 January 2015	6,081,330	(104,142)	(35,146)	(14,592)	5,927,450
Charged/(credited) to profit or loss	81,388	(272,586)	7,908	(81)	(183,371)
Credited to other comprehensive income	-	-	(26,074)	(20,569)	(46,643)
At 31 December 2015	<u>6,162,718</u>	<u>(376,728)</u>	<u>(53,312)</u>	<u>(35,242)</u>	<u>5,697,436</u>

The Company had no material unprovided deferred tax assets or liabilities as at 31 December 2015 and 2014.

22. DERIVATIVE FINANCIAL INSTRUMENTS

	2015		2014	
	Assets \$'000	Liabilities \$'000	Assets \$'000	Liabilities \$'000
Derivative financial instruments used for hedging:				
Cash flow hedges:				
Cross currency swaps	476	(49,182)	18,457	(31,720)
Interest rate swaps	-	(69,312)	-	(16,610)
Forward foreign exchange contracts	2,729	(66,923)	2,852	(28,516)
Fair value hedges:				
Cross currency swaps	312,514	(4,929)	333,776	(6,947)
Forward foreign exchange contracts	625	(832)	110	(736)
	<u>316,344</u>	<u>(191,178)</u>	<u>355,195</u>	<u>(84,529)</u>
Derivative financial instruments not qualifying as accounting hedges:				
Interest rate swaps	-	(6,099)	-	-
	<u>316,344</u>	<u>(197,277)</u>	<u>355,195</u>	<u>(84,529)</u>
Analysed as:				
Current	1,805	(29,337)	2,962	(22,214)
Non-current	314,539	(167,940)	352,233	(62,315)
	<u>316,344</u>	<u>(197,277)</u>	<u>355,195</u>	<u>(84,529)</u>

23. DEBT PROFILE

	2015		
	Bank loans \$'000	Loan from a subsidiary \$'000	Total \$'000
Repayable within 1 year	-	899,774	899,774
Repayable after 1 year but within 5 years	25,386,652	6,716,447	32,103,099
Repayable after 5 years	-	5,543,810	5,543,810
	<u>25,386,652</u>	<u>13,160,031</u>	<u>38,546,683</u>
	2014		
	Bank loans \$'000	Loan from a subsidiary \$'000	Total \$'000
Repayable within 1 year	20,000	499,933	519,933
Repayable after 1 year but within 5 years	28,121,520	1,528,553	29,650,073
Repayable after 5 years	-	9,052,449	9,052,449
	<u>28,141,520</u>	<u>11,080,935</u>	<u>39,222,455</u>

24. EMPLOYEE RETIREMENT BENEFITS

The Company offers three retirement schemes which together cover all permanent staff.

One of the schemes (“the Pension Scheme”) provides pension benefits based on the employee’s final basic salary and length of service. This scheme is accounted for as a defined benefit retirement scheme.

Another scheme is defined contribution in nature and offers its members choices to invest in various investment funds. One of the investment funds provides a guaranteed return; the scheme is accounted for as a defined benefit retirement scheme in respect of this investment fund (“the Guaranteed Return Scheme”). In respect of other investment funds which do not offer a guaranteed return, the scheme is accounted for as a defined contribution retirement scheme (see note 24(b)).

Both these schemes are established under trust and are registered under the Hong Kong Occupational Retirement Schemes Ordinance. The assets of the schemes are held independently of the Company’s assets in separate trustee administered funds.

The Company also participates in a master trust Mandatory Provident Fund Scheme (“MPF Scheme”) operated by an independent service provider under the Hong Kong Mandatory Provident Fund Schemes Ordinance. The MPF Scheme is a defined contribution retirement scheme with the employer and its employees each contributing to the scheme in accordance with the relevant scheme rules. The MPF Scheme rules provide for voluntary contributions to be made by the employer calculated as a percentage of the employees’ basic salaries.

(a) Defined benefit retirement schemes (“the Schemes”)

The funding policy in respect of the Pension Scheme is based on valuations prepared periodically by independent professionally qualified actuaries at Willis Towers Watson Hong Kong Limited. The policy for employer’s contributions is to fund the scheme in accordance with the actuary’s recommendations on an on-going basis. The principal actuarial assumptions used, which include discount rate, long-term salary increase rate and future pension increase rate, are disclosed in note 24(a)(vii), together with appropriate provisions for mortality rates, turnover and adjustments to reflect the short-term market expectation of salary increases. The most recent actuarial valuation of the Pension Scheme was carried out by the appointed actuary, represented by Ms. Wing Lui, FSA, as at 31 December 2013. The valuation revealed that the assets of the Pension Scheme were sufficient to cover the aggregate vested liabilities as at the valuation date.

Both defined benefit retirement schemes expose the Company to investment risk, interest rate risk and salary risk while the Pension Scheme also exposes the Company to risks of longevity and inflation.

The retirement scheme expense/income recognised in profit or loss for the year ended 31 December 2015 was determined in accordance with HKAS 19 (2011), *Employee benefits*.

(i) The amounts recognised in the statement of financial position are as follows:

	<u>2015</u> \$’000	<u>2014</u> \$’000
Present value of defined benefit obligations	3,948,283	3,975,934
Fair value of the assets of the Schemes	(3,941,230)	(4,144,447)
	<u>7,053</u>	<u>(168,513)</u>
Represented by:		
Employee retirement benefit scheme assets	(579,942)	(667,630)
Employee retirement benefit scheme liabilities	586,995	499,117
	<u>7,053</u>	<u>(168,513)</u>

A portion of the above asset/liability is expected to be realised/settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions.

- (ii) Movements in the present value of the defined benefit obligations of the Schemes are as follows:

	<u>2015</u> \$'000	<u>2014</u> \$'000
At 1 January	3,975,934	3,963,962
Current service cost	80,485	82,341
Interest cost	78,134	92,012
Employee contributions paid to the Schemes	16,120	17,067
Actuarial (gains)/losses due to:		
- liability experience	(37,374)	10,793
- changes in financial assumptions	111,240	137,342
Benefits paid	(276,256)	(327,583)
At 31 December	<u>3,948,283</u>	<u>3,975,934</u>

- (iii) Movements in the fair value of the assets of the Schemes are as follows:

	<u>2015</u> \$'000	<u>2014</u> \$'000
At 1 January	4,144,447	4,136,381
Interest income on the Schemes' assets	78,936	95,242
Return on Schemes' assets, excluding interest income	(84,165)	156,810
Employer contributions paid to the Schemes	62,148	66,530
Employee contributions paid to the Schemes	16,120	17,067
Benefits paid	(276,256)	(327,583)
At 31 December	<u>3,941,230</u>	<u>4,144,447</u>

The Company expects to contribute \$65,417,000 to its defined benefit retirement schemes in 2016.

- (iv) The expenses recognised in the statement of profit or loss, prior to any capitalisation of employment costs attributable to additions of property, plant and equipment, is as follows:

	<u>2015</u> \$'000	<u>2014</u> \$'000
Current service cost	80,485	82,341
Net interest income on net defined benefit asset/liability	(802)	(3,230)
	<u>79,683</u>	<u>79,111</u>

The expenses are recognised in the following line items in the statement of profit or loss:

	<u>2015</u> \$'000	<u>2014</u> \$'000
Direct costs	52,918	52,952
Other operating costs	26,765	26,159
	<u>79,683</u>	<u>79,111</u>

- (v) The cumulative amount of actuarial losses recognised in the statement of comprehensive income is as follows:

	<u>2015</u> \$'000	<u>2014</u> \$'000
At 1 January	820,090	828,765
Remeasurement of net defined benefit asset/liability recognised in the statement of comprehensive income during the year	158,031	(8,675)
At 31 December	<u>978,121</u>	<u>820,090</u>

- (vi) The assets of the Schemes comprise:

	<u>2015</u> \$'000	<u>2014</u> \$'000
Hong Kong equities	353,389	402,462
European equities	197,430	204,761
North American equities	500,244	532,398
Other Asia Pacific equities	133,865	165,294
Global bonds	2,637,579	2,712,550
Deposits, cash and others	118,723	126,982
	<u>3,941,230</u>	<u>4,144,447</u>

Strategic investment decisions are taken with respect to the risk and return profiles. There has been no change in the process used by the Company to manage its risks from prior periods.

- (vii) The principal actuarial assumptions used as at 31 December (expressed as a weighted average) are as follows:

	<u>2015</u>	<u>2014</u>
Discount rate		
- The Pension Scheme	2.1%	2.3%
- The Guaranteed Return Scheme	1.4%	1.8%
Long term salary increase rate	5.0%	5.0%
Future pension increase rate	2.5%	2.5%

(viii) Sensitivity analysis

(a) The Pension Scheme

	<u>2015</u> \$'000	<u>2014</u> \$'000
	<u>Increase/(decrease) in</u> <u>defined benefit obligation</u>	
<u>Actuarial assumptions</u>		
Discount rate		
- increase by 0.25%	(55,734)	(55,399)
- decrease by 0.25%	58,827	58,508
Pension increase rate		
- increase by 0.25%	53,796	52,835
- decrease by 0.25%	(51,357)	(50,431)
Mortality rate applied to specific age		
- set forward one year	(63,747)	(60,510)
- set backward one year	64,716	61,302

(b) The Guaranteed Return Scheme

	<u>2015</u> \$'000	<u>2014</u> \$'000
	<u>Increase/(decrease) in</u> <u>defined benefit obligation</u>	
<u>Actuarial assumptions</u>		
Discount rate		
- increase by 0.25%	(41,886)	(44,924)
- decrease by 0.25%	43,185	46,345
Interest to be credited increase by 0.25%	42,400	45,685

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit liability recognised within the statement of financial position. The analysis has been performed on the same basis as for 2014.

(ix) The following table sets out the weighted average durations of the defined benefit obligations of the Schemes:

	<u>2015</u>	<u>2014</u>
The Pension Scheme	14.1 Years	14.3 Years
The Guaranteed Return Scheme	7.4 Years	7.7 Years

(b) Defined contribution retirement schemes

	<u>2015</u> \$'000	<u>2014</u> \$'000
Expenses recognised in profit or loss	<u>43,381</u>	<u>38,303</u>

Forfeited contributions of \$1,648,000 (2014: \$622,000) have been received during the year.

25. RECONCILIATION OF PROFIT BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS

	<u>2015</u> \$'000	<u>2014</u> \$'000
Profit before taxation	5,217,186	5,468,032
Adjustments for:		
Net financial instrument revaluation and exchange loss/(gain)	2,602	(1,618)
Finance costs	838,976	789,569
Interest transferred to fuel costs	17,707	18,151
Interest income	(46,476)	(47,850)
Depreciation	1,996,937	1,930,907
Amortisation of leasehold land	58,314	58,313
Net loss on disposal and written off of property, plant and equipment	56,478	63,821
Operating profit before changes in working capital	8,141,724	8,279,325
Decrease in inventories	43,270	22,062
Increase/decrease in net employee retirement benefit scheme assets/liabilities	17,535	12,581
Increase in trade and other receivables	(28,176)	(12,820)
Increase in trade and other payables	36,089	10,831
Decrease in amounts due from fellow subsidiaries	-	6,318
(Decrease)/increase in amount due to ultimate holding company	(2,800)	5,334
Movement in Fuel Clause Recovery Account	1,652,036	631,656
Cash generated from operations	<u>9,859,678</u>	<u>8,955,287</u>

26. CAPITAL AND RESERVES(a) Share capital

	<u>2015</u>		<u>2014</u>	
	No of Shares ('000)	\$'000	No of Shares ('000)	\$'000
Ordinary shares, issued and fully paid:				
At 1 January and 31 December	<u>1,205,800</u>	<u>2,411,600</u>	<u>1,205,800</u>	<u>2,411,600</u>

The holder of ordinary shares is entitled to receive dividends as declared from time to time and is entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

(b) Nature and purpose of the hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges (net of any deferred tax effect) pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges as set out in note 2(n).

(c) Components of the Company's capital and reserves

The opening and closing balances of each component of the Company's equity and a reconciliation between these amounts are set out in the statement of changes in equity.

(d) Capital management

The Company's primary objectives when managing capital are:

- to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to provide returns to shareholders by securing access to finance at a reasonable cost;
- to support the Company's stability and future growth; and
- to provide capital for the purpose of strengthening the Company's risk management capability.

The Company actively and regularly reviews and manages its capital structure, taking into consideration the future capital requirements of the Company and capital efficiency, forecast profitability, forecast operating cash flows, forecast capital expenditure and projected investment opportunities.

During 2015, the Company's strategy, which was unchanged from 2014, was to control its level of debt in order to secure access to finance at a reasonable cost. In order to maintain or adjust the level of debt, the Company may adjust the amount of dividends paid to the holding company, issue new shares, return capital to the holding company, raise new debt financing or sell assets to reduce debt.

The gearing ratio of the Company at 31 December 2015 and 2014 was as follows:

	<u>2015</u> \$'000	<u>2014</u> \$'000
Total interest-bearing borrowings	<u>38,546,683</u>	<u>39,222,455</u>
Total assets	<u>58,567,656</u>	<u>56,907,875</u>
Gearing ratio	<u>65.8%</u>	<u>68.9%</u>

At 31 December 2015, the Company acted as the guarantor in respect of the loan facilities granted to its ultimate holding company of \$5,078,900,000 (2014: \$5,078,900,000) and US\$467,000,000 (approximately \$3,620,418,000) (2014: US\$467,000,000 (approximately \$3,622,052,000)).

The Company also acted as the guarantor in respect of the medium term notes issued by its subsidiary of \$12,913,890,000 (2014: \$10,827,000,000), out of which \$1,956,214,600 (2014: \$Nil) was jointly and severally guaranteed by the Company and the ultimate holding company. The net proceeds from the medium term notes have been on-lent to the Company for general corporate purposes and reflected as loan from a subsidiary in the statement of financial position.

Total interest-bearing borrowings of the Company as at 31 December 2015 and 2014 include bank loans and loan from a subsidiary as shown in the statement of financial position of the Company.

27. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

The Company is exposed to credit, liquidity, interest rate and currency risks in the normal course of its business. In accordance with the Company's treasury policy, derivative financial instruments are only used to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. The Company does not hold or issue derivative financial instruments for trading or speculative purposes.

(a) Credit risk

The Company's credit risk is primarily attributable to trade and other receivables relating to electricity customers, bank deposits and over-the-counter derivative financial instruments entered into for hedging purposes. The Company has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables relating to electricity customers, the Company obtains collateral in the form of security deposits or bank guarantees from customers in accordance with the Supply Rules. At 31 December 2015, the collateral held by the Company mitigated its credit risk by \$445,327,000 (2014: \$442,283,000).

The Company has a defined minimum credit rating requirement and transaction limit for counterparties when dealing in financial derivatives or placing deposits to minimise credit exposure. The Company does not expect any counterparty to fail to meet its obligations.

The Company has no significant concentrations of credit risk in respect of trade and other receivables relating to electricity customers, as the five largest customers combined did not exceed 30% of the Company's total revenue.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the statement of financial position.

Except for the financial guarantees given by the Company as set out in note 29, the Company has not provided any other guarantee which would expose the Company to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of the reporting period is disclosed in note 29.

Further quantitative disclosures in respect of the Company's exposure to credit risk arising from trade and other receivables are set out in note 15.

Offsetting financial assets and financial liabilities

The Company's derivative transactions are executed with financial institutions and governed by either International Swaps and Derivatives Association ("ISDA") Master Agreements or the general terms and conditions of these financial institutions, with a conditional right of set off under certain circumstances that would result in all outstanding transactions being terminated and net settled.

As these financial institutions currently have no legal enforceable right to set off the recognised amounts and the Company does not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously, all such financial instruments are recorded on a gross basis at the end of the reporting period.

The following table presents the recognised financial instruments that are subject to enforceable master netting arrangements but are not offset as at the end of the reporting period:

	2015			2014		
	Gross amounts of financial instruments in the statement of financial position	Related financial instruments that are not offset	Net amount	Gross amounts of financial instruments in the statement of financial position	Related financial instruments that are not offset	Net Amount
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<u>Financial assets</u>						
Cross currency swaps (note 27(e)(i))	312,990	(100,973)	212,017	352,233	(29,939)	322,294
Forward foreign exchange contracts (note 27(e)(i))	3,354	(2,203)	1,151	2,962	(2,962)	-
	<u>316,344</u>	<u>(103,176)</u>	<u>213,168</u>	<u>355,195</u>	<u>(32,901)</u>	<u>322,294</u>
<u>Financial liabilities</u>						
Cross currency swaps (note 27(e)(i))	54,111	(3,262)	50,849	38,667	-	38,667
Interest rate swaps (note 27(e)(i))	75,411	(75,411)	-	16,610	(16,610)	-
Forward foreign exchange contracts (note 27(e)(i))	67,755	(24,503)	43,252	29,252	(16,291)	12,961
	<u>197,277</u>	<u>(103,176)</u>	<u>94,101</u>	<u>84,529</u>	<u>(32,901)</u>	<u>51,628</u>

(b) Liquidity risk

The Company's policy is to regularly monitor current and expected liquidity requirements and its compliance with loan covenants to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding to meet its liquidity requirements in the short and longer term. The Company has undrawn committed bank facilities of \$1,000,000,000 at 31 December 2015 (2014: \$1,000,000,000).

The following tables show the remaining contractual maturities at the end of the reporting period of the Company's non-derivative financial liabilities and derivative financial instruments, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Company can be required to pay.

2015						
Contractual undiscounted cash outflows/(inflows)						
	Within 1 year or on <u>demand</u> \$'000	More than 1 year but less than <u>2 years</u> \$'000	More than 2 years but less than <u>5 years</u> \$'000	More than <u>5 years</u> \$'000	<u>Total</u> \$'000	Carrying amount <u>at 31 Dec</u> \$'000
<u>Non-derivative financial liabilities</u>						
Loan from a subsidiary plus accrued interest	1,307,842	666,062	7,220,917	10,965,617	20,160,438	13,199,699
Bank loans plus accrued interest	308,417	25,528,244	-	-	25,836,661	25,415,112
Creditors and accrued charges	2,410,361	-	-	-	2,410,361	2,410,361
	<u>4,026,620</u>	<u>26,194,306</u>	<u>7,220,917</u>	<u>10,965,617</u>	<u>48,407,460</u>	<u>41,025,172</u>
<u>Derivative financial instruments</u>						
<u>Net settled</u>						
Interest rate swaps and related interest accruals	143,280	26,915	-	-	170,195	93,086
<u>Gross settled</u>						
Cross currency swaps and related interest accruals						(250,944)
- outflow	295,641	153,360	352,286	-	801,287	
- inflow	(392,599)	(264,002)	(741,336)	-	(1,397,937)	
Forward foreign exchange contracts held as cash flow hedging instruments						64,194
- outflow	3,148,244	1,610,745	-	2,304,592	7,063,581	
- inflow	(3,142,888)	(1,609,175)	-	(2,437,548)	(7,189,611)	
Other forward foreign exchange contracts						207
- outflow	88,142	-	-	-	88,142	
- inflow	(87,869)	-	-	-	(87,869)	
	<u>88,142</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>88,142</u>	<u>207</u>
	<u>(87,869)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(87,869)</u>	<u>-</u>
2014						
Contractual undiscounted cash outflows/(inflows)						
	Within 1 year or on <u>demand</u> \$'000	More than 1 year but less than <u>2 years</u> \$'000	More than 2 years but less than <u>5 years</u> \$'000	More than <u>5 years</u> \$'000	<u>Total</u> \$'000	Carrying amount <u>at 31 Dec</u> \$'000
<u>Non-derivative financial liabilities</u>						
Loan from a subsidiary plus accrued interest	917,741	1,307,905	1,721,104	9,867,279	13,814,029	11,123,348
Bank loans plus accrued interest	328,961	309,913	28,367,180	-	29,006,054	28,176,081
Creditors and accrued charges	2,301,925	-	-	-	2,301,925	2,301,925
	<u>3,548,627</u>	<u>1,617,818</u>	<u>30,088,284</u>	<u>9,867,279</u>	<u>45,122,008</u>	<u>41,601,354</u>
<u>Derivative financial instruments</u>						
<u>Net settled</u>						
Interest rate swaps and related interest accruals	145,059	145,117	28,979	-	319,155	35,637
<u>Gross settled</u>						
Cross currency swaps and related interest accruals						(302,565)
- outflow	294,008	294,848	391,198	116,803	1,096,857	
- inflow	(361,333)	(361,416)	(757,527)	(247,222)	(1,727,498)	
Forward foreign exchange contracts held as cash flow hedging instruments						25,664
- outflow	3,549,386	44,228	8,523	-	3,602,137	
- inflow	(3,529,769)	(37,375)	(7,096)	-	(3,574,240)	
Other forward foreign exchange contracts						626
- outflow	351,096	-	-	-	351,096	
- inflow	(348,827)	-	-	-	(348,827)	
	<u>351,096</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>351,096</u>	<u>626</u>
	<u>(348,827)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(348,827)</u>	<u>-</u>

(c) Interest rate risk

The Company is exposed to cash flow interest rate risk on its interest-bearing assets and liabilities. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

(i) Hedging

The Company's policy is to maintain a balanced combination of fixed and variable rate debt to reduce its interest rate exposure. The Company also uses cross currency swaps and interest rate swaps to manage the exposure in accordance with the treasury policy. At 31 December 2015, the Company had cross currency swaps with a total notional amount of \$17,618,686,000 (2014: \$17,618,686,000) and interest rate swaps with a total notional amount of \$20,793,141,000 (2014: \$20,793,141,000).

The Company classifies cross currency swaps and interest rate swaps as cash flow or fair value hedges and states them at fair value in accordance with the policy set out in note 2(n).

The net fair values of cross currency swaps and interest rate swaps entered into by the Company at 31 December 2015 were a net asset of \$258,879,000 (2014: \$313,566,000) and a net liability of \$75,411,000 (2014: \$16,610,000), respectively. These amounts are recognised as derivative financial instruments assets/liabilities.

(ii) Interest rate profile

The following table details the interest rate profile of the Company's net interest-bearing assets and liabilities at the end of the reporting period, after taking into account the effect of cross currency swaps and interest rate swaps designated as cash flow or fair value hedging instruments (see (i) above).

		<u>2015</u>		<u>2014</u>
	Effective Interest Rate %	\$'000	Effective Interest Rate %	\$'000
<u>Net fixed rate assets/(liabilities):</u>				
Deposits with banks and other financial institutions	0.69	5,891,363	1.33	4,609,944
Loan from a subsidiary	3.25	(13,160,031)	3.01	(11,080,935)
Bank loans	1.84	(22,289,564)	1.85	(23,865,439)
		<u>(29,558,232)</u>		<u>(30,336,430)</u>
<u>Net variable rate assets/(liabilities):</u>				
Cash at bank and in hand	-*	263,164	-*	18,296
Bank loans	1.05	(3,097,088)	1.04	(4,276,081)
Customers' deposits	-*	(2,000,452)	-*	(1,937,062)
		<u>(4,834,376)</u>		<u>(6,194,847)</u>

* Less than 0.01%

(iii) Sensitivity analysis

At 31 December 2015, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Company's profit after taxation and revenue reserve by approximately \$23,625,000 (2014: \$49,018,000). Other components of equity would have increased/decreased by approximately \$256,192,000 (2014: \$508,743,000) in response to the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The analysis has been performed on the same basis as for 2014.

(d) Currency risk(i) Committed and forecast transactions

The Company is exposed to currency risk primarily through purchases that are denominated in a currency other than the functional currency of the Company. The currencies giving rise to this risk are primarily United States Dollars, Japanese Yen, Pounds Sterling and Euros.

The Company uses forward foreign exchange contracts to manage its currency risk and classifies these as cash flow hedges. At 31 December 2015, the Company had forward foreign exchange contracts hedging committed and forecast transactions with a net fair liability value of \$19,637,000 (2014: \$25,664,000) recognised as derivative financial instruments.

(ii) Recognised assets and liabilities

The net fair value of forward foreign exchange contracts used by the Company as economic hedges of monetary assets and liabilities including Company's borrowings in foreign currencies at 31 December 2015 was a net liability of \$44,764,000 (2014: \$626,000) recognised as derivative financial instruments.

The Company's borrowings are either hedged into Hong Kong dollars by ways of forward foreign exchange contracts and cross currency swaps or are denominated in Hong Kong dollars. Given this, the management does not expect that there would be any significant currency risk associated with the Company's borrowings.

(iii) Exposure to currency risk

The following table details the Company's exposure at the end of the reporting period to currency risk arising from the recognised assets or liabilities denominated in a currency other than the functional currency of the Company.

'000 (expressed in original currencies)	2015			
	USD	JPY	GBP	EUR
Cash and bank balances	(63)	(1,693)	(14)	-
Trade and other payables	46,963	1,891,123	129	134
Bank loans	1,367,319	-	-	-
Loan from a subsidiary	1,002,333	-	-	-
Gross exposure arising from recognised assets and liabilities	2,416,552	1,889,430	115	134
Notional amounts of forward foreign exchange contracts designated as hedging instruments	(102,188)	(1,183,618)	-	-
Notional amounts of cross currency swaps designated as hedging instruments	(2,269,027)	-	-	-
Net exposure arising from recognised assets and liabilities	45,337	705,812	115	134

'000 (expressed in original currencies)	2014			
	USD	JPY	GBP	EUR
Cash and bank balances	(4)	(1,687)	-	(3)
Trade and other payables	59,844	1,510,874	453	114
Bank loans	1,519,027	-	-	-
Loan from a subsidiary	750,000	-	-	-
Gross exposure arising from recognised assets and liabilities	2,328,867	1,509,187	453	111
Notional amounts of forward foreign exchange contracts designated as hedging instruments	(39,548)	(492,509)	(360)	-
Notional amounts of cross currency swaps designated as hedging instruments	(2,269,027)	-	-	-
Net exposure arising from recognised assets and liabilities	20,292	1,016,678	93	111

(iv) Sensitivity analysis

The following table indicates that a 10 percent strengthening of the following currencies against Hong Kong dollars at the end of the reporting period would have increased/decreased the Company's profit after taxation (and revenue reserve) and other components of equity.

	<u>2015</u>		<u>2014</u>	
	Effect on profit after taxation and revenue reserve Increase/ (decrease) <u>\$'000</u>	Effect on other components of equity Increase/ (decrease) <u>\$'000</u>	Effect on profit after taxation and revenue reserve Increase/ (decrease) <u>\$'000</u>	Effect on other components of equity Increase/ (decrease) <u>\$'000</u>
Japanese Yen	(1,901)	8,094	(685)	15,423
Euros	(84)	144	(94)	-
Pounds Sterling	(27)	1,262	(26)	919

A 10 percent weakening in the above currencies against Hong Kong dollars at the end of the reporting period would have had an equal but opposite effect on the Company's profit after taxation (and revenue reserve) and other components of equity.

This sensitivity analysis assumes that the change in foreign exchange rates had been applied to remeasure those financial instruments held by the Company which expose the Company to currency risk at the end of the reporting period, and that all other variables, in particular interest rates, remain constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies. The analysis has been performed on the same basis as for 2014.

(e) Fair values

The following table presents the fair value of the Company's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13: *Fair Value Measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical financial assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data is not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

(i) Recurring fair value measurements

		<u>2015</u> \$'000	<u>2014</u> \$'000
	<u>Note</u>	Level 2	Level 2
<u>Financial assets</u>			
Derivative financial instruments:			
- Cross currency swaps	27(a)	312,990	352,233
- Forward foreign exchange contracts	27(a)	3,354	2,962
		<u>316,344</u>	<u>355,195</u>
<u>Financial liabilities</u>			
Derivative financial instruments:			
- Cross currency swaps	27(a)	54,111	38,667
- Interest rate swaps	27(a)	75,411	16,610
- Forward foreign exchange contracts	27(a)	67,755	29,252
Loan from a subsidiary subject to fair value hedges		4,554,276	4,568,238
Bank loans subject to fair value hedges		3,097,088	4,256,081
		<u>7,848,641</u>	<u>8,908,848</u>

(ii) Fair values of financial assets and liabilities carried at other than fair value

Trade and other receivables and trade and other payables are carried at cost or amortised cost which are not materially different from their fair values as at 31 December 2015.

(iii) Valuation techniques and inputs in Level 2 fair value measurements

The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the end of the reporting period. The fair values of cross currency swaps and interest rate swaps are determined by discounting the future cash flows of the contracts at the current market interest rates.

The fair value of loan from a subsidiary is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

The fair value of bank loans is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments. The carrying amounts of bank loans are estimated to approximate their fair values at the end of the reporting period.

28. CAPITAL COMMITMENTS

At 31 December 2015, the Company had capital commitments for property, plant and equipment not provided for in the financial statements as follows:

	<u>2015</u> \$'000	<u>2014</u> \$'000
Capital expenditure for property, plant and equipment authorised and contracted for	<u>2,247,842</u>	<u>963,599</u>
Capital expenditure for property, plant and equipment authorised but not contracted for	<u>9,587,870</u>	<u>11,474,467</u>

29. CONTINGENT LIABILITIES

At 31 December 2015, the Company acted as the guarantor in respect of the loan facilities granted to its ultimate holding company of \$5,078,900,000 (2014: \$5,078,900,000) and US\$467,000,000 (approximately \$3,620,418,000) (2014: US\$467,000,000 (approximately \$3,622,052,000)).

The Company also acted as the guarantor in respect of the medium term notes issued by its subsidiary of \$12,913,890,000 (2014: \$10,827,000,000), out of which \$1,956,214,600 (2014: \$Nil) was jointly and severally guaranteed by the Company and the ultimate holding company. The net proceeds from the medium term notes have been on-lent to the Company for general corporate purposes and reflected as Loan from a subsidiary in the statement of financial position.

The Company had fully complied with the capital requirements under the loan facility agreements.

30. IMMEDIATE PARENT AND ULTIMATE CONTROLLING PARTY

At 31 December 2015, the Directors consider the immediate parent and ultimate controlling party of the Company to be Treasure Business Limited and HKEIL, which are incorporated in the British Virgin Islands and the Cayman Islands respectively. HKEIL produces financial statements available for public use.

31. MATERIAL RELATED PARTY TRANSACTIONS

The Company had the following material transactions with related parties during the year:

(a) Key management personnel compensation

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 7 is as follows:

	<u>2015</u> \$'000	<u>2014</u> \$'000
Short-term employee benefits	55,600	55,722
Post-employment benefits	3,397	3,603
	<u>58,997</u>	<u>59,325</u>

There was no outstanding amount due from key management personnel at 31 December 2015 and 2014.

(b) Related companySupport service charge recovered from Power Assets Holdings Limited group ("PAH group")

Other operating costs included support service charge recovered from PAH group amounting to \$37,061,000 (2014: \$35,963,000) for provision of the support services and office facilities to PAH group. The support service charge was based on the total costs incurred in the provision or procurement of the provision of the services and facilities and allocated to PAH group on a fair and equitable basis, taking into account the time spent by the relevant personnel when providing such services.

At 31 December 2015, the total outstanding balance receivable from PAH group was \$3,883,000 (2014: \$2,750,600).

(c) Subsidiary

Interest expenses paid/payable in respect of the loans from a subsidiary amounted to \$436,464,000 (2014: \$446,577,000) for the year. Details of the loan from a subsidiary at 31 December 2015 are disclosed in note 17.

32. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The methods, estimates and judgements the Directors used in applying the Company's accounting policies have a significant impact on the Company's financial position and operating results. Some of the accounting policies require the Company to apply estimates and judgements on matters that are inherently uncertain. In addition to notes 24 and 27 which contain information about the assumptions and their risk factors relating to valuation of defined benefit retirement scheme assets and liabilities and financial instruments, certain critical accounting judgements in applying the Company's accounting policies are described below.

(a) Depreciation and amortisation

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives after taking into account the estimated residual value. The Company reviews annually the useful life of an asset and its residual value, if any.

Interests in leasehold land held for own use under finance leases are amortised on a straight-line basis over the shorter of the estimated useful lives of the leased assets and the unexpired lease term. Both the period and methods of amortisation are reviewed annually.

The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

(b) Impairment

In considering the impairment losses that may be required for the property, plant and equipment and interests in leasehold land of the Company, their recoverable amounts need to be determined. The recoverable amount is the greater of the fair value less costs of disposal and the value in use. It is difficult to precisely estimate the fair value less costs of disposal because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the assets are discounted to their present value, which requires significant judgement. The Company uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount.

Any increase or decrease in impairment losses, recognised as set out above, would affect the net profit in future years.

33. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2015

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2015 and which have not been adopted in these financial statements.

The Company is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far, it has concluded that the following developments are relevant to the Company's financial statements but the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position.

	Effective for accounting periods beginning on or after
<i>Annual Improvements to HKFRSs 2012-2014 Cycle</i>	1 January 2016
Amendments to HKAS 1, <i>Disclosure initiative</i>	1 January 2016
Amendments to HKAS 16 and HKAS 38, <i>Clarification of acceptable methods of depreciation and amortisation</i>	1 January 2016
HKFRS 15, <i>Revenue from contracts with customers</i>	1 January 2018
HKFRS 9, <i>Financial instruments</i>	1 January 2018

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