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**NOT FOR DISTRIBUTION INTO THE UNITED STATES**

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THE SECURITIES AND THE GUARANTEE TO BE PROVIDED IN RESPECT THEREOF 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 AND THE GUARANTEE MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, 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. THIS OFFERING IS MADE SOLELY IN OFFSHORE TRANSACTIONS PURSUANT TO REGULATION S UNDER THE SECURITIES ACT.

THIS OFFERING MEMORANDUM 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. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

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

The materials relating to any offering of securities described in this Offering Memorandum do not constitute, and may not be used in connection with, an offer or solicitation by or on behalf of any of the Issuer, the Guarantor, the Company, the Joint Global Coordinators, the Joint Lead Managers, the Joint Bookrunners or the Co-managers (each as defined in this Offering Memorandum) in any place where offers or solicitations are not permitted by law and access has been limited so that it shall not constitute in the United States or elsewhere any directed selling efforts (within the meaning of Regulation S under the Securities Act). If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Joint Global Coordinator, the Joint Lead Managers, the Joint Bookrunners or the Co-managers or any affiliate of the Joint Global Coordinators, the Joint Lead Managers, the Joint Bookrunners or the Co-managers are licensed brokers or dealers in that jurisdiction, the offering shall be deemed to be made by the Joint Global Coordinators, the Joint Lead Managers, the Joint Bookrunners or the Co-managers or such affiliate on behalf of the Issuer in such jurisdiction.

This Offering Memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Joint Global Coordinators, the Joint Lead Managers, the Joint Bookrunners or the Co-managers or any person who controls the Joint Global Coordinators, the Joint Lead Managers, the Joint Bookrunners or the Co-managers or any director, officer, employee, representative, affiliate or agent of the Joint Global Coordinators, the Joint Lead Managers, Joint Bookrunners or the Co-managers or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between this Offering Memorandum distributed to you in electronic format and the hard copy version available to you on request from the Joint Global Coordinators, the Joint Lead Managers, the Joint Bookrunners or the Co-managers.

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# STATE GRID EUROPE DEVELOPMENT (2014) PUBLIC LIMITED COMPANY

(incorporated with limited liability in England and Wales)

**Series A €700,000,000 1.50 per cent. Guaranteed Notes due 2022 (the Series A Notes)**  
**Series B €300,000,000 2.45 per cent. Guaranteed Notes due 2027 (the Series B Notes)**  
irrevocably and unconditionally guaranteed by



## STATE GRID INTERNATIONAL DEVELOPMENT LIMITED

國家電網國際發展有限公司

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

with the benefit of a Keepwell Deed provided by

## STATE GRID CORPORATION OF CHINA

(incorporated in the People's Republic of China with limited liability)

**Issue Price of the Series A Notes: 99.736 per cent.**

**Issue Price of the Series B Notes: 99.211 per cent.**

The Series A €700,000,000 1.50 per cent. Guaranteed Notes due 2022 (the "Series A Notes") and the Series B €300,000,000 2.45 per cent. Guaranteed Notes due 2027 (the "Series B Notes", together with Series A Notes, the "Notes") will be issued by State Grid Europe Development (2014) Public Limited Company (the "Issuer") and will be irrevocably and unconditionally guaranteed on an unsecured basis (the "Guarantee") by State Grid International Development Limited 國家電網國際發展有限公司 (the "Guarantor"). The Issuer is an indirect, wholly-owned subsidiary of the Guarantor and the Guarantor in turn is an indirect, wholly-owned subsidiary of State Grid Corporation of China (the "Company").

In this Offering Memorandum, references to the "Notes" are to any of the Series A Notes and the Series B Notes and references to a "series of Notes" or to a "series" are to the Series A Notes or the Series B Notes separately. In this Offering Memorandum, references to the "Terms and Conditions of the Notes" are to the terms and conditions of the Series A Notes and to the terms and conditions of the Series B Notes, and references to the section "Terms and Conditions of the Notes" are to the sections "Terms and Conditions of the Series A Notes" and "Terms and Conditions of the Series B Notes". The Series A Notes bear interest on their outstanding principal amount from and including 26 January 2015 at the rate of 1.50 per cent. per annum. The Series B Notes bear interest on their outstanding principal amount from and including 26 January 2015 at the rate of 2.45 per cent. per annum. Interest will be payable annually in arrear on 26 January of each year (each an "Interest Payment Date"). All payments of principal and interest by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the United Kingdom, Hong Kong or the PRC or any political subdivision or authority therein or thereof having power to tax, unless such withholding or deduction is required by law.

The Notes constitute direct, unconditional, unsubordinated and (subject to Condition 5.1 (*Negative Pledge*) of the Terms and Conditions of the Notes) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The obligations of the Guarantor under the Guarantee constitute direct, unsubordinated and (subject to Condition 5.1 (*Negative Pledge*) of the Terms and Conditions of the Notes) unsecured obligations of the Guarantor. The payment obligations of the Issuer under the Notes and of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable law, at all times rank at least equally with all the Issuer's other present and future unsecured and unsubordinated obligations.

The Issuer, the Guarantor and the Company will enter into a keepwell deed (the "Keepwell Deed") with The Hongkong and Shanghai Banking Corporation Limited (the "Trustee") as trustee of the Noteholders as further described in "Terms and Conditions of the Notes" and "Description of the Keepwell Deed" on or about 26 January 2015. **The Keepwell Deed does not constitute a guarantee by the Company of the obligations of the Issuer under the Notes or Trust Deed.**

Unless previously redeemed, or purchased and cancelled, the Series A Notes will mature on 26 January 2022 at their principal amount and the Series B Notes will mature on 26 January 2027 at their principal amount. The Notes are subject to redemption, in whole but not in part, at their principal amount, together with accrued interest, at the option of the Issuer at any time in the event of certain changes affecting taxes of the United Kingdom, Hong Kong or the PRC or any political subdivision or any authority thereof or therein having power to tax. See "Terms and Conditions of the Notes – Redemption and Purchase – Redemption for Taxation Reasons". In addition, the Issuer or the Guarantor may at any time redeem the Notes, in whole or in part, at the relevant early redemption amount. See "Terms and Conditions of the Notes – Redemption and Purchase – Optional Redemption". At any time following the occurrence of a Change of Control Triggering Event (as defined in the Terms and Conditions of the Notes), the holder of a Note will have the right, at such holder's option, to require the Issuer to redeem all but not some only of that holder's Notes on the Put Settlement Date (as defined in the Terms and Conditions of the Notes) at 101 per cent. of the principal amount of the relevant series of Notes, together with accrued interest to but excluding such Put Settlement Date. See "Terms and Conditions of the Notes – Redemption and Purchase – Redemption for a Change of Control Triggering Event". For a more detailed description of the Notes, see "Terms and Conditions of the Notes".

The Notes will be issued in denominations of €100,000 each and integral multiples of €1,000 in excess thereof.

Each series of Notes is expected to be rated A1, A+ and A+ by Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Rating Services, a Division of the McGraw Hill Companies, Inc. ("Standard & Poor's") and Fitch Ratings Ltd. ("Fitch"), respectively. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Investing in the Notes involves risks. See "Risk Factors" beginning on page 20 for a discussion of certain factors to be considered in connection with an investment in the Notes.

The Notes and the Guarantee have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") and may not be offered or sold within the United States. The Notes and the Guarantee are being offered and sold only outside the United States in offshore transactions in reliance on Regulation S under the Securities Act. For a description of these and certain further restrictions on offers and sales of the Notes and the distribution of this Offering Memorandum, see "Subscription and Sale".

This Offering Memorandum has not been approved as a prospectus for the purposes of Directive 2003/71/EC, as amended (the "Prospectus Directive") and, accordingly, no offer to the public may be made and no admission to trading may be applied for on any market in the European Economic Area designated as a regulated market, in each case for the purposes of the Prospectus Directive.

This Offering Memorandum 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") must 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 of Notes in that Relevant Member State may only do so in circumstances in which no obligation arises for the Issuer, the Guarantor, the Company, any Joint Lead Manager or any Co-manager 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. None of the Issuer, the Guarantor, the Company, any Joint Lead Manager or any Co-manager has authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer, the Guarantor, the Company, any Joint Lead Manager or any Co-manager to publish or supplement a prospectus for such offer.

Application has been made to the Irish Stock Exchange plc for the approval of this Offering Memorandum as Listing Particulars ("Listing Particulars"). Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on the Global Exchange Market which is the exchange regulated market of the Irish Stock Exchange. The Global Exchange Market is not a regulated market for the purposes of Directive 2004/39/EC.

Each series of the Notes will be represented by beneficial interests in a global certificate (each a "Global Certificate") in registered form, which will be registered in the name of a nominee for, and shall be deposited on or about 26 January 2015 (the "Issue Date"), with a common depository for, Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"). Beneficial interests in the Global Certificates will be shown on, and transfer thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg. Except as described herein, certificates for Notes will not be issued in exchange for relevant interests in a Global Certificate.

### Joint Global Coordinators

DEUTSCHE BANK

HSBC

MORGAN STANLEY

### Joint Lead Managers and Joint Bookrunners

DEUTSCHE BANK

HSBC

MORGAN STANLEY

ANZ

BANK OF CHINA

BARCLAYS

THE ROYAL BANK OF SCOTLAND

### Co-managers

COMMONWEALTH  
BANK OF AUSTRALIA

INTESA SANPAOLO S.P.A.

NATIXIS

SANTANDER GLOBAL  
BANKING & MARKETS

Offering Memorandum dated 20 January 2015

## NOTICE TO INVESTORS

THIS OFFERING MEMORANDUM DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, ANY SECURITIES IN ANY JURISDICTION TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE THE OFFER OR SOLICITATION IN SUCH JURISDICTION. NEITHER THE DELIVERY OF THIS OFFERING MEMORANDUM NOR ANY SALE MADE HEREUNDER SHALL UNDER ANY CIRCUMSTANCES IMPLY THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE ISSUER, THE GUARANTOR, THE COMPANY OR ANY OF ITS SUBSIDIARIES OR THAT THE INFORMATION SET FORTH IN THIS OFFERING MEMORANDUM IS CORRECT AS AT ANY DATE SUBSEQUENT TO THE DATE HEREOF.

Each of the Issuer and the Guarantor, having made all reasonable enquiries, confirms that (i) this Offering Memorandum contains all information with respect to the Issuer, the Guarantor and its subsidiaries taken as a whole, and the Notes which is material in the context of the issue and offering of the Notes, (ii) the statements contained in this Offering Memorandum relating to the Issuer, the Guarantor, the Company and the Group are in every material respect true and accurate and not misleading, (iii) the opinions and intentions expressed in this Offering Memorandum with regard to the Issuer, the Guarantor, the Company and the Group are honestly and reasonably held, have been reached after considering all relevant circumstances and are based on reasonable assumptions, (iv) the financial, operational, statistical, industry and market-related data included in this Offering Memorandum has been accurately extracted from the various sources, (v) there are no other facts in relation to the Issuer, the Guarantor, the Group or the Notes, the omission of which would, in the context of the issue and offering of the Notes, make any statement, opinion or intention expressed in this Offering Memorandum misleading in any material respect, (vi) all reasonable enquiries have been made by the Issuer and the Guarantor to ascertain all facts in relation to the Issuer, the Guarantor, the Company, the Group and the Notes and to verify the accuracy of all such information and statements in this Offering Memorandum, and (vii) any information sourced from third parties contained in this Offering Memorandum has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

The Issuer accepts responsibility for the information contained in this Listing Particulars. To the best of the knowledge and belief of the Issuer the information contained in this Listing Particulars is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Issuer and the Guarantor have prepared this Offering Memorandum solely for use in connection with the proposed offering of the Notes described in this Offering Memorandum. This Offering Memorandum does not constitute an offer of, or an invitation by or on behalf of Deutsche Bank AG, London Branch, The Hongkong and Shanghai Banking Corporation Limited, Morgan Stanley & Co. International plc, Australia and New Zealand Banking Group Limited, Bank of China Limited, Barclays Bank PLC and The Royal Bank of Scotland plc (together the “**Joint Lead Managers**”), Banco Santander, S.A., Commonwealth Bank of Australia, Intesa Sanpaolo S.p.A., Hong Kong Branch and Natixis (together the “**Co-managers**”), the Issuer, the Guarantor or the Company to subscribe for or purchase any of the Notes. The distribution of this Offering Memorandum and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Memorandum comes are required by the Issuer, the Guarantor, the Company, the Joint Lead Managers and the Co-managers to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Notes or the distribution of this Offering Memorandum in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Notes, and the circulation of documents relating thereto, in certain jurisdictions including the United States, the European Economic Area, Italy, the United Kingdom, Hong Kong and the PRC and to persons connected therewith. For a description of certain further restrictions on offers and sales of the Notes, and distribution of this Offering Memorandum, see “*Subscription and Sale*”. By purchasing the Notes, investors represent and agree to all of those provisions contained in that section of this Offering Memorandum. This Offering Memorandum is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire Notes. Distribution of this Offering Memorandum to any other person other than the prospective investor and any person retained to advise such prospective investor with respect to its purchase is unauthorised. Each prospective investor, by accepting delivery of this Offering Memorandum, agrees to the foregoing and to make no photocopies of this Offering Memorandum or any documents referred to in this Offering Memorandum.

No person has been or is authorised to give any information or to make any representation concerning the Issuer, the Guarantor, the Company, the Parent Group or the Notes other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, the Guarantor, the Company, the Joint Lead Managers, the Co-managers, The Hongkong and Shanghai Banking Corporation Limited (the “Trustee”) or the Agents (as defined in the Terms and Conditions of the Notes) or their respective affiliates. Neither the delivery of this Offering Memorandum nor any offering, sale or delivery made in connection with the issue of the Notes shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Issuer, the Guarantor, the Company, the Parent Group or any of them since the date hereof or create any implication that the information contained herein is correct as at any date subsequent to the date hereof. This Offering Memorandum does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor, the Company, the Joint Lead Managers, the Co-managers, the Trustee or the Agents to subscribe for or purchase the Notes and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful.

None of the Joint Lead Managers, the Co-managers, the Trustee or the Agents or any of their respective affiliates, directors or advisers has independently verified the information contained in this Offering Memorandum. Accordingly, no representation, warranty or undertaking, express or implied, is made or given and no responsibility or liability is accepted, by the Joint Lead Managers, the Co-managers, the Trustee or the Agents or any of their respective affiliates, directors or advisers, as to the accuracy, completeness or sufficiency of the information contained in this Offering Memorandum or any other information supplied in connection with the Notes and nothing contained in this Offering Memorandum is, or shall be relied upon as, a promise, representation or warranty by the Joint Lead Managers, the Co-managers, the Trustee or the Agents. This Offering Memorandum is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by any of the Issuer, the Guarantor, the Company, the Joint Lead Managers, the Co-managers, the Trustee or the Agents that any recipient of this Offering Memorandum should purchase the Notes. Each person receiving this Offering Memorandum acknowledges that such person has not relied on the Joint Lead Managers, the Co-managers, the Trustee, the Agents or on any person affiliated with the Joint Lead Managers, the Co-managers, the Trustee or the Agents in connection with its investigation of the accuracy of such information or its investment decision, and each such person must rely on its own examination of the Issuer, the Guarantor, the Company and the Parent Group and the merits and risks involved in investing in the Notes. See “*Risk Factors*” for a discussion of certain factors to be considered in connection with an investment in the Notes.

It is expected that each series of Notes will, when issued, be assigned a rating of “A1”, “A+” and “A+” by Moody’s, Standard & Poor’s and Fitch, respectively. A rating is not a recommendation to buy, sell or hold securities, does not address the likelihood or timing of prepayment and may be subject to revision, qualification, suspension or withdrawal at any time by the assigning rating organisation. A revision, qualification, suspension or withdrawal of any rating assigned to the Notes may adversely affect the market price of the Notes.

To the fullest extent permitted by law, none of the Joint Lead Managers, the Co-managers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, agents or advisers accepts any responsibility for the contents of this Offering Memorandum and assume no responsibility for the contents, accuracy, completeness or sufficiency of any such information or for any other statement, made or purported to be made by the Joint Lead Managers, the Co-managers, the Trustee or the Agents or any of their respective affiliates, directors or advisers or on their behalf in connection with the Issuer, the Guarantor, the Company, the Parent Group, the Keepwell Deed or the issue and offering of the Notes. Each of the Joint Lead Managers, the Co-managers, the Trustee and the Agents and their respective affiliates, directors, officers, employees, agents or advisers accordingly disclaims all and any liability, whether arising in tort or contract or otherwise, which it might otherwise have in respect of this Offering Memorandum or any such statement. None of the Joint Lead Managers, the Co-managers, the Trustee or the Agents or any of their respective affiliates, directors or advisers undertakes to review the results of operations, financial condition or affairs of the Issuer, the Guarantor, the Company or the Parent Group during the life of the arrangements contemplated by this Offering Memorandum nor to advise any investor or potential investor in the Notes of any information coming to the attention of the Joint Lead Managers, the Co-managers, the Trustee or the Agents.



**IN CONNECTION WITH THIS OFFERING, MORGAN STANLEY & CO. INTERNATIONAL PLC AS STABILISING MANAGER (THE “STABILISING MANAGER”) OR ANY PERSON(S) ACTING FOR THE STABILISING MANAGER MAY, SUBJECT TO ALL APPLICABLE LAWS, OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSON(S) ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD.**

Prospective investors should not construe anything in this Offering Memorandum as legal, business or tax advice. Each prospective investor should determine for itself the relevance of the information contained in this Offering Memorandum and consult its own legal, business and tax advisers as needed to make its investment decision and determine whether it is legally able to purchase the Notes under applicable laws or regulations.

### **Industry and Market Data**

Market data and certain industry forecasts used throughout this Offering Memorandum have been obtained based on internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information that they contain has been obtained from sources believed to be reliable but that the accuracy and completeness of that information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and none of the Issuer, the Guarantor, the Company, the Joint Lead Managers, the Co-managers or their respective directors and advisers makes any representation as to the correctness, accuracy or completeness of that information. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified.

### **Exchange Rate Information**

This Offering Memorandum contains a translations of certain Renminbi and HK\$ amounts into U.S. dollars at specified rates solely for the convenience of the readers. Unless otherwise specified, where financial information in relation to the Parent Group has been translated into U.S. dollars, it has been so translated, for convenience only, at the rate of RMB6.0537 to US\$1.00 (the noon buying rate in New York City on 31 December 2013 as set forth in the weekly H.10 statistical release of the Federal Reserve Board of the Federal Reserve Bank of New York). Unless otherwise specified in this Offering Memorandum, where financial information in relation to the Group has been translated into U.S. dollars, it has been so translated, for convenience only, at the rate of HK\$7.7502 to US\$1.00 (the noon buying rate in New York City on 30 June 2014 as set forth in the weekly H.10 statistical release of the Federal Reserve Board of the Federal Reserve Bank of New York). Further information regarding exchange rate is set forth in *Exchange Rate* in this Offering Memorandum. No representation is made that the Renminbi or HK\$ amounts, as the case may be, referred to in this Offering Memorandum could have been or could be converted into U.S. dollars at any particular rate or at all.

### **Rounding**

In this Offering Memorandum, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding. References to information in billions of units are to the equivalent of a thousand million units.

### **Certain Definitions and Conventions**

In this Offering Memorandum, unless otherwise specified or the context otherwise requires, “**China**” and “**mainland China**” are to the People’s Republic of China (excluding Hong Kong, The Macao Special Administrative Region of the People’s Republic of China and Taiwan), all references to the “**United**

**States**” and the “**U.S.**” are to the United States of America, all references to “**Hong Kong**” are to The Hong Kong Special Administrative Region of the People’s Republic of China; all references to “**EUR**”, “**euro**” and “**€**” are 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, all references to “**Hong Kong dollars**” and “**HK\$**” are to the lawful currency of Hong Kong, all references to “**Renminbi**” and “**RMB**” are to the lawful currency of the PRC, all references to “**USD**”, “**US\$**” and “**U.S. dollars**” are to the lawful currency of the United States of America, all references to “**AUD**”, “**AU\$**” and “**Australian Dollars**” are to the lawful currency of Australia, all references to “**BRL**” and “**Brazilian real**” are to the lawful currency of Brazil, and all reference to “**PHP**” and “**Philippine peso**” are to the lawful currency of the Philippines. Historical amounts translated into Renminbi have been translated at historical rates of exchange. Such translations should not be construed as representations that the amounts referred to herein could have been or could be converted into Renminbi at those rates or any other rate at all.

## PRESENTATION OF FINANCIAL INFORMATION

The Guarantor prepares its consolidated financial statements in accordance with the Hong Kong Financial Reporting Standards (the “**HKFRS**”). The Guarantor’s audited consolidated financial information as at and for the years ended 31 December 2011, 2012 and 2013 has been extracted from the consolidated financial statements of the Guarantor as at and for the year ended 31 December 2012 and 2013 audited by Ernst & Young, Certified Public Accountants, the independent auditor of the Guarantor and a member of Hong Kong Institute of Certified Public Accountants (“**EY**”), and included elsewhere in this Offering Memorandum together with the auditor’s report in respect of such financial year. The Guarantor’s condensed consolidated interim financial information as at and for the six months ended 30 June 2013 and 2014 has been extracted from the unaudited but reviewed condensed interim financial statements of the Guarantor as at and for the six months ended 30 June 2014 reviewed by EY, and included elsewhere in this Offering Memorandum. Such condensed consolidated interim financial statements have not been audited by EY. Consequently, such unaudited condensed consolidated interim financial statements should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit. The Joint Lead Managers and the Co-managers do not make any representation or warranty, express or implied, regarding the sufficiency of such unaudited condensed consolidated interim financial statements for an assessment of, and potential investors must exercise caution when using such data to evaluate, the Guarantor’s financial condition, results of operations and results. Such unaudited condensed consolidated interim financial statements should not be taken as an indication of the expected financial condition, results of operations and results of the Guarantor for the full financial year.

“Preface to Hong Kong Financial Reporting Standards” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) sets out the relationship between HKFRS and International Financial Reporting Standards (“**IFRS**”). The Council of HKICPA (the “**Council**”) has a policy to achieve convergence of HKFRS with IFRS. Each HKFRS issued by the Council contains information about the extent of compliance with the equivalent IFRS. Where the requirements of a HKFRS and an IFRS differ, the HKFRS should be followed by entities reporting within the area of application of the HKFRS.

The audited consolidated financial statements of the Group have not been prepared in accordance with the international accounting standards adopted pursuant to the procedure of Article 3 of Regulation (EC) No. 1606/2002. There may be material differences in the financial information had Regulation (EC) No. 1606/2002 been applied to the historical financial information of the Group.

As at the date of this Offering Memorandum, there are no differences between HKFRS and IFRS which will impact the financial position and results of operations of the Group.

The Company prepares its consolidated financial statements in accordance with Accounting Standards for Business Enterprises (the “**PRC GAAP**”). The selected consolidated income statements data for the years ended 31 December 2011, 2012 and 2013 and the selected consolidated balance sheet data as at 31 December 2011, 2012 and 2013, as set out in the section entitled “*Selected Financial Information of the Company*”, have been derived from the Company’s audited consolidated financial statements for the years ended 31 December 2012 and 2013, which have been audited by RSM China Certified Public Accountants, the independent auditor of the Company (“**RSM**”). The selected consolidated financial information of the Company should not be relied upon to the same extent where financial information is presented together with the audited consolidated financial statements and the notes thereto.

## FORWARD-LOOKING STATEMENTS

The Issuer, the Guarantor and the Company have made certain forward-looking statements in this Offering Memorandum. All statements other than statements of historical facts contained in this Offering Memorandum constitute forward-looking statements. Some of these statements can be identified by forward-looking terms, such as “anticipate”, “target”, “believe”, “can”, “would”, “could”, “estimate”, “expect”, “aim”, “intend”, “may”, “plan”, “will” or similar words. However, these words are not the exclusive means of identifying forward-looking statements. All statements regarding expected financial condition, results of operations, business plans and prospects are forward-looking statements. These forward-looking statements include but are not limited to statements as to the business strategy, revenue, profitability, planned projects and other matters as they relate to the Issuer, the Guarantor, the Company and/or the Parent Group discussed in this Offering Memorandum regarding matters that are not historical facts. These forward-looking statements and any other projections contained in this Offering Memorandum (whether made by the Issuer, the Guarantor, the Company or by any third party) involve known and unknown risks, including those disclosed under “*Risk Factors*”, uncertainties and other factors that may cause the actual results, performance or achievements of the Issuer, the Guarantor or the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements or other projections.

These forward-looking statements speak only as at the date of this Offering Memorandum. Each of the Issuer, the Guarantor and the Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained in this Offering Memorandum to reflect any change in the Parent Group’s expectations with regard thereto or any change of events, conditions or circumstances, on which any such statement was based.

The factors that could cause the actual results, performances and achievements of the Issuer, the Guarantor, the Company or any member of the Parent Group to be materially different include, among others:

- projections of capital expenditures in general and other financial items;
- possible changes to legal and regulatory requirements;
- any governmental support;
- environmental compliance and remediation;
- the business prospects and various business opportunities that may be pursued;
- the ability to successfully implement investment strategies and integrate invested business; and
- other factors, including those discussed in “*Risk Factors*”.

The Issuer, the Guarantor and the Company do not undertake any obligation to update or revise publicly any of the opinions or forward-looking statements expressed in this Offering Memorandum as a result of any new information, future events or otherwise.



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## CERTAIN DEFINED TERMS AND CONVENTIONS

In this Offering Memorandum, unless the context otherwise requires, the following expressions shall have the following meanings.

“AIC” .....	Administration for Industry & Commerce of the PRC (工商行政管理局)
“AusNet” .....	AusNet Services, an Australian electric and gas network company in which the Group holds a 19.9% equity interest as at the date of this Offering Memorandum
“CDP” .....	Cassa Depositi e Prestiti
“CDP RETI” .....	Cassa Depositi e Prestiti Reti, an Italian electric and gas network holding company in which the Group holds a 35% equity interest as at the date of this Offering Memorandum
“China” or “PRC” .....	the People’s Republic of China, and for the sole purpose of this Offering Memorandum and by reference to region, excluding Taiwan, the Macau Special Administrative Region of the PRC and Hong Kong
“Company” or “SGCC” .....	State Grid Corporation of China, a PRC state-owned enterprise
“EIT” .....	Enterprise Income Tax
“ElectraNet” .....	ElectraNet Pty Ltd., an Australian electric network company in which the Group holds 46.56% of the equity interest as at the date of this Offering Memorandum
“FATCA” .....	Foreign Account Tax Compliance Act
“Group” .....	the Guarantor and its subsidiaries
“HKEL” .....	HK Electric Investments, a Hong Kong integrated electric utility company in which the Group holds a 20% equity interest as at the date of this Offering Memorandum
“HKSE” .....	The Stock Exchange of Hong Kong Limited
“Hong Kong” or “HK” .....	the Hong Kong Special Administrative Region of the People’s Republic of China
“Issuer” .....	State Grid Europe Development (2014) PLC
“MOFCOM” .....	Ministry of Commerce People’s Republic of China (中華人民共和國商務部)
“NDRC” .....	China National Development and Reform Commission (中華人民共和國國家發展和改革委員會)
“NGCP” .....	National Grid Corporation of the Philippines, a Philippine electric network company in which the Group holds a 40% equity interest as at the date of this Offering Memorandum

<b>“Parent Group”</b> .....	the Company and its subsidiaries
<b>“Powerlink”</b> .....	Queensland Electricity Transmission Corporation Limited
<b>“REN”</b> .....	Redes Energéticas Nacionais, a Portuguese electric and gas network company in which the Group holds a 25% equity interest as at the date of this Offering Memorandum
<b>“SAFE”</b> .....	the State Administration of Foreign Exchange of the PRC (國家外匯管理局)
<b>“SASAC”</b> .....	State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
<b>“SGBH”</b> .....	State Grid Brazil Holding S.A., a Brazilian electric network company that is a wholly-owned subsidiary of the Guarantor
<b>“SGEL”</b> .....	State Grid Europe Limited
<b>“SGID”</b> or <b>“Guarantor”</b> .....	State Grid International Development Co., Ltd., a wholly-owned subsidiary of the Company
<b>“SGSPAA”</b> or <b>“SPIAA”</b> .....	SGSP (Australia) Assets Pty Ltd., formerly SPI (Australia) Assets Pty Ltd, an Australian electric and gas network company and a subsidiary of the Guarantor in which the Group holds a 60% equity interest as at the date of this Offering Memorandum
<b>“Singapore Power”</b> .....	Singapore Power Ltd.
<b>“SNAM”</b> .....	SNAM S.p.A., an Italian gas network company
<b>“SOE(s)”</b> .....	state-owned enterprise(s)
<b>“State Council”</b> .....	State Council of the PRC (國務院)
<b>“Terna”</b> .....	Terna S.p.A. – Reta Elettrica Nazionale, an Italian electric network company
<b>“%”</b> .....	per cent.

## GLOSSARY OF TECHNICAL TERMS

<b>“AC”</b> .....	alternating current
<b>“DC”</b> .....	direct current
<b>“electricity prices”</b> .....	on-grid tariffs, electricity sale prices and transmission and distribution tariffs
<b>“EPC”</b> .....	a business model in which the contractor is responsible for the engineering, procurement and construction of a project
<b>“GVA”</b> .....	gigavolt-ampere, a unit of power. 1 GVA = 1,000 MVA
<b>“GW”</b> .....	gigawatt, a unit of power. 1 GW = 1,000 MW
<b>“HV”</b> .....	high voltage
<b>“installed capacity”</b> .....	the rated output of power-generating units, usually denominated in MW
<b>“km”</b> .....	kilometre, a unit of length. 1 km = 1,000 m
<b>“kV”</b> .....	kilovolt, a unit of voltage. 1 kV = 1,000 volts
<b>“kWh”</b> .....	kilowatt-hour, a unit of energy. The standard unit of energy used in the electric power industry. One kilowatt-hour is the amount of energy that would be produced by a power generator producing one-thousand watts for one hour
<b>“MVA”</b> .....	megavolt-ampere, a unit of power. The capacity of a transmission line is generally expressed in MVA
<b>“MW”</b> .....	megawatt, a unit of power 1 MW = 1,000 kilowatt. The capacity of a power project is generally expressed in MW
<b>“RAB”</b> .....	regulatory asset base, generally used in the privatised network utilities industry to refer to the value of the assets used for the regulated activities, and a key element used to determine the regulated company’s revenue requirement and prices/access charges
<b>“RoR”</b> .....	rate of return on regulated assets, which describes the return that the regulatory companies are permitted to earn
<b>“smart grid”</b> .....	generally used in the power industry to refer to a new type of power grid based on an integrated, high-speed two-way communication network, which is expected to lead to improvements in the reliability, compatibility, safety and efficiency of the power grids and cost reduction through the application of advanced sensor and measurement technologies, equipment technologies, control methods and decision-making support systems

<b>“TWh”</b> .....	terawatt-hour, a unit of energy. 1 TWh = 1 billion kWh
<b>“UHV”</b> .....	ultra-high voltage, 1000 kV AC or $\pm$ 800 kV DC or above
<b>“UHVAC”</b> .....	UHV AC
<b>“UHVDC”</b> .....	UHV DC



## SUMMARY

*The summary below is only intended to provide a limited overview of information described in more detail elsewhere in this Offering Memorandum. As it is a summary, it does not contain all of the information that may be important to investors and terms defined elsewhere in this Offering Memorandum shall have the same meanings when used in this summary. Prospective investors should therefore read this Offering Memorandum in its entirety.*

### Overview

The Guarantor was established as a wholly-owned subsidiary directly supervised by the Company, and is the sole platform for overseas investments and operations of the Parent Group, implementing the Company's globalisation strategy. Benefiting from the Parent Group's advantages on financing, technologies, management and human resources, the Group has achieved significant growth in recent years through acquisitions and investments, with assets in five countries and one region across four continents in the world.

The Group is primarily engaged in the investment and operation of regulated electricity transmission and distribution businesses outside of the PRC, with assets and investments in Australia, Brazil, the Philippines, Portugal, Hong Kong and Italy. It has developed and maintained a balanced asset portfolio in both developed markets and emerging markets diversified across regions. Benefiting from transparent and robust regulatory environments, the Group believes that its operations and investments enjoy stable revenue streams and stable business outlooks.

The electricity and gas transmission businesses the Group operates or invests in do not face direct competition in their respective markets, while most of the electricity and gas distribution businesses the Group operates or invests in face limited competition in their respective markets.

The Group's consolidated business includes SGSPAA and SGBH:

- In Australia, SGSPAA owns electricity distribution, gas transmission and distribution, water and infrastructure service businesses across the Australian Capital Territory, New South Wales, Victoria and Queensland.
- In Brazil, SGBH has exclusive concession rights in its electricity transmission operations, mainly in southeast Brazil, which is one of the most developed areas in Brazil.

The Group also derives profits from joint ventures and associates. These include NGCP, ElectraNet, AusNet, REN, HKEI and CDP RETI:

- In the Philippines, NGCP is the sole electricity transmission company. As at 30 June 2014, its power grids covered approximately 87 per cent. of the country by area and served approximately 93 per cent. of the Philippines' population.
- In Australia, ElectraNet builds, owns, operates and maintains the electricity transmission system in South Australia. AusNet owns regulated businesses in electricity transmission, distribution and gas distribution in Victoria, and is responsible for the operation and maintenance of electricity transmission lines in Victoria, power distribution networks in Eastern Victoria, and a gas distribution network in Midwest Victoria.
- In Portugal, REN operates the national power grids and the only national high-pressure gas transmission pipelines in Portugal.
- In Hong Kong, HKEI's business encompasses electricity generation, transmission, distribution and supply to Hong Kong Island and Lamma Island.
- In Italy, CDP RETI holds a 29.85 per cent. equity interest in Terna and a 30 per cent. equity interest in SNAM. Terna is a national electricity transmission company in Italy, operating 98.80 per cent. of Italy's transmission network. SNAM is a national natural gas company in Italy, engaging in regulated businesses such as gas transmission, gas distribution, gas storage and regasification.

### **Competitive Strengths**

The Group believes that its competitive strengths include the following:

- strong support from the Parent Group and the PRC government;
- favourable investments in regulated utilities with stable revenue streams and strong operations in key power markets;
- stable business outlook underpinned by transparent and robust regulatory frameworks;
- balanced asset portfolio diversified across regions;
- proven financial track record;
- experienced management team and highly qualified employees; and
- increasingly diversified funding channels.

### **Business Strategies**

The Group intends to achieve its objectives through the following major business strategies:

- prudent investment strategies;
- clear market strategies; and
- differentiated management strategies.

## OFFER STRUCTURE

*The following is a description of the structure of the offering, which should be read in conjunction with the sections entitled “Risk Factors”, “Terms and Conditions of the Notes” and “Description of the Keepwell Deed”. Words and expressions defined in the Keepwell Deed shall have the same meaning in this section.*

### THE NOTES AND THE GUARANTEE

The Notes will be issued by the Issuer. Subject to the Terms and Conditions of the Notes, the Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 5.1 (*Negative Pledge*) of the Terms and Conditions of the Notes) unsecured obligations of the Issuer and will at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes will, save for such exceptions as may be provided by applicable law, at all times rank at least equally with all the Issuer’s other present and future unsecured and unsubordinated obligations.

The Notes will have the benefit of a Guarantee by the Guarantor. Pursuant to the Guarantee, the Guarantor will unconditionally and irrevocably guarantee the due payment of all sums expressed to be payable by the Issuer under the Notes and the Trust Deed. The obligations of the Guarantor under the Guarantee constitute direct, unconditional, unsubordinated and (subject to the Condition 5.1 (*Negative Pledge*) of the Terms and Conditions of the Notes) unsecured obligations of the Guarantor and shall, save for such exceptions as may be provided by applicable law, at all times rank at least equally with all the Guarantor’s other present and future unsecured and unsubordinated obligations.

The Issuer is incorporated in England and Wales, and the Guarantor is incorporated in Hong Kong. Both the Issuer and the Guarantor are wholly-owned subsidiaries of the Company.

### THE KEEPWELL DEED

The Company will execute the Keepwell Deed (as further described in “*Description of the Keepwell Deed*”) in favour of the Issuer, the Guarantor and Trustee on the Issue Date. Pursuant to the Keepwell Deed, the Company will undertake to:

- own and hold, directly or indirectly, not less than 51 per cent. of the legal and beneficial title to the outstanding shares of the Issuer having the right to vote for election of members of the board of directors thereof;
- own and hold, directly or indirectly, not less than 51 per cent. of the legal and beneficial title to the outstanding shares of the Guarantor having the right to vote for election of members of the board of directors thereof;
- procure the Guarantor to own and hold directly or indirectly all the outstanding shares of the Issuer;
- cause the Issuer and the Guarantor to remain solvent and going concerns at all times;
- cause the Guarantor to have a Consolidated Net Worth not less than US\$100,000,000 or its equivalent at all times;
- cause the Issuer and the Guarantor to have sufficient liquidity to ensure timely payment by the Issuer or the Guarantor, as the case may be, of any and all amounts payable in respect of the Notes and all payments due under the Trust Deed and the Agency Agreement;
- use its best efforts to ensure that the ratio of total debts to total assets of the Guarantor will at all times not exceed 60 per cent.;
- directly or indirectly appoint all senior management of each of the Issuer and the Guarantor;
- directly or indirectly manage and supervise the businesses of each of the Issuer and the Guarantor;
- use its best efforts to ensure the long-term stability and liquidity of the financing and investing channels of the Guarantor;

- procure that the Guarantor will prudently operate its existing overseas assets portfolio and accumulate its foreign business operations; and
- use its best efforts to directly and indirectly support the business operations of each of the Issuer and the Guarantor.

Under the Keepwell Deed, the Company will also, subject to obtaining the Relevant Investment Approvals (as defined in the Keepwell Deed), undertake to invest (either by itself or through a Subsidiary (as defined in the Keepwell Deed) of the Company as designated by it) in the Issuer and/or the Guarantor (by equity investment or shareholders' loan or a combination thereof) upon the occurrence of a Triggering Event. The following circumstances will constitute a Triggering Event:

- the Consolidated Net Worth of the Guarantor falls below US\$100,000,000 or its equivalent (a **"Financial Ratio Failure"**); or
- an Event of Default; or
- the Issuer or, as the case may be, the Guarantor determines that it will have insufficient liquidity or cash flows to meet its payment obligations under the Keepwell Deed, the Notes, the Trust Deed or the Agency Agreement as they fall due (a **"Shortfall Event"**).

The obligations of the Company to invest in the Issuer and/or the Guarantor shall be suspended if, each of the Company and the Issuer receives a notice in writing from the Trustee stating that the Triggering Event(s) has been remedied.

The Keepwell Deed is not a guarantee or a legal obligation of the Company to pay any amount due under the Notes. The performance by the Company of its obligations under the Keepwell Deed may be subject to the approval or clearance or require governmental or regulatory approvals, permits and filings of the relevant PRC regulatory authorities. See *"Risk Factors – The Keepwell Deed is not a guarantee of the payment obligations under Notes"*.

The Keepwell Deed also provides a specified means by which the Company could assist the Issuer and Guarantor in meeting any outstanding debt obligations under the Notes upon the occurrence of an Event of Default.

Under the Keepwell Deed, the Company will undertake to the Trustee that, upon receipt of a written notice from the Trustee following the occurrence of an Event of Default under the Notes, the Company will, subject to obtaining all necessary consents and approvals from the relevant PRC authorities, purchase (either by itself or through a Wholly-owned Subsidiary (as defined in the Keepwell Deed) of the Company as designated by it) certain onshore equity interests held by the Relevant Transferor(s) (as defined in the Keepwell Deed). The purchase price for any proposed acquisition will be determined by the Company, provided that the relevant purchase price must be sufficient for the Issuer and the Guarantor to discharge their respective payment obligations under the Notes. Upon receipt of the written notice from the Trustee, the Company is required to acquire the relevant PRC equity interests, whether directly or indirectly held by the Issuer, the Guarantor or their respective Subsidiaries incorporated outside the PRC, as the case may be.

Under the Keepwell Deed, the Company will also undertake to the Trustee that, so long as any Note remains outstanding (as defined in the Trust Deed), the Company will not, and will not permit any of the Issuer, the Guarantor, the Guarantor's Non-Listed Principal Subsidiaries or the Company's Principal Subsidiaries to, create, incur, assume or permit to exist any mortgage, charge, pledge, lien, encumbrance, hypothecation, title retention, security interest or security arrangement of any kind (**"Lien"**) (other than Permitted Liens (as defined in the Keepwell Deed)) upon any of its property or assets, now owned or hereafter acquired, to secure any Relevant Indebtedness of the Company or any of the Issuer, the Guarantor, the Guarantor's Non-Listed Principal Subsidiaries or the Company's Principal Subsidiaries (or any guarantee or indemnity in respect thereof) without, in any such case, making effective provision whereby the Notes will be secured either at least equally and rateably with such Relevant Indebtedness or by such other Lien as shall have been approved by the Noteholders as provided in Condition 13.1 of the Terms and Conditions of the Notes, for so long as such Relevant Indebtedness will be so secured, unless after giving effect to the issuance thereof, the aggregate outstanding principal amount of all such secured Relevant Indebtedness entered into after the date of the Keepwell Deed does not exceed 10 per cent. of the Company's shareholders' equity as determined under PRC GAAP.

Under the Keepwell Deed, the Company will undertake promptly to do all such things and take any and all such actions necessary to comply with its obligations under the Keepwell Deed. However, there is no assurance that such approvals can be obtained. In the event that the Company is unable to obtain the relevant PRC regulatory approvals, authorisations or consents, the Company may be unable to complete the relevant equity interest acquisition as required under the Keepwell Deed. See “*Risk Factors – Performance by the Company of its undertaking under the Keepwell Deed is subject to approvals of the PRC government authorities*”.



## THE OFFERING

*The following summary contains some basic information about the Notes. Some of the terms described below are subject to important limitations and exceptions. Words and expressions defined in Terms and Conditions of the Notes and Summary of Provisions Relating to the Notes while in Global Form shall have the same meanings in this summary. For a more complete description of the terms and conditions of the Notes, see the section entitled “Terms and Conditions of the Notes” of this Offering Memorandum.*

“Issuer” .....	State Grid Europe Development (2014) Public Limited Company.
“Guarantor” .....	State Grid International Development Limited 國家電網國際發展有限公司.
“Company” .....	State Grid Corporation of China as keepwell provider.
“The Notes” .....	Series A €700,000,000 1.50 per cent. Guaranteed Notes due 2022 (the “ <b>Series A Notes</b> ”).  Series B €300,000,000 2.45 per cent. Guaranteed Notes due 2027 (the “ <b>Series B Notes</b> ”).
“Series A Notes Issue Price” .....	The Series A Notes will be issued at 99.736 per cent. of their principal amount.
“Series B Notes Issue Price” .....	The Series B Notes will be issued at 99.211 per cent. of their principal amount.
“Form and Denomination” .....	The Notes will be issued in registered form in denominations of €100,000 and integral multiples of €1,000 in excess thereof.
“Issue Date” .....	26 January 2015.
“Interest” .....	The Series A Notes bear interest on their outstanding principal amount from and including 26 January 2015 at the rate of 1.50 per cent. per annum, payable annually in arrear on 26 January of each year, commencing on 26 January 2016.  The Series B Notes bear interest on their outstanding principal amount from and including 26 January 2015 at the rate of 2.45 per cent. per annum, payable annually in arrear on 26 January of each year, commencing on 26 January 2016.
“Maturity Date” .....	For the Series A Notes, 26 January 2022.  For the Series B Notes, 26 January 2027.
“Use of Proceeds” .....	The net proceeds from the sale of the Notes will be used for refinancing certain indebtedness and general corporate purposes. See “ <i>Use of Proceeds</i> ”.

“Status of the Notes” .....	The Notes constitute direct, unconditional, unsubordinated and (subject to Condition 5.1 ( <i>Negative Pledge</i> ) of the Terms and Conditions of the Notes) unsecured obligations of the Issuer and shall at all times rank <i>pari passu</i> and without any preference among themselves. The payment obligations of the Issuer under the Notes shall, save for such exceptions as may be provided by applicable law and subject to Condition 5.1 ( <i>Negative Pledge</i> ), at all times rank at least equally with all the Issuer’s other present and future unsecured and unsubordinated obligations.
“Negative Pledge” .....	The Notes will contain a negative pledge provision as further described in Condition 5.1 ( <i>Negative Pledge</i> ) of the Terms and Conditions of the Notes.
“The Guarantee” .....	The Guarantor will guarantee the due and punctual payment of the principal of, and interest on, and all other amounts payable under, the Notes.
“Ranking of the Guarantee” .....	The obligations under the Guarantee constitute direct, unconditional, unsubordinated and (subject to Condition 5.1 ( <i>Negative Pledge</i> ) of the Terms and Conditions of the Notes) unsecured obligation of the Guarantor. The obligations of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable law, at all times rank at least equally with all the Guarantor’s other present and future unsecured and unsubordinated obligations.
“Cross-Default” .....	The Notes will contain cross-default provisions as further described in Condition 10(c) ( <i>Events of Default – Cross Default (Issuer and Guarantor)</i> ) and Condition 10(g)(i) ( <i>Events of Default – Events of Default in respect of the Company (i)</i> )) of the Terms and Conditions of the Notes.
“Events of Default” .....	Upon the occurrence of certain events as described in Condition 10 ( <i>Events of Default</i> ) of the Terms and Conditions of the Notes, the Trustee at its discretion may, and if so requested by holders of at least 25 per cent. in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders shall (provided that in either such case, the Trustee shall have been indemnified and/or secured and/or pre-funded to its satisfaction), declare the Notes immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest.
“Taxation” .....	All payments of principal, premium and interest by or on behalf of the Issuer or the Guarantor in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within any of the United Kingdom, Hong Kong or the PRC or any political subdivision or authority therein or thereof having power to tax unless such withholding or deduction is required by law.

Where such withholding or deduction is made by the Issuer or the Guarantor as a result of the Issuer or the Guarantor being deemed to be a PRC tax resident by or within the PRC at the rate of up to and including 10 per cent., the Issuer or the Guarantor (as the case may be) will increase the amounts paid by it to the extent required (“**PRC Taxes**”), so that the net amount received by the Noteholders equals the amounts which would otherwise have been receivable by them had no such withholding or deduction been required.

In the event that any such PRC deduction or withholding is in excess of 10 per cent. or any United Kingdom or Hong Kong deduction or withholding is required, the Issuer or, as the case may be, the Guarantor shall pay (except in certain circumstances set out in Condition 9 (*Taxation*) of the Terms and Conditions of the Notes) such additional amounts (“**Additional Tax Amounts**”, which for the avoidance of doubt shall include the PRC Taxes) as will result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required.

“Final Redemption” ..... Unless previously redeemed or purchased and cancelled in the circumstances referred to in the Terms and Conditions of the Notes, each series of Notes will be redeemed at their principal amount on the Maturity Date.

“Redemption for Change of Control Triggering Event” ..... A Noteholder will have the right, at such Noteholder’s option, to require the Issuer to redeem all, but not some only, of that Noteholder’s Notes upon the occurrence of a Change of Control Triggering Event at 101 per cent. of the principal amount of the relevant series of Notes, together with accrued interest up to, but excluding, the relevant Put Settlement Date. See “*Terms and Conditions of the Notes – Condition 7 (Redemption and Purchase) – Condition 7.4 (Redemption upon a Change of Control Triggering Event)*”.

“Redemption for Taxation Reasons” ..... The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, at their principal amount, in the event that as a result of any change in, or amendment to, the laws or regulations of the United Kingdom, Hong Kong or the PRC or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including but not limited to any decision by a court of competent jurisdiction), which change or amendment becomes effective on or after 20 January 2015, the Issuer or the Guarantor would be required to pay Additional Tax Amounts and such obligation cannot be avoided by the Issuer or the Guarantor (as the case may be) taking reasonable measures available to it. See “*Terms and Conditions of the Notes – Condition 7 (Redemption and Purchase) – Condition 7.2 (Redemption for Taxation Reasons)*”.

“Optional Redemption” .....	The Issuer or the Guarantor may, at any time upon giving not less than 30 nor more than 60 days’ notice to Noteholders (which notice shall be irrevocable), redeem the Notes, in whole or in part, at the relevant early redemption amount. See “ <i>Terms and Conditions of the Notes – Condition 7 (Redemption and Purchase) – Condition 7.3 (Optional Redemption)</i> ”.
“Further Issues” .....	Subject to compliance with Condition 5.1 ( <i>Negative Pledge</i> ) of the Terms and Conditions of the Notes, the Issuer may from time to time, without the consent of the Noteholders, create and issue further Notes having the same terms and conditions as the Series A Notes or the Series B Notes in all respects (or in all respects except for the first payment of interest), and so that such further issue shall be consolidated and form a single series with the outstanding Series A Notes or the Series B Notes.
“Trustee” .....	The Hongkong and Shanghai Banking Corporation Limited.
“Principal Paying Agent and Transfer Agent” .....	The Hongkong and Shanghai Banking Corporation Limited.
“Registrar” .....	The Hongkong and Shanghai Banking Corporation Limited.
“Clearing Systems” .....	Each series of Notes will be represented by beneficial interests in a Global Certificate in registered form, which will be registered in the name of a nominee for, and shall be deposited on or about the Issue Date with a common depositary for, Euroclear and Clearstream, Luxembourg. Beneficial interests in the Global Certificates will be shown on, and transfers thereof will be effected only through, records maintained by, Euroclear and Clearstream, Luxembourg. Except as described herein, certificates for Notes will not be issued in exchange for relevant interests in a Global Certificate.
“Governing Law” .....	The Trust Deed, the Agency Agreement, the Keepwell Deed and the Notes and any non-contractual obligations arising out of or in connection with them are to be governed by and shall construed in accordance with the English law.
“Keepwell Deed” .....	The Issuer, the Guarantor and the Company will enter into the Keepwell Deed with the Trustee as further described in <i>Description of the Keepwell Deed</i> .
“Listing” .....	Application has been made to the Irish Stock Exchange plc for the approval of this Offering Memorandum as Listing Particulars. Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on the Global Exchange Market which is the exchange regulated market of the Irish Stock Exchange. The Global Exchange Market is not a regulated market for the purposes of Directive 2004/39/EC.

“Ratings” .....	Each series of Notes is expected to be rated “A1”, “A+” and “A+” by Moody’s, Standard & Poor’s and Fitch, respectively. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the relevant rating organisation. Prospective investors should evaluate each rating independently of any other rating of the Notes or other securities of the Issuer.
“Selling Restrictions” .....	Neither the Notes nor the Guarantee have been and will not be registered under the Securities Act or under any state securities laws of the United States and, subject to certain exceptions, may not be offered or sold within the United States, the European Economic Area, Italy, the United Kingdom, Hong Kong and the PRC. The Notes may be sold in other jurisdictions only in compliance with applicable laws and regulations. See “ <i>Subscription and Sale</i> ”.
“ISIN” .....	The ISIN for the Series A Notes is XS1165754851.  The ISIN for the Series B Notes is XS1165756633.
“Common Code” .....	The Common Code for the Series A Notes is 116575485.  The Common Code for the Series B Notes is 116575663.



## SELECTED FINANCIAL INFORMATION OF THE COMPANY

The following table sets forth the Company's selected financial information as at the dates and for the periods indicated.

The selected consolidated income statements data for the years ended 31 December 2011, 2012 and 2013 and the selected consolidated balance sheet data as at 31 December 2011, 2012 and 2013, as set out below, have been derived from the Company's audited consolidated financial statements for the year ended 31 December 2012 and 2013, which have been audited by RSM.

The Company's consolidated financial statements and information are prepared and presented in accordance with PRC GAAP. Historical results are not necessarily indicative of results that may be achieved in any future period. The selected consolidated financial information of the Company should not be relied upon to the same extent where financial information is presented together with the audited consolidated financial statements and the notes thereto.

The translations of Renminbi amounts into U.S. dollar amounts in this section have been made at the rate of RMB6.0537 to US\$1.00, the exchange rate set forth in the H.10 weekly statistical release of the Board of Governors of the Federal Reserve System of the United States on 31 December 2013. Prospective investors should not construe these translations as representations that the Renminbi amounts could actually be converted into any U.S. dollar amounts at the rates indicated or at all.

### Consolidated Income Statement Data

	Year Ended 31 December			
	2011	2012	2013	
	(RMB)	(RMB)	(RMB)	(US\$)
				(unaudited)
	(in millions)			
<b>Revenue</b> .....	<b>1,665,852</b>	<b>1,882,994</b>	<b>2,049,800</b>	<b>338,603</b>
Operating costs .....	(1,565,140)	(1,766,501)	(1,926,798)	(318,284)
Business taxes and surcharges .....	(11,283)	(13,818)	(13,588)	(2,245)
Sales expenses .....	(6,079)	(6,976)	(7,341)	(1,213)
General and administrative expenses .....	(12,346)	(12,812)	(13,148)	(2,172)
Financial expenses .....	(28,335)	(29,020)	(29,312)	(4,842)
Losses incurred from impairment of assets....	(481)	(976)	(808)	(133)
Gains (losses) from changes in fair value.....	339	425	0	0
Investment income/(losses) .....	11,268	51,191	7,945	1,312
Exchange gains .....	(36)	6	(19)	(3)
<b>Operating Profit</b> .....	<b>53,761</b>	<b>104,513</b>	<b>66,731</b>	<b>(11,023)</b>
Non-operating revenue.....	9,762	9,287	8,501	1,404
Non-operating expenditure.....	(9,183)	(3,643)	(4,656)	(769)
<b>Total Profit</b> .....	<b>54,340</b>	<b>110,157</b>	<b>70,576</b>	<b>11,658</b>
Income tax expenses .....	(15,564)	(28,826)	(18,847)	(3,113)
<b>Net income</b> .....	<b>38,776</b>	<b>81,331</b>	<b>51,729</b>	<b>8,545</b>
Net Profit attributable to parent company.....	36,492	78,722	49,082	8,108
Minority interest .....	2,284	2,609	2,647	437

## Consolidated Balance Sheet Data

	Year Ended 31 December			
	2011	2012	2013	
	(RMB)	(RMB)	(RMB)	(US\$)
				(unaudited)
	(in millions)			
Total current assets .....	310,904	291,528	278,750	46,046
Total non-current assets .....	1,957,408	2,096,764	2,291,321	378,499
Total assets .....	2,268,312	2,388,292	2,570,071	424,545
Total current liabilities .....	834,594	827,262	932,826	154,092
Total non-current liabilities .....	515,449	532,443	532,240	87,920
Total liabilities .....	1,350,043	1,359,705	1,465,066	242,012
Total owners' equity attributable to the equity owners of the company .....	885,745	1,002,041	1,077,429	177,979
Minority interest .....	32,524	26,546	27,576	4,555
Total owners' equity .....	918,269	1,028,587	1,105,005	182,534
Total liabilities and owners' equity .....	2,268,312	2,388,292	2,570,071	424,545

## Other Financial Data

	As at and for the Year Ended 31 December		
	2011	2012	2013
			(unaudited)
EBITDA <sup>(1)</sup> (RMB in millions) .....	241,513	269,204	292,515
EBITDA <sup>(1)</sup> (US\$ in millions) .....	39,895	44,469	48,320
EBITDA margin <sup>(2)</sup> .....	14.5%	14.3%	14.3%
Total interest-bearing debt <sup>(3)</sup> (RMB in millions) .....	669,166	624,048	659,142
Net interest-bearing debt <sup>(4)</sup> (RMB in millions) .....	571,983	520,246	551,373
Total interest-bearing debt/EBITDA .....	2.77x	2.32x	2.25x
Net interest-bearing debt/EBITDA .....	2.37x	1.93x	1.88x
EBITDA/Interest <sup>(5)</sup> .....	7.16x	7.52x	8.53x
Total interest-bearing debt/Total capitalisation <sup>(6)</sup> .....	42.2%	37.8%	37.4%

### Notes:

- (1) EBITDA for any period is calculated as total profit adjusted for financial expenses and depreciation, depletion and amortisation. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of performance or as an indicator of the Company's operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA, the Company believes that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. The Company has included EBITDA because it believes that it is a useful supplement to the cash flow data as a measure of the Company's performance and its ability to generate cash flows from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare the Company's EBITDA to EBITDA presented by other companies because not all companies use the same definitions.
- (2) EBITDA margin is calculated as EBITDA divided by revenue.
- (3) Total interest-bearing debt consists of all short-term borrowings, long-term borrowings, borrowings from other financial institutions, long-term debt due within one year and bonds payable. It does not include amounts due to the subsidiaries of the Company.
- (4) Net interest-bearing debt is calculated as total debt minus cash.
- (5) Interest is calculated as interest expenses plus capitalised interests.
- (6) Total capitalisation equals total interest-bearing debt plus total owners' equity.

## SELECTED FINANCIAL INFORMATION OF THE GUARANTOR

The following table set forth the Guarantor's selected financial information as at the dates and for the periods indicated.

The selected consolidated income statements data for the years ended 31 December 2011, 2012 and 2013 and the selected consolidated balance sheet data as at 31 December 2011, 2012 and 2013, as set out below, have been derived from the Guarantor's audited consolidated financial statements for the year ended 31 December 2012 and 2013, which have been audited by EY, and are included elsewhere in this Offering Memorandum.

The selected consolidated income statements data for the six months ended 30 June 2013 and 2014 and the selected consolidated balance sheet data as at 30 June 2014, as set forth below, have been derived from the Guarantor's unaudited but reviewed condensed consolidated interim financial statements for the six months ended 30 June 2014, which have been reviewed by EY and are included elsewhere in this Offering Memorandum. The unaudited but reviewed condensed consolidated interim financial statements of the Guarantor as at and for the six months ended 30 June 2014 should not be taken as an indication of the expected financial condition or results of operations of the Guarantor for the full financial year ending 31 December 2014.

The Guarantor's consolidated financial statements and information are prepared and presented in accordance with HKFRS. Prospective investors should read the selected financial data below in conjunction with the Guarantor's audited consolidated financial statements and unaudited but reviewed consolidated interim financial information and the related notes included elsewhere in this Offering Memorandum. Historical results are not necessarily indicative of results that may be achieved in any future period.

### Consolidated Income Statement Data

	Year Ended 31 December				Six Months Ended 30 June		
	2011	2012	2013		2013	2014	
	(HK\$)	(HK\$)	(HK\$)	(US\$)	(HK\$)	(HK\$)	(US\$)
				(unaudited)	(unaudited)	(unaudited)	(unaudited)
				(in millions)			
<b>Revenue</b> .....	<b>2,430.0</b>	<b>2,164.8</b>	<b>2,811.3</b>	<b>362.7</b>	<b>1,387.2</b>	<b>7,234.9</b>	<b>933.5</b>
<b>Cost of sales</b> .....	<b>(323.9)</b>	<b>(285.5)</b>	<b>(397.2)</b>	<b>(51.3)</b>	<b>(138.4)</b>	<b>(4,140.2)</b>	<b>(534.2)</b>
Gross profit.....	2,106.1	1,879.3	2,414.1	311.4	1,248.8	3,094.7	399.3
Other income and gains .....	468.0	614.0	925.6	119.4	682.4	901.4	116.3
Administrative expenses.....	(145.8)	(311.6)	(352.9)	(45.5)	(136.1)	(146.3)	(18.9)
Financial costs .....	(545.8)	(506.0)	(612.3)	(79.0)	(220.4)	(1,602.6)	(206.8)
Foreign exchange differences, net .....	(226.9)	25.0	(473.7)	(61.1)	(419.9)	(22.7)	(2.9)
<b>Share of profit of associates</b> .....	<b>1,614.6</b>	<b>1,695.6</b>	<b>2,140.7</b>	<b>276.2</b>	<b>1,125.2</b>	<b>1,640.7</b>	<b>211.7</b>
Other expenses.....	(15.2)	(244.9)	1.2	0.2	(0.6)	(11.7)	(1.5)
<b>Profit before tax</b> .....	<b>3,255.0</b>	<b>3,151.4</b>	<b>4,042.7</b>	<b>521.6</b>	<b>2,279.4</b>	<b>3,853.5</b>	<b>497.2</b>
<b>Income tax expense</b> .....	<b>(653.0)</b>	<b>(898.6)</b>	<b>(1,043.1)</b>	<b>(134.6)</b>	<b>(568.9)</b>	<b>(820.7)</b>	<b>(105.9)</b>
Profit for the year/period .....	2,602.0	2,252.8	2,999.6	387.0	1,710.5	3,032.8	391.3
<b>Attributable to Owners of the Company</b> .....	<b>2,602.0</b>	<b>2,252.8</b>	<b>2,999.6</b>	<b>387.0</b>	<b>1,710.5</b>	<b>2,790.0</b>	<b>360.0</b>
<b>Non-controlling interests</b> .....	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>242.8</b>	<b>31.3</b>

## Consolidated Balance Sheet Data

	As at 31 December				As at 30 June	
	2011	2012	2013		2014	
	(HK\$)	(HK\$)	(HK\$)	(US\$)	(HK\$)	(US\$)
			(unaudited)	(unaudited)	(unaudited)	(unaudited)
	(in millions)					
<b>Non-current assets</b>						
Property, plant and equipment .....	872.8	835.6	670.0	86.4	44,591.3	5,753.5
Investment properties .....	—	15.7	93.8	12.1	100.2	12.9
Other intangible assets .....	160.6	147.2	128.4	16.6	2,672.7	344.9
Investment in associates and jointly-controlled entities .....	4,259.8	12,570.9	13,115.8	1,692.3	38,055.0	4,910.2
Available-for-sale investments .....	7,894.4	8,946.5	8,705.5	1,123.2	8,251.6	1,064.7
Goodwill .....	408.0	668.1	579.8	74.8	8,296.9	1,070.5
Financial assets-concession .....	10,357.2	16,045.3	14,301.1	1,845.3	14,993.2	1,934.6
Derivative financial assets .....	—	—	—	—	1,586.3	204.7
Other non-current assets .....	187.5	963.9	850.6	109.8	1,298.7	167.6
<b>Total non-current assets .....</b>	<b>24,140.3</b>	<b>40,193.2</b>	<b>38,445.0</b>	<b>4,960.5</b>	<b>119,845.9</b>	<b>15,463.6</b>
<b>Current assets</b>						
Inventories .....	27.3	40.4	33.7	4.0	267.5	34.5
Trade receivables.....	264.3	351.2	331.5	42.7	2,542.9	328.1
Prepayments, deposits and other receivables .....	405.3	361.6	338.4	43.7	1,205.1	155.5
Financial assets-concession .....	2,355.2	2,479.2	2,322.4	300.0	2,545.9	328.5
Cash and cash equivalents .....	3,725.0	6,249.9	25,869.4	3,337.9	9,861.6	1,272.4
<b>Total current assets .....</b>	<b>6,777.1</b>	<b>9,482.3</b>	<b>28,895.4</b>	<b>3,728.3</b>	<b>16,423.0</b>	<b>2,119.0</b>
<b>Current liabilities</b>						
Trade payables .....	91.2	51.4	31.5	4.1	323.2	41.7
Other payables and accruals .....	526.4	766.1	345.3	44.6	2,451.4	316.3
Derivative financial liabilities .....	—	—	—	—	21.0	2.7
Provisions .....	—	—	—	—	202.7	26.2
Tax payable .....	98.6	195.1	495.9	64.0	263.1	33.9
Interest-bearing borrowings .....	4,870.5	5,635.7	15,281.8	1,971.8	3,765.2	485.8
<b>Total current liabilities .....</b>	<b>5,586.7</b>	<b>6,648.3</b>	<b>16,154.5</b>	<b>2,084.3</b>	<b>7,026.6</b>	<b>906.6</b>
<b>Net current assets .....</b>	<b>1,190.4</b>	<b>2,834.0</b>	<b>12,740.9</b>	<b>1,644.0</b>	<b>9,396.4</b>	<b>1,212.4</b>
<b>Total assets less current liabilities ...</b>	<b>25,330.7</b>	<b>43,027.2</b>	<b>51,185.9</b>	<b>6,604.5</b>	<b>129,242.3</b>	<b>16,676.0</b>
<b>Non-current liabilities</b>						
Interest-bearing borrowings .....	12,186.5	16,362.8	7,573.3	977.2	36,806.8	4,749.1
Deferred tax liabilities .....	741.2	1,244.3	1,298.7	167.6	5,012.4	646.7
Provisions .....	87.3	408.4	352.2	45.4	1,123.7	145.0
Derivative financial liabilities .....	—	—	—	—	804.7	103.9
Other non-current liabilities .....	0.3	13.2	—	—	539.7	69.6
<b>Total non-current liabilities .....</b>	<b>13,015.3</b>	<b>18,028.7</b>	<b>9,224.2</b>	<b>1,190.2</b>	<b>44,287.3</b>	<b>5,714.3</b>
<b>Net assets .....</b>	<b>12,315.4</b>	<b>24,998.5</b>	<b>41,961.7</b>	<b>5,414.3</b>	<b>84,955.0</b>	<b>10,961.7</b>
<b>Equity</b>						
Issued capital .....	9,300.0	19,555.2	36,697.2	4,735.0	63,421.1	8,183.2
Reserves .....	3,844.7	7,057.4	9,942.1	1,282.8	12,411.8	1,601.5
Exchange fluctuation reserve .....	(829.3)	(1,614.1)	(4,677.6)	(603.5)	(2,276.9)	(293.8)
<b>Non-controlling interests .....</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>11,399.0</b>	<b>1,470.8</b>
<b>Total equity .....</b>	<b>12,315.4</b>	<b>24,998.5</b>	<b>41,961.7</b>	<b>5,414.3</b>	<b>84,955.0</b>	<b>10,961.7</b>

## Other Financial Data (Non-GAAP)

	As at and for the Year Ended 31 December			As at and for the Six Months Ended 30 June
	2011	2012	2013	2014
	(unaudited)			
EBITDA <sup>(1)</sup> (HK\$ in millions) .....	3,885.7	3,376.9	4,762.0	6,035.7
EBITDA <sup>(1)</sup> (US\$ in millions).....	501.4	435.7	614.4	778.8
EBITDA margin <sup>(2)</sup> (%) .....	159.9	156.0	169.4	83.4
Total debt (HK\$ in millions).....	17,057.1	21,998.4	22,855.1	40,572.0
Total debt <sup>(3)</sup> /EBITDA .....	4.4	6.5	2.6	5.1 <sup>(8)</sup>
Net debt <sup>(4)</sup> /EBITDA .....	3.4	4.7	— <sup>(7)</sup>	3.8 <sup>(8)</sup>
FFO <sup>(5)</sup> /net debt (%) .....	24.4	16.3	— <sup>(7)</sup>	13.8
<b>EBITDA/Interest expense .....</b>	<b>9.6</b>	<b>13.9</b>	<b>20.3</b>	<b>5.0</b>
<b>Total debt/Total capital<sup>(6)</sup> (%) .....</b>	<b>58.1</b>	<b>46.8</b>	<b>35.3</b>	<b>32.3</b>

### Notes:

- (1) EBITDA for any period consists of the aggregate of profit before tax, foreign exchange differences, net and finance costs, adjusted by the bank interest income, depreciation and amortisation. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of performance or as an indicator of the Guarantor's operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA, the Guarantor believes that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. The Guarantor included EBITDA because it believes that it is a useful supplement to cash flow data as a measure of the Guarantor's performance and its ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare the Guarantor's EBITDA to EBITDA presented by other companies because not all companies use the same definitions.
- (2) EBITDA margin is calculated as EBITDA divided by revenue.
- (3) Total debt consists of current and non-current borrowings. Total debt in 2013 did not include the loan (approximately HK\$10.6 billion) used to pay for the consideration for acquiring SGSPAA and AusNet, which had been repaid in full in various occasions throughout the year of 2014.
- (4) Net debt is calculated as total debt minus cash and cash equivalents.
- (5) FFO is calculated as cash flow from operations plus dividends from associates and joint ventures and minus changes in working capital.
- (6) Total capital equals total interest-bearing borrowings plus total equity.
- (7) As at 31 December 2013, the Guarantor had net cash.
- (8) Based on last-twelve-month EBITDA of HK\$8,023 million (US\$1,035 million).

## **RISK FACTORS**

### **RISKS RELATING TO THE GROUP AND ITS INDUSTRY**

#### **General risks**

*The Group's operations may be adversely affected by global and local economic conditions of the countries and region where it operates or invests.*

The Group's business, results of operations and financial condition can be materially affected by the local economic conditions of the countries and region where it operates or invests, currently including Australia, Brazil, the Philippines, Portugal, Hong Kong and Italy. The severe liquidity crisis that arose in the global credit markets in 2008 has resulted in reduced liquidity and historic volatility in global financial markets, and continues to affect the functioning of financial markets and the global economy. It is still uncertain whether the recovery from the financial crisis will be stable or sustainable. If the economic recovery slows or economic conditions deteriorate, the business, financial condition and results of operations of the Group may be materially and adversely affected. In particular, the governments and central banks in the European Union have implemented, and continue to implement, a number of measures to address the financial crisis, although the situation in the banking system is still not secure in some of the peripheral euro-zone countries such as Italy, Greece, Portugal, and Spain. At the moment it is difficult to predict the effect of these measures on the global economy and the financial system, how long the crisis will persist, and whether or to what extent the Group's business, results of operations and financial condition may be adversely affected.

*The Group may not successfully manage its growth.*

The Guarantor is the sole platform for overseas investments and operations of the Parent Group. The Group has made and continues to make significant investments and to expand its operations outside the PRC. The Group's ability to successfully implement its growth strategy is subject to risks and uncertainties. The Group's capacity to acquire and adapt know-how and the ability to operate in foreign markets and other regulatory environments may require a period of time, the usage of significant resources, the acquisition of assets and businesses, entry into partnerships, and the recruitment and retention of local expertise. The Group may not be able to successfully develop expansion opportunities and may also fail to properly integrate any such acquired assets and businesses, or select suitable partners or recruit and retain local expertise in an efficient, effective and timely manner. The Group may also incur costs and delays or meet other unanticipated, challenging conditions in foreign countries, including adverse commercial, economic, political, social and regulatory conditions. The Group may fail to obtain financing in markets outside the PRC in amounts and on terms that are adequate or favourable to it, and will be subject to exchange rate risks.

Furthermore, if the Group transfers some of its employees to the other countries and region where it operates or invests, these employees must overcome cultural and language barriers and adapt to local business practices. In addition, the Group is required to create compensation programmes, employment policies, codes of conduct and other administrative programmes that comply with the laws and customs of different jurisdictions. Failure to manage its geographically diverse operations could impair the stable operation of the Group's business.

Any of these factors may adversely impact the Group's ability to properly execute its globalisation strategy and achieve its growth targets, and may have a material adverse effect on the results of operations and financial condition of the Group.

*The Group derives a significant proportion of its profits from entities in which it does not have controlling equity interests.*

The Group has invested in NGCP, REN, ElectraNet, AusNet, HKEI and CDP RETI. It does not have controlling equity interests in these companies and its ability to influence the management and policies of these companies is limited. Furthermore, in the event that the Group cannot agree with other shareholders on management decisions, this may result in a deadlock and may impede the further development of the relevant business in that they may delay or prevent critical decisions. In addition, the Group's role as a



non-controlling shareholder in these companies may also have an adverse impact on the Group's return on investment, as management or other shareholders of these companies might institute or undertake transactions, strategies, policies or programmes that result in a decrease in the value of these companies, and by consequence, the Group's return on investment.

***The Group's businesses are exposed to political risks.***

The Group operates or has invested in companies or assets in Australia, Brazil, the Philippines, Portugal, Hong Kong and Italy, and in the future may acquire more overseas assets in these and other regions. The laws, regulations and policies of such countries and regions are subject to changes due to political and economic uncertainties, which may have a negative impact on the Group's operations, may subject the Group to additional taxes, and may also subject the Group or its subsidiaries to expropriation or deprivation of assets or concession rights. In particular, any political conflict between the PRC and the countries and region where the Group operates or invests may negatively affect the Group's business. The Group's business may also be subject to interruptions from war or civil strife.

***There is no assurance that the Group will continue to receive support from the Parent Group or the PRC government.***

The Guarantor has been the sole platform for overseas investments and operations of the Parent Group, and the Group has received strong support from the Parent Group since its establishment, including technical, financial and human resources and management support. For example, the Group's capital position remains strong from the capital injections from the Parent Group. In 2012 and February 2013, the Guarantor received capital injections from the Parent Group amounting to HK\$10,255.2 million and HK\$1,874.1 million, respectively, in the form of common shares. In May 2013 and May 2014, the Guarantor received capital injections from the Parent Group amounting to HK\$15,267.8 million (US\$1,969.2 million<sup>(1)</sup>) and HK\$26,724.0 million (US\$3,447.4 million<sup>(1)</sup>), respectively, in the form of preference shares. There is no assurance that such support will continue or not be reduced. The Group has also received policy support and financial support from the PRC government since its establishment. See "Description of the Group – Competitive Strengths – Strong Support from the Parent Group and the PRC Government". There is no assurance that such support will continue or not be reduced in the future. Should the Parent Group change its overseas expansion strategy or reduce its support to the Group, or should the PRC government cease or reduce its policy and financial support to the Group, the Group's business, financial condition and results of operations will be materially and adversely affected.

***Acquisitions or strategic investments by the Group may not be successful or may not achieve anticipated economic results or commercial viability.***

From time to time the Group evaluates potential strategic acquisitions of complementary businesses and technologies. The Group may also consider joint ventures and other collaborative projects. The Group may not be able to identify appropriate acquisition candidates or strategic partners, or successfully negotiate, finance or integrate any businesses, products or technologies that it acquires. Furthermore, the integration of any acquisition and management of any collaborative project may divert management time and resources from the core business of the Group, and the Group may incur significant legal, accounting and banking fees in connection with such a transaction. In addition, if any company that the Group invests in does not perform as anticipated, the group's financial condition may be adversely affected.

**Regulatory risks**

***Changes in regulatory environment and demands may adversely affect the Group.***

Regulated electricity and gas network assets in the countries and region where the Group operates or invests are subject to extensive governmental regulations. As the regulatory environments continue to evolve, new laws and regulations may be implemented and the Group's operations will be subject to further reviews in areas relating to pricing, costs, safety, compliance and other matters. There is also a risk

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Note:

(1) Exchange rates used are those at the date of capital injection.



that a governmental or regulatory authority may repeal, amend, enact, or promulgate new laws, regulations, treaties, orders, codes or official directives, or existing laws, regulations, treaties, orders, codes or official directives may be subject to new interpretations or applications that could have adverse implications for the Group's business. In particular, governmental and regulatory authorities in the countries and region where the Group operates or invests may implement new regulatory or tax policies, the effect of which may lower the return of the Group's assets and, as a consequence, the Group's return on investment in the business. All these factors could have a material adverse effect on the Group's business, results of operations and financial condition.

***The Group's regulated electric and gas network assets are highly regulated, which limits the Group's flexibility in developing its business.***

Regulated electric and gas network assets in the countries and region where the Group operates or invests are subject to extensive governmental regulations. In particular, regulated electricity network assets may be subject to regulations with respect to, among others, limits on returns on investment, controls of technical standards and operating expenses, the amount and quality of electricity transmission and distribution, the construction of new transmission and distribution projects, and tariff levels which are subject to price controls set by the regulatory authorities. These requirements limit the Group's flexibility in developing its business.

Furthermore, regulated revenues may be based in part on projected capital expenditure and operating expenditure costs, and expectations for the weighted average cost of capital allowance. There can be significant cost fluctuations within a regulatory period as a result of changes in the costs of labour, equipment and capital inputs (including the costs of finance) which are beyond the Group's control and difficult to predict with certainty. As a result, there is no certainty that the Group will be able to recover through regulated revenues the amount of capital or operating expenditure required to operate the business.

#### **Operational risks**

***Licences, permits and concession agreements necessary for the Group's business may not be obtained, sustained, extended or renewed.***

The Group relies on licences, permits and concession agreements and, in some cases, renewals of such licences, permits and concession agreements in the countries and region where it operates or invests. The Group's ability to obtain, sustain, extend or renew such licences, permits and concession agreements on acceptable terms is subject to changes in regulations and policies and to the discretion of applicable governmental authorities and counterparties in the countries and region where it operates. In addition, any breaches of the terms of any of the Group's licences, permits and concession agreements may result in the revocation or suspension of such licences and permits or termination of such agreements. Any revocation or suspension, or inability to renew a required licence or permit, or termination of an concession agreement, could limit Group's operations and have a material adverse effect on the business, financial condition and results of operations of the Group.

***Compliance with increasingly strict environmental, health and safety laws and regulations may increase the Group's costs and adversely affect its financial condition and results of operations.***

The Group is subject to environmental, health and safety regulations in the countries and region where it operates or invests. The legislators and regulatory authorities in these countries and region may take steps towards the adoption of more stringent environmental, health and safety regulations, in which case the Group may need to incur additional capital expenditures for compliance. There can be no assurance that the Group will be at all times in full compliance with these regulatory requirements, and any violation of these regulations, whether accidental or not, may result in regulatory sanctions and significant monetary penalties. The Group's costs of complying with current and future environmental, health and safety laws and the liabilities of the Group arising from any failure to comply with applicable regulatory requirements, may adversely affect its business, financial condition and results of operations.

***The construction of new transmission or distribution projects is subject to a number of contingencies, which may lead to delays and cost overruns.***

The Group regularly upgrades and expands its transmission and distribution network to meet increased demand. The Group's transmission and distribution projects typically require substantial capital outlays and time before the commencement of commercial operations. The Group generally begins generating a return on its investment in a transmission or distribution project after the commencement of commercial operation, which may, however, be delayed due to various reasons.

The Group's new transmission or distribution projects are subject to prior approvals from, among others, local regulatory authorities in the countries and region where it operates or invests. There can be no assurance that the approval process will not be protracted or subject to more stringent regulatory standards than the Group may anticipate. The construction of a transmission or distribution project involves many potential risks, including shortages of materials, equipment or labour, accidents, adverse weather conditions, natural disasters, unforeseeable problems in relation to geological conditions, engineering and environmental protection, and other unforeseeable problems and circumstances. Any of these factors may lead to delays and cost overruns in the Group's projects. Delays may result in reductions to revenue, may result in increases in costs and may cause disputes with suppliers or customers due to its not being able to provide relevant services on a timely basis. In addition, any failure to complete construction according to applicable standards may reduce the efficiency of the project constructed, increase operational costs and reduce profits. There is no assurance that future transmission or distribution projects will be completed on time or within budget.

***Natural disasters, network failures, equipment breakdowns, planned or unplanned outages or other potentially catastrophic events may cause network or equipment damage as well as losses or harm to the Group's business and reputation.***

The Group's network and equipment may be disrupted or damaged by natural disasters or other potentially catastrophic events, such as typhoons, floods, severe weather conditions, man-made disasters, or acts of terrorism or intentional damage. Network failure or equipment breakdowns can adversely affect the Group's capacity to transmit or distribute electricity or gas and be costly or time-consuming to rectify. As such, network failure and equipment breakdowns can harm the Group's reputation, as well as its financial condition and results of operations. In addition, all of the Group's corridors of transmission and distribution require monitoring and regular repair and maintenance. Any network and equipment breakdown due to catastrophic events or otherwise will increase the cost of repair and maintenance, further adversely affecting the Group's results of operations. Furthermore, the Group's emergency response, crisis management and business continuity management system may not be able to effectively mitigate adverse consequences arising from any of the above events. Any failure to mitigate and prevent further damages can have further adverse impact on the Group's business, results of operations and financial condition.

***Some of the Group's operations are hazardous and could expose the Group to significant health and safety claims.***

Occupational health and safety is a key risk area in the operation and maintenance of energy transmission and distribution networks. There are risks associated with such activities, such as operational hazards caused by circumstances beyond the Group's control, as well as the inherently dangerous nature of maintenance and construction work involving transmission and distribution facilities. The Group may continue to experience claims for health and safety-related issues from time to time.

The Group's businesses also give rise to the risk of claims by customers or the community as a result of the dangers associated with fallen power lines, broken gas mains and other damages and consequences caused by the construction, operation and maintenance of electricity transmission and distribution networks. There is no assurance that the Group's systems designed to identify and eliminate or manage risks to employees, contractors and the community are adequate. These risks will expose the Group to potential material liabilities, such as fines, litigation and increased expenses and could harm its reputation and financial condition.

***The third-party contractors that the Group engages may fail to fulfil their contractual obligations.***

Many of the Group's energy infrastructure projects are dependent on the availability of competent external contractors for equipment manufacturing, construction and maintenance. The Group selects contractors in accordance with applicable laws and regulations, and endeavours to ensure that its contractors have the necessary capabilities to carry out the relevant contracts. However, there is no assurance that the performance of external contractors will meet the terms and conditions or performance parameters of the Group. If the performance of contractors is inadequate for the Group's requirements, this could result in incremental cost and time overruns which in turn could adversely affect the Group's new projects. In addition, the Group may be subject to fines and other penalties due to the failure of contractors to comply with applicable laws and regulations relating to project construction and/or maintenance. Although the Group's contractors furnish performance guarantees for contract execution, there is no assurance that, in the event of poor execution of contracts, the Group would always be able to enforce the performance guarantees of these contractors.

Further, if the Group is not able to engage competent contractors for its projects on a timely basis, or on terms that provide for the timely and cost-effective execution of the project, its projects may be delayed and its returns on those projects may be affected. In addition, due to the non-controlling ownership of some of its assets, the Group has limited power on who is appointed as a third-party contractor.

***The Group's insurance may not be sufficient to cover potential liabilities and losses.***

Although the Group maintains insurance that it believes is appropriate to protect against major operating and other risks, not all risks are insured or insurable. Due to changeable insurance market conditions, there can be no assurance that adequate insurance coverage for potential losses and liabilities will be available in the future on commercially reasonable terms, and the Group may also elect to self-insure or carry increased deductibles. If the Group experiences a loss in the future, the proceeds of the applicable insurance policies and government relief payments, if any, may not be adequate to cover replacement costs, lost revenues, increased expenses or liabilities to third parties, in which case the Group's financial condition and results of operations may be materially and adversely affected.

***The Group's distribution network revenues are exposed to variations in demand for energy, other factors affecting customer load, and adequate capacity of transmission infrastructure.***

The Group's performance from its electricity and gas distribution businesses is partially dependent on the volume of gas transported and electricity delivered through its networks. This volume is, in turn, affected by end-user demands, and is also subject to a range of variables, including economic and social conditions, adverse competition, population growth, availability of adequate supplies of gas or electricity, industry or other issues, government policies and alternative fuels or energy sources. Economic recession and customers moving out of the distribution area will also have a direct impact on revenue. Similarly, usage is sensitive to weather patterns, and periods of unseasonably warm winters and cool summers may reduce energy consumption and have an adverse impact on earnings. Variation in usage demands may negatively affect the Group's revenue and operating income.

In addition, if the Group's transmission system is incapable of fully meeting rising demand, and any transmission constraints remain unresolved, the ability of the Group to receive supplies from its electricity suppliers' power generation facilities would be adversely affected, and the Group might have to resort to temporary load shedding, which is the interruption of electricity supplies to certain areas to avoid causing system instability. Should the Group be forced into load shedding, perception of the Group's quality of service, as well as the growth of its revenue from the distribution and sale of electricity, could be adversely affected.

***If the Group fails to adapt to technological changes in a timely manner, its transmission and distribution operations may be adversely affected.***

The future success of the Group depends in part on its ability to respond to technological changes on a cost-effective and timely basis. There is no assurance that the Group's investment in research or development or the technological support from the Parent Group will continue to be adequate, or that the Group will satisfy market demands for technological innovation. There can be no assurance that the Group will implement new technologies successfully or generate satisfactory returns on its investments. If the Group is unable to adapt in a timely manner to new technological developments, for technical, financial or other reasons, its business and results of operations could be adversely affected.

## **Financial risks**

***The Group has significant financing needs to support its planned investments and acquisitions and capital expenditures. If it is unable to obtain adequate funding due to market or policy factors, its investment activities and debt service and repayment could be adversely affected.***

The Group has significant financing needs to support its planned investments and acquisitions and capital expenditures. During 2011, 2012, 2013, and the six months ended 30 June 2014, the Group's cash flows from investing activities was HK\$139.1 million, HK\$(9,835.8) million, HK\$1,282.1 million and HK\$(32,016.2) million respectively. The Group plans to continue to make additional investments and acquisitions or incur capital expenditures, mainly in relation to electricity and gas transmission and

distribution projects outside the PRC. There can be no assurance that the Group will obtain future financing in a timely manner and on favourable terms, if at all, or maintain a favourable credit rating. The Group's ability to obtain external financing in the future is subject to a number of uncertainties, including (i) its future financial condition, results of operations and cash flows, (ii) whether there is readily available funding for the demand of a particular project and (iii) any support from the Parent Group and the PRC government. Future debt financing, if available, may result in increased finance charges, increased financial leverage and reduced income available to fund further projects. If the Group fails to generate or obtain sufficient additional capital in the future, it could be forced to reduce or delay its planned acquisitions, investments in projects, or other capital expenditures.

***The Group is exposed to counterparty credit risk.***

The Group is exposed to credit-related losses in the event of non-performance by counterparties to contracts, including credit risk relating to banks holding the Group's deposits and counterparties to derivative instruments, which the Group uses to manage financial risks. Non-performance by one of the Group's counterparties could have a material adverse effect on the Group's earnings.

***Future fluctuations in foreign currency exchange rates may adversely affect the business, financial condition and results of operations of the Group.***

The Group reports its financial results in Hong Kong dollars, yet a substantial portion of the revenue, expenses and bank borrowings of the Group are denominated in foreign currencies, and the payment of the principal and interests on the Notes will be in euros. As a result, fluctuations in exchange rates, particularly between the Australian dollar, the Brazilian real, the Philippine peso, the Hong Kong dollar and the euro could affect the Group's profitability, and may result in foreign currency exchange losses in the foreign currency-denominated assets and liabilities of the Group. Any depreciation of the local currency of a country in which it operates may adversely affect the value of the Group's net assets and earnings in foreign currency terms, as well as its ability to service its foreign currency obligations including the payment of the principal and interest on the Notes.

**Management and personnel risks**

***The Group is highly dependent on its directors and members of senior management.***

The Group's directors and senior management have been integral to its successful business operations. The experience, knowledge, technical know-how, business, relationships and expertise that would be lost should any such personnel depart could be difficult to replace. If the Group loses the services of such person and is unable to fill any vacant key executive or management positions with qualified candidates, its business, results of operations and financial condition may be materially and adversely affected.

***Failure to retain and attract skilled professional and technical employees could have an adverse effect on the Group's operations.***

The Group's success is dependent on its ability to attract, develop, retain and engage high-quality employees who have the necessary and required experience and expertise to conduct its business. Competition for executives and skilled employees is high, especially in the energy infrastructure industry. The skills shortage is compounded by the large number of infrastructure and rebuilding projects, both within and outside the industry, which draw on similar skilled resources. The limited supply of skilled workers, particularly in technical and engineering occupations, has led to increased competition for these resources, and could lead to increased labour costs. The inability to attract, develop, retain and engage employees with the necessary skills could adversely affect the Group's business, reputation, financial condition and results of operations, and its future growth may slow down.

***The Group may not be able to detect and prevent fraud or other misconduct.***

The Group may be exposed to fraud or other misconduct that could subject the Group to financial losses and sanctions imposed by the government authorities, as well as adversely affect its reputation. Due to inherent limitations, there can be no assurance that the system of disclosure and internal controls and procedures of the Group will be successful in preventing all fraud or other misconduct, or in making all material information known to the management in a timely manner.

***The Group may face labour disruptions that interfere with its operations.***

The Group is exposed to the risk of strikes and other industrial actions. The Group is subject to collective bargaining agreements in Brazil and Australia. There can be no assurance that there will be no disputes, strikes, work stoppages or other industrial action in the future. Any such event could disrupt operations, possibly for a significant period of time, resulting in a material adverse effect on the Group's business, results of operations or financial condition.

**Risks Relating to the Notes, the Guarantee and the Keepwell Deed**

***This Offering Memorandum does not constitute a "prospectus" for the purposes of the Prospectus Directive.***

This Offering Memorandum has been prepared on the basis that any offer of Notes in any Relevant Member State must 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 of Notes in that Relevant Member State may only do so in circumstances in which no obligation arises for the Issuer, the Guarantor, the Company, any Joint Lead Manager or any Co-manager 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. None of the Issuer, the Guarantor, the Company, any Joint Lead Manager or any Co-manager has authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer, the Guarantor, the Company, any Joint Lead Manager or any Co-manager to publish or supplement a prospectus for such offer.

***The Guarantor is a holding company with no operations and relies on its operating subsidiaries or associate companies to provide it with funds necessary to meet its financial obligations.***

The Guarantor is a holding company with no material direct operations. Its principal assets are the equity interests it directly or indirectly holds in its operating subsidiaries or associate companies and which own the operating assets. As a result, it is dependent on dividends and other payments from its subsidiaries or associate companies to generate the funds necessary to meet its financial obligations. The Guarantor's subsidiaries and associate companies are legally independent from the Guarantor and will pay dividends to the Guarantor when relevant requirements are satisfied. There is no assurance that the Guarantor will receive sufficient dividends and other payments from its subsidiaries or associate companies to meet its financial obligations, if at all. In addition, any claim against the Guarantor will be effectively subordinated to all existing and future obligations of the Guarantor's subsidiaries and associate companies, and all claims by creditors of such subsidiaries and associate companies (which do not guarantee the Notes) will have priority to the assets of such entities which are the subject of the claims under the Notes.

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

The Notes are complex financial instruments and may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to an investor's overall investment portfolio. A potential investor should not invest in the Notes unless it has the expertise (either alone or with the help of 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.

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

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes or any applicable supplement;
- (ii) 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 such investment will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;



- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

***The liquidity and price of the Notes following the offering may be volatile and there may not be any trading market existing for the Notes.***

The price and trading volume of the Notes may be highly volatile. Factors such as variations in each of the Group's credit ratings, support from the Parent Group and the PRC government, revenue, earnings and cash flows, 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 be traded. There is no assurance that these developments will not occur in the future.

In addition, the Notes constitute a new issue of securities for which there is currently no trading market existing, and the Notes offer limited liquidity. Although application has been made to the Irish Stock Exchange for permission to deal in and list each series of Notes, neither the Issuer nor the Guarantor nor the Company can guarantee that a liquid trading market for the Notes will develop or continue. If such a market were to develop, the Notes could be traded at prices that may be higher or lower than the relevant initial issue price depending on many factors, including prevailing interest rates, the Group's operations and the market for similar securities. None of the Joint Lead Managers or the Co-managers is obliged to make a market in the Notes and any such market-making, if commenced, may be discontinued at any time at the sole discretion of the Joint Lead Managers and the Co-managers.

***The Notes are redeemable in the event of certain withholding taxes being applicable.***

No assurances are made by the Issuer or the Guarantor as to whether or not payments on the Notes may be made without withholding taxes or deductions applying from the Issue Date on account of any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the United Kingdom, Hong Kong, the PRC or any subdivision or authority therein or thereof having power to tax. See "Terms and Conditions of the Notes – Redemption and Purchase – Redemption for Taxation Reasons" for additional details.

***The Issuer or the Guarantor may not be able to meet its outstanding obligations under the Notes.***

The Issuer or the Guarantor may (and at maturity, will) be required to redeem all of the Notes. If such an event were to occur, the Issuer or the Guarantor may not have sufficient cash in hand and may not be able to arrange financing to redeem the Notes in time, or on acceptable terms, or at all. The ability to redeem the Notes in such event may also be limited by the terms of other debt instruments. Failure to repay, repurchase or redeem tendered Notes by or on behalf of the Issuer may constitute an event of default under the Notes, which may also constitute a default under the terms of the Issuer's, the Guarantor's or the Company's other indebtedness.

***The Trustee may request the Noteholders to provide an indemnity and/or security and/or prefunding to its satisfaction.***

In certain circumstances (including without limitation giving of notice to the Issuer pursuant to Condition 10 (*Events of Default*) of the Terms and Conditions of the Notes and taking action pursuant to Condition 10 (*Events of Default*) of the Terms and Conditions of the Notes), the Trustee may (at its sole discretion) request Noteholders to provide an indemnity and/or security and/or prefunding to its satisfaction before it takes actions on behalf of Noteholders. The Trustee shall not be obliged to take any such actions if not indemnified and/or prefunded and/or secured to its satisfaction. Negotiating and agreeing to an indemnity and/or security and/or prefunding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity or security or prefunding to it, in breach of the terms of the Trust Deed constituting the Notes and in circumstances where there is uncertainty or dispute as to the applicable laws or regulations and, to the extent permitted by the agreements and the applicable law, it will be for the Noteholders to take such actions directly.

***Modifications and waivers may be made in respect of the Terms and Conditions of the Notes, the Trust Deed, the Agency Agreement and the Keepwell Deed by the Trustee or less than all of the Noteholders.***

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders, including those Noteholders who do not attend and vote at the relevant meeting and those Noteholders who vote in a manner contrary to the majority. Furthermore, there is a risk that the decision of a majority of Noteholders may be adverse to the interests of individual Noteholders.

The Terms and Conditions of the Notes also provide that the Trustee may, without the consent of Noteholders, agree to any modification of the Terms and Conditions of the Notes, or any provisions of the Trust Deed, Agency Agreement or the Keepwell Deed which in the opinion of the Trustee will not be materially prejudicial to the interests of Noteholders and to any modification of the Trust Deed, the Agency Agreement or the Keepwell Deed which is of a formal, minor or technical nature or is to correct a manifest error or to comply with any mandatory provision of law.

***The Issuer may issue additional Notes in the future.***

The Issuer may, from time to time, and without the consent of the Noteholders create and issue further Notes (See “*Terms and Conditions of the Notes – Further Issues*”) or otherwise raise additional capital through such means and in such manner as it may consider necessary. There can be no assurance that such future issuance or capital raising activity will not adversely affect the market price and liquidity of the Notes.

***Changes in market interest rates may adversely affect the value of the Notes.***

Investment in the Notes, which carry a fixed rate of interest, involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes.

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

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

***The rating on each series of Notes may be changed or withdrawn at any time and may adversely affect the market price of the Notes.***

It is a condition to the issuance of the Notes that each series of Notes be rated “A1”, “A+” and “A+” by Moody’s, Standard and Poor’s and Fitch, respectively, upon issuance. The rating addresses the full and timely payment of interest and the timely repayment of principal on or before the maturity date in accordance with the terms and conditions of the Notes. A rating is not a recommendation to purchase, hold or sell the Notes. No assurance can be given that a rating will remain in effect for any given period of time or that a rating will not be lowered or withdrawn entirely by an assigning rating agency. Any decline in the financial position of the Issuer, the Guarantor, the Company or any of its subsidiaries may impair the ability of the Issuer to make payments to the Noteholders under the Notes and/or result in the rating of the Notes being lowered, suspended or withdrawn entirely. If the rating initially assigned to the Notes is subsequently lowered or withdrawn for any reason, no person or entity will be obliged to provide any additional credit enhancement with respect to the Notes. Any reduction or withdrawal of a rating may have a material adverse effect on the liquidity and market price of the Notes.

***Any downgrading of corporate ratings of the Guarantor or the Company, or those of its respective subsidiaries, by rating agencies could adversely affect the Group’s business and the Group’s liquidity.***

Any adverse revision to the corporate ratings of the Guarantor or the Company, or those of its respective subsidiaries, for domestic and international debt by rating agencies such as Fitch, Moody’s and Standard and Poor’s may adversely affect the trading price and liquidity of the Notes. Further, the Group’s ability to obtain financing or to access to capital markets may also be limited, thereby lowering its liquidity.



***The Keepwell Deed is not a guarantee of the payment obligations under the Notes.***

The Company intends to assist the Issuer and the Guarantor in meeting their respective obligations under the Notes and the Guarantee and will therefore enter into the Keepwell Deed in relation to the Notes. See “*Description of the Keepwell Deed*”. Upon the occurrence of a Financial Ratio Failure (as defined in the Keepwell Deed), or an Event of Default or a Shortfall Event, the Company will agree that it shall, subject to all requisite approvals, clearance or other authorisation from the relevant authorities having been obtained by the Company, invest (either by itself or through a subsidiary) in the Issuer and/or the Guarantor by equity investment or shareholders’ loan or a combination thereof at an investment amount in accordance with the provisions of the Keepwell Deed upon receipt of notification from the Trustee. Further, the Company will also agree to purchase (either by itself or through a wholly-owned subsidiary) certain equity interests upon receiving a written purchase notice (the “**Purchase Notice**”) from the Trustee. However, neither the Keepwell Deed nor any actions taken by the Company thereunder can be deemed as a guarantee by the Company for the payment obligation of the Issuer or the Guarantor under the Notes. Accordingly, the Company will only be obliged to make sufficient funds available to the Issuer and the Guarantor, but will not assume the payment obligation as in the case of a guarantee.

In addition, under the Keepwell Deed, the Company will undertake with the Trustee, the Issuer and the Guarantor to, among other matters, cause the Issuer and the Guarantor to have sufficient liquidity to ensure timely payment of any amounts payable in respect of the Notes. However, any claim by the Trustee against the Company in relation to the Keepwell Deed will be effectively subordinated to all existing and future obligations of the Company’s subsidiaries, particularly its PRC operating subsidiaries, and all claims by creditors of such subsidiaries (which do not guarantee the Notes) will have priority to the assets of such entities over the claims of the Trustee, the Issuer and the Guarantor under the Keepwell Deed.

***Performance by the Company of its undertakings under the Keepwell Deed is subject to approvals of the PRC governmental authorities.***

Performance by the Company of its obligations under the Keepwell Deed to invest in the Issuer and/or the Guarantor in certain circumstances is subject to the consent or approval from relevant PRC governmental authorities, including but not limited to the SASAC, NDRC, MOFCOM, SAFE, AIC or their local counterparts. See “*Description of the Keepwell Deed*” for additional details. Accordingly, even if the Company intends to perform its obligations under the Keepwell Deed to invest in the Issuer, such performance may be subject to prior approval of the relevant PRC governmental authorities.

Performance by the Company of its undertaking to purchase certain equity interests pursuant to the Keepwell Deed is subject to the approval of:

- MOFCOM in respect of the transfer of the equity interest in the PRC-incorporated subsidiaries from the Relevant Transferor to the Company;
- AIC in respect of the transfer of the equity interest in the PRC-incorporated subsidiaries from the Relevant Transferor to the Company;
- the relevant PRC tax authorities in respect of withholding tax for the Relevant Transferor; and
- SAFE in respect of (i) changing the SAFE registration of the PRC-incorporated companies being sold, and (ii) the remittance of the purchase price, denominated in U.S. dollars (or another currency designated by the Company or the Designated Purchaser (as defined in the Keepwell Deed)), from the Company or the Designated Purchaser, as the case may be, in the PRC to the Issuer.

As the approval process is beyond the control of the Company, there can be no assurance that the Company will successfully obtain either of the requisite approvals in time, or at all. In the event that the Company fails to obtain the requisite approvals, the Issuer and the Guarantor may still have insufficient funds to discharge their outstanding payment obligations under the Notes.

***Performance by the Company under the Keepwell Deed may be subject to consent from third party creditors and shareholders, and may also be restricted if any of the equity interests are secured in favour of third party creditors.***

Pursuant to the terms of the Keepwell Deed, the Company will agree to purchase (either by itself or through a wholly-owned subsidiary) certain equity interests upon receiving the Purchase Notice from the Trustee. See “*Description of the Keepwell Deed*” for additional details. The ability of the Company to perform this undertaking may be affected by any present or future financing agreements of the Company and its subsidiaries:

- in the event that such financial agreements contain non-disposal or other restrictive covenants that would prevent the sale of an equity interest by a Relevant Transferor, the Company and its subsidiaries would need to obtain the consent of the third-party creditors before the Relevant Transferor is able to proceed with the sale of such equity interest; and
- in the event that certain equity interests have been secured in favour of third party creditors, the Company and its subsidiaries would need to arrange for these security interests to be released before the Relevant Transferor is able to proceed with the sale of such equity interests.

In the event that the obligation to purchase under the Keepwell Deed becomes effective, there is no assurance that the Relevant Transferor will be able to obtain any required consents from its creditors, or that it will be able to arrange for any existing security arrangement to be released in order for the sale of the equity interest to proceed. If such consents or releases cannot be obtained, the Relevant Transferor may need to repay the indebtedness owed to its third party creditors in order to be able to sell the relevant equity interests to the Company, failing which, the Issuer and the Guarantor may have insufficient funds to discharge their payment obligations to the holders of the Notes.

In addition, third party shareholders’ consent may also be required if the Company chooses to acquire the equity interests of certain non-wholly-owned companies of a Relevant Transferor. This may be subject to pre-emptive rights or other restrictions in such company’s articles of association, shareholders’ agreement or otherwise that would require the selling shareholder to obtain consent or waiver from other third party shareholders before any equity interest can be sold to the Company or its subsidiaries or affiliates. In the event the obligation to purchase under the Keepwell Deed becomes effective, there is no assurance that any required approvals or waivers can be obtained from third party shareholders in a timely manner, if at all.

***The Relevant Transferors under the Keepwell Deed may have limited or no equity interests which can be sold to the Company pursuant to the Keepwell Deed.***

Pursuant to the terms of the Keepwell Deed entered into between the Trustee, the Issuer, the Guarantor and the Company, the Company agrees to purchase (either by itself or through a wholly-owned subsidiary) certain equity interests upon receiving the Purchase Notice from the Trustee. See “*Description of the Keepwell Deed*” for additional details.

As at the date of this Offering Memorandum, the Relevant Transferors (as defined in the Keepwell Deed) have limited or no equity interests that can be sold to the Company in the event that the obligation to purchase under the Keepwell Deed becomes effective. There can be no assurance that in the event the Keepwell Deed becomes effective, the sale by the Relevant Transferors of their equity interests to the Company will be sufficient to enable the Issuer or the Guarantor, as the case may be, to discharge their respective obligations under the Notes and the Trust Deed.

***The Notes and the Guarantee are unsecured obligations.***

As the Notes and the Guarantee are unsecured obligations, the repayment of the Notes and payment under the Guarantee 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 future secured indebtedness or other unsecured indebtedness of the Issuer or the Guarantor; or

- there is an acceleration of any of the indebtedness of the Issuer or the Guarantor.

If any of these events were to occur, the assets of the Issuer or the Guarantor may not be sufficient to pay amounts due on the Notes.

***The Issuer may not be able to repurchase the Notes upon a Change of Control Triggering Event.***

At any time following the occurrence of a Change of Control Triggering Event (as defined in the Terms and Conditions of the Notes), the holder of any Note will have the right, at such holder's option, to require the Issuer to redeem all, but not some only, of that Noteholder's Notes at a purchase price equal to 101 per cent. of the principal amount of the relevant series of Notes together with accrued interest. See "*Terms and Conditions of the Notes – Redemption and Purchase – Redemption upon a Change of Control Triggering Event*" for additional details. The source of funds for any such purchase would be available cash of the Group or third-party financing. However, the Issuer may not have enough available funds at the time of the occurrence of any Change of Control Triggering Event to make purchases of the outstanding Notes. If an event constituting a Change of Control Triggering Event occurs at a time when the Issuer is prohibited from repurchasing the Notes, the Issuer may seek the consent of the lenders under such indebtedness to purchase the Notes or may attempt to refinance the borrowings that contain such prohibition. If such a consent to repay such borrowings is not obtained, the Issuer may be unable to repurchase the Notes. The Issuer's failure to make an offer to purchase or purchase the outstanding Notes would constitute an event of default under the Notes. The event of default may, in turn, constitute an event of default under other indebtedness, any of which could cause the related debt to be accelerated after any applicable notice or grace period. If the Issuer's or the Guarantor's other debts were to be accelerated, the Issuer may not have sufficient funds to purchase the Notes and repay the debt.

Certain of the events constituting a Change of Control Triggering Event under the Notes may also constitute an event of default under certain of the Guarantor's or its subsidiaries' debt instruments, requiring repurchase of such debt or otherwise cancelling the Guarantor's or its subsidiaries' lenders' commitments under such debt instruments. In addition, future debt of the Issuer or the Guarantor may also (1) prohibit the Issuer from purchasing Notes in the event of a Change of Control Triggering Event; (2) provide that a Change of Control Triggering Event is a default; or (3) require repurchase of such debt upon a Change of Control Triggering Event. Moreover, the exercise by the Noteholders of their right to require the Issuer to purchase the Notes could cause a default under the Guarantor's or its subsidiaries' other indebtedness, even if the Change of Control Triggering Event itself does not, due to the financial effect of the purchase on the Guarantor and its subsidiaries.

***If the Issuer or the Guarantor is unable to comply with the terms of the Trust Deed governing the Notes or their respective future debt agreements, there could be a default under those agreements, which could cause repayment of the debt of the Issuer or the Guarantor to be accelerated.***

If the Issuer or the Guarantor is unable to comply with the terms in the Trust Deed governing the Notes or its future debt obligations and other agreements, there could be a default under those agreements. If that occurs, the holders of the debt could terminate their commitments to lend to the Issuer or, as the case may be, 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, the Trust Deed governing the Notes and certain financing agreements of the Group contain, and the Issuer's or the Guarantor's future debt agreements are likely to 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 obligations, including the Notes, or result in a default under their other debt agreements, including the Trust Deed governing the Notes. If any of these events occur, the Issuer's or the Guarantor's assets and cash flows might not be sufficient to repay in full all of its respective indebtedness and the Issuer or, as the case may be, the Guarantor might not be able to find alternative financing. Even if the Issuer or the Guarantor could obtain alternative financing, it might not be on terms that are favourable or acceptable to it.

***Each series of Notes will initially be held in book-entry form, and therefore Noteholders must rely on the procedures of the relevant clearing systems to exercise any rights and remedies.***

Each series of Notes will initially only be issued in global certificated form and held through Euroclear and Clearstream, Luxembourg. Interests in a Global Certificate representing each series of Notes will trade in book-entry form only, and Notes in definitive registered form will be issued in exchange for the relevant

book-entry interests only in very limited circumstances. Owners of book-entry interests will not be considered owners or holders of the relevant series of Notes for purposes of the Trust Deed. A common depositary for Euroclear and Clearstream, Luxembourg will be the sole registered holder of a Global Certificate. Accordingly, Noteholders must rely on the procedures of Euroclear or Clearstream, Luxembourg, and if a Noteholder is not a participant in Euroclear or Clearstream, Luxembourg, on the procedures of the participant through which the Noteholder owns its interest, to exercise any rights and obligations of a holder of the Notes under the Trust Deed. Upon the occurrence of an event of default under the Trust Deed, unless and until definitive registered Notes are issued in respect of all book-entry interests, if a Noteholder owns a book-entry interest, such Noteholder will be restricted to acting through Euroclear and Clearstream, Luxembourg. The procedures to be implemented through Euroclear and Clearstream, Luxembourg may not be adequate to ensure the timely exercise of rights under the Notes. See “*Summary of Provisions Relating to the Notes while in Global Form*”.

***Investors in the Notes may be subject to foreign currency exchange risks.***

The Notes are denominated and payable in euros. An investor who measures investment returns by reference to a currency other than euros would be subject to foreign currency exchange risks by virtue of an investment in the Notes, due to, among other things, economic, political and other factors over which the Group has no control. Depreciation of the euro against such currency could cause a reduction in the effective yield of the Notes below their stated coupon rates and could result in a loss when the return on the Notes is translated into such currency. In addition, there may be tax consequences for investors as a result of any foreign currency gains resulting from any investment in the Notes.

***The Issuer or the Guarantor may be treated as a PRC-resident enterprise for PRC tax purposes, which may subject the Issuer or the Guarantor to PRC income taxes on its worldwide income and interest payable by the Issuer or the Guarantor to foreign investors, and gains on the sale of the Notes may be subject to withholding taxes under PRC tax law.***

Under the PRC Enterprise Income Tax Law (the “**EIT Law**”) and the implementation rules which both took effect on 1 January 2008, enterprises established outside the PRC whose de facto management bodies are located in China are considered resident enterprises for PRC tax purposes.

The implementation rules define the term “**de facto management body**” as a management body that exercises full and substantial control and management over the business, personnel, accounts and properties of an enterprise.

A circular issued by the State Administration of Taxation on 22 April 2009 (“**Circular 82**”) provides that a foreign enterprise controlled by a PRC company or a PRC company group will be treated as a resident enterprise with a de facto management body located within China if all of the following requirements are satisfied at the same time: (i) the senior management and core management departments in charge of daily operations are located mainly within China; (ii) financial and human resources decisions are subject to determination or approval by persons or bodies in China; (iii) major assets, accounting books, company seals and minutes and files of board and shareholders’ meetings are located or kept within China; and (iv) at least half of the enterprise’s directors with voting rights or senior management reside within China. On 27 July 2011, the State Administration of Taxation issued Provisional Administrative Regulations of Enterprise Income Taxation of a Foreign Enterprise Controlled by a PRC Enterprise or a PRC Enterprise Group (“**Circular 45**”), to further prescribe the rules concerning the recognition, administration and taxation of a foreign enterprise controlled by a PRC enterprise or PRC enterprise group. Circular 45 provides two ways for a foreign enterprise controlled by a PRC enterprise or a PRC enterprise group to be treated as a resident enterprise. First, the foreign enterprise may unilaterally decide whether its de facto management body is located in China based on the criteria set forth in Circular 82, and, if it makes such a determination, it shall apply to the competent tax bureau to be treated as a resident enterprise. Second, the tax authority, may, following investigation, determine that the foreign enterprise is a resident enterprise. On 29 January 2014, the State Administration of Taxation issued the Announcement of the State Administration of Taxation on Issues concerning the Accreditation of Resident Enterprises Based on the Place of Effective Management Criteria (“**Circular 9**”), to further specify the accreditation procedure of a foreign enterprise controlled by a PRC enterprise or a PRC enterprise group as a resident enterprise. Under Circular 9, foreign enterprises, which meet the criteria of a resident enterprise under Circular 82, shall file accreditation application with domestic taxation authorities where their domestic shareholders are situated.

To date, neither the Issuer nor the Guarantor has been notified by the competent tax bureau that it is a PRC resident enterprise. If the Issuer or the Guarantor is deemed to be a PRC-resident enterprise for EIT purposes, the Issuer or, as the case may be, the Guarantor would be subject to the PRC enterprise income tax at the rate of 25% on its worldwide taxable income. Furthermore, the Issuer or the Guarantor may be obliged to withhold PRC enterprise income tax at the rate of up to 10% on such payments of interest to non-PRC resident enterprise holders of the Notes and 20% for non-resident individual holders of the Notes if such interest payments are deemed to be derived from sources within the PRC. Similarly, any gain realised by such non-resident enterprise investors from the transfer of the Notes may be regarded as being derived from sources within the PRC and may, accordingly, be subject to a 10% PRC withholding tax provided that there are no tax treaties between China and those countries which exempt or reduce such withholding tax and the investors do not have offices or premises in the PRC, or that have offices or premises in the PRC but such gains are not effectively connected therewith.

If the Issuer or the Guarantor is required under the EIT Law to withhold PRC income tax from interest payments made to foreign investors who are non-resident enterprises, the Issuer or, as the case may be, the Guarantor will be required to pay such additional amounts as will result in receipt by a holder of the Notes of such amounts as would have been received by the holder had no such withholding been required. The requirement to pay additional amounts will increase the cost of servicing interest payments on the Notes, and could have a material adverse effect on its ability to pay interest on, and repay the principal amount of, the Notes, as well as its profitability and cash flow. In addition, if Noteholders are required to pay PRC income tax on the transfer of the Notes, the value of investments in the Notes may be materially and adversely affected. It is unclear whether, if the Issuer or the Guarantor is considered a PRC resident enterprise, holders of the Notes might be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas.

***The Issuer may be able to redeem the Notes in whole at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest in the event the Issuer is required to pay additional amounts because it is treated as a PRC resident enterprise.***

Under the EIT Law an enterprise established outside the PRC with a de facto management body within the PRC is deemed a resident enterprise. The implementing rules of the EIT Law define de facto management as substantial and overall management and control over the production and operations, personnel, accounting properties of the enterprise. A circular issued by the State Administration of Taxation on 22 April 2009 provides that a foreign enterprise controlled by a PRC company or a PRC company group will be classified as a resident enterprise with a de facto management body located within the PRC if all of the following requirements are satisfied at the same time: (i) the senior management and core management departments in charge of daily operations are located mainly within the PRC; (ii) financial and human resources decisions are subject to determination or approval by persons or bodies in the PRC; (iii) major assets, accounting books, company seals and minutes and files of board and shareholders' meetings are located or kept within the PRC; and (iv) at least half of the enterprise's directors with voting rights or senior management reside within the PRC.

Under the EIT Law and the implementation regulations thereunder, PRC enterprise income tax at a rate of 10% is normally applicable to PRC-sourced income of non-resident enterprises without establishment within the PRC or whose income has no actual connection to its establishment within the PRC, subject to adjustment by applicable treaty. The EIT Law's implementation regulations further set forth that interest income is viewed as PRC-sourced income if the enterprise that pays interest is located in the PRC. If the Issuer or the Guarantor is deemed a PRC resident enterprise for tax purposes, interest paid to overseas creditors may be regarded as PRC-sourced and therefore be subject to PRC enterprise income tax at the rate of up to 10%.

In the event that the Issuer or the Guarantor is treated as a PRC resident enterprise under the EIT Law, it may be required to withhold PRC income tax on interest payable to certain of its non-resident investors. In such case, the Issuer or, as the case may be, the Guarantor will, subject to certain exceptions, be required to pay such additional amounts as will result in receipt by a holder of a Note of such amounts as have been received by the holder had no such withholding been required. As set out in Condition 7.2 (*Redemption for Taxation Reasons*) of the Terms and Conditions of the Notes, in the event that as a result of a change in PRC tax law such that such PRC deduction or withholding is in excess of 10 per cent. in



the case of non-resident enterprise Noteholders, and the Issuer or, as the case may be, the Guarantor is required to pay additional amounts as a result of certain changes in, or interpretations of, tax law, including any change or interpretation that results in the Issuer or, as the case may be, the Guarantor being required to withhold tax on interest payments as a result of its being treated as a PRC resident enterprise, the Issuer may redeem the Notes in full, but not in part, at the principal amount at any time prior to the Final Redemption as set out in Condition 7.1 (*Final Redemption*) of the Terms and Conditions of the Notes, together with interest accrued up to but excluding the date fixed for redemption but unpaid.

***Additional procedures may be required to be taken to hear matters governed by English law in the Hong Kong courts. There is also no assurance that the PRC courts will recognise and enforce judgments of the Hong Kong courts in respect of English law matters.***

The Terms and Conditions of the Notes and the Keepwell Deed are governed by English law, whereas parties to these documents have submitted to the exclusive jurisdiction of the Hong Kong courts. In order to hear matters governed by English law, Hong Kong courts may require certain additional procedures to be taken. Under the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned, judgments of Hong Kong courts are likely to be recognised and enforced by the PRC courts where the contracting parties to the transactions pertaining to such judgments have agreed to submit to the exclusive jurisdiction of Hong Kong courts. However, recognition and enforcement of a Hong Kong court judgment could be refused if the PRC courts consider that the enforcement of such judgment is contrary to the social and public interest of the PRC. While it is expected that the PRC courts will recognise and enforce a judgment given by Hong Kong courts governed by English law, there can be no assurance that the PRC courts will do so for all such judgments as there is no established practice in this area. Compared with other similar debt securities issuances in the international capital market where the relevant security holders would not typically be required to submit to an exclusive jurisdiction, the Noteholders will be deemed to have submitted to the exclusive jurisdiction of the Hong Kong courts, and thus the Noteholders' ability to initiate a claim outside of Hong Kong will be limited.

***Considerations related to EU Saving Directive.***

Under Council Directive 2003/48/EC (the "**Directive**") on the taxation of savings income, Member States are required to provide to the tax authorities of other Member States details of certain payments of interest or similar income paid or secured by a person established in a Member State to or for the benefit of an individual resident in another Member State or certain limited types of entities established in another Member State.

On 24 March 2014, the Council of the European Union adopted a Council Directive amending and broadening the scope of the requirements described above. Member States are required to apply these new requirements from 1 January 2017. The changes will expand the range of payments covered by the Directive, in particular to include additional types of income payable on securities. The Directive will also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported. This approach will apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

For a transitional period, Luxembourg and Austria are required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments. The changes referred to above will broaden the types of payments subject to withholding in those Member States which still operate a withholding system when they are implemented. Luxembourg has abolished the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the Directive.

The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

Investors who are in any doubt as to their position should consult their professional advisers.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any paying agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax.

***Considerations related to FATCA tax provisions.***

The U.S. Foreign Account Tax Compliance Act (“**FATCA**”) imposes a reporting regime and a 30 per cent. withholding tax with respect to (i) certain payments from sources within the United States, (ii) foreign passthru payments made to certain non-U.S. financial institutions that do not comply with this new reporting regime, and (iii) payments to certain investors that do not provide identification information with respect to interests issued by a participating non-U.S. financial institution. Whilst the Notes are in global form and held within the clearing system, in all but the most exceptional circumstances, it is not expected that FATCA will affect the amount of any payment received by the clearing system. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary is generally unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or such other custodian or intermediary from which it receives payments) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or such other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. The Issuer’s obligations under the Notes are discharged once it has paid the common depositary or common safekeeper for the clearing system and the Issuer has therefore no responsibility for any amount thereafter transmitted through the clearing system and such custodians or intermediaries. See “*Taxation – FATCA*” for additional details.



## TERMS AND CONDITIONS OF THE SERIES A NOTES

*The following are the Terms and Conditions of the Series A Notes substantially in the form in which they (other than the text in italics) will be endorsed on the definitive notes and referred to in the Global Certificate representing the Series A Notes.*

The issue of the Series A €700,000,000 1.50 per cent. guaranteed notes due 2022 (the **Notes**, which expression includes, unless the context requires otherwise, any further notes issued pursuant to Condition 16 and consolidated and forming a single series therewith) was authorised by written resolutions of the board of directors of State Grid Europe Development (2014) Public Limited Company (the **Issuer**) dated 5 January 2015. The Notes are constituted by a Trust Deed (the **Trust Deed**) dated 26 January 2015 between the Issuer, State Grid International Development Limited 國家電網國際發展有限公司 (the **Guarantor**) as guarantor and The Hongkong and Shanghai Banking Corporation Limited (the **Trustee**, which expression shall include all persons for the time being as the trustee or trustees under the Trust Deed, and shall include its successors or assigns) as trustee for itself and the holders of the Notes. The Notes are the subject of an Agency Agreement (the **Agency Agreement**) dated 26 January 2015 relating to the Notes between the Issuer, the Guarantor, the Trustee and The Hongkong and Shanghai Banking Corporation Limited as registrar (the **Registrar**), as transfer agent (the **Transfer Agent**), as initial principal paying agent (the **Principal Paying Agent**), and other agents named therein. References herein to **Agents** means the Principal Paying Agent, the Registrar, the Transfer Agent and any other agent or agents appointed from time to time pursuant to the Agency Agreement with respect to the Notes and shall include their respective successors or assigns. The Notes have the benefit of a keepwell deed (the **Keepwell Deed**) dated 26 January 2015 executed by the Issuer, the Guarantor, State Grid Corporation of China (the **Company**) and the Trustee in favour of the Trustee, in its capacity as trustee for the holders of the Notes. The entry into of the Keepwell Deed was authorised by the resolutions of the board of directors of the Issuer on 5 January 2015, by the resolutions of the sole director of the Guarantor on 5 January 2015 and by the management approval of the Company on 31 October 2014. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and of those provisions of the Agency Agreement and the Keepwell Deed applicable to them. Copies of the Trust Deed, the Agency Agreement and the Keepwell Deed are available for inspection by Noteholders during usual business hours at the specified office for the time being of the Principal Paying Agent located at Level 30, HSBC Main Building, 1 Queen's Road Central, Hong Kong. These terms and conditions (these **Conditions**) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Notes and the Agency Agreement.

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

### 1. Form, Denomination and Title

The Notes are issued in the specified denomination of €100,000 and integral multiples of €1,000 in excess thereof.

The Notes are represented by registered certificates (**Certificates**) which shall be numbered serially and, save as provided in Condition 2.1, each Certificate shall represent the entire holding of Notes by the same holder.

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

In these Conditions, **Noteholder** and **holder** (in relation to a Note) means the person in whose name a Note is registered in the Register (or in the case of a joint holding, the first named thereof).

*Upon issue, the Notes will be represented by a global certificate (the **Global Certificate**) registered in the name of a nominee of, and deposited with, a common depositary for Euroclear Bank SA/NV and Clearstream Banking, société anonyme. These conditions are modified by certain provisions contained in the Global Certificate. See "Summary of Provisions relating to the Notes While in Global Form" in the Offering Memorandum.*

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

## **2. Transfers of Notes and Issue of Certificates**

### **2.1 Transfer**

A Note may, subject to the Agency Agreement and Condition 2.4, be transferred in whole or in part upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate(s) representing such Notes to be transferred, together with the form of transfer endorsed on such Certificate(s) (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may require. In the case of a transfer of part only of a holding of Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of Notes to a person who is already a holder of Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding. All transfers of Notes and entries on the Register will be made in accordance with the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. No transfer of title to a Note will be valid unless and until entered on the Register. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee, or by the Registrar with the prior written approval of the Trustee. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request (free of charge to the Noteholder at the Issuer's expense).

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

### **2.2 Delivery of New Certificates**

Each new Certificate to be issued pursuant to Condition 2.1 shall be available for delivery within five business days of receipt by the Registrar or, as the case may be, any Transfer Agent, of a duly completed and signed form of transfer and surrender of the existing Certificate(s). The form of transfer is available at the specified offices of each Transfer Agent. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar (as the case may be) the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2.2, **business day** means a day, other than a Saturday, Sunday or public holiday, on which commercial banks are generally open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

### **2.3 Transfer Free of Charge**

Certificates, on transfer of Notes, shall be issued and registered without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent, but upon (i) payment by the relevant holder of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity and/or security and/or pre-funding as the Registrar or the relevant Transfer Agent may require); (ii) the Registrar or the relevant Transfer Agent being satisfied in its absolute discretion with the documents of title or identity of the person making the application; and (iii) the relevant Agent being satisfied that the Regulations concerning transfer of the Notes have been complied with.

### **2.4 Closed Periods**

No Noteholder may require the transfer of a Note to be registered (i) during the period of 15 days ending on (and including) the due date for redemption of that Note; (ii) during the period of seven days ending on (and including) any Record Date; and (iii) after the exercise of the put option in Condition 7.4.

### 3. Status of the Notes

The Notes constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 5.1 (*Negative Pledge*)) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes shall, save for such exceptions as may be provided by applicable law, at all times rank at least equally with all the Issuer's other present and future unsecured and unsubordinated obligations.

### 4. Guarantee

#### 4.1 Guarantee

The payment of the principal and interest in respect of the Notes and all other moneys payable by the Issuer under or pursuant to the Notes and the Trust Deed has been unconditionally and irrevocably guaranteed by the Guarantor (the **Guarantee**) in the Trust Deed.

#### 4.2 Status of the Guarantee

The obligations of the Guarantor under the Guarantee constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 5.1 (*Negative Pledge*)) unsecured obligations of the Guarantor and shall, save for such exceptions as may be provided by applicable law, at all times rank at least equally with all the Guarantor's other present and future unsecured and unsubordinated obligations.

### 5. Negative Pledge and Other Covenants

#### 5.1 Negative Pledge

So long as any of the Notes remains outstanding:

- (a) the Issuer will not create or have outstanding any mortgage, charge, lien, pledge or other security interest (each a **Security Interest**) upon, or with respect to, any of its present or future business, undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness, or any guarantee or indemnity in respect of any Relevant Indebtedness, unless the Issuer, in the case of the creation of a Security Interest, before or at the same time and, in any other case, promptly, takes any and all action necessary to ensure that:
  - (i) all amounts payable by it under the Notes and the Trust Deed are secured by the Security Interest equally and rateably with the Relevant Indebtedness; or
  - (ii) such other Security Interest or other arrangement (whether or not it includes the giving of a Security Interest) is provided as is approved by an Extraordinary Resolution (which is defined in the Trust Deed as a resolution duly passed by a majority of not less than three-fourths of the votes cast; a resolution in writing signed by or on behalf of the holders of not less than 90 per cent. in principal amount of the Notes; or consent given by way of electronic consents through the relevant Clearing System(s) by or on behalf of the Noteholders of not less than 90 per cent. in principal amount of the Notes, in accordance with the Trust Deed) of the Noteholders; and
- (b) the Guarantor will not, and the Guarantor will ensure that none of its Non-Listed Principal Subsidiaries (as defined below) will, create or have outstanding any Security Interest upon, or with respect to, any of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness, or any guarantee or indemnity in respect of any Relevant Indebtedness, unless the Guarantor, in the case of the creation of a Security Interest, before or at the same time and, in any other case, promptly, take any and all action necessary to ensure that:
  - (i) all amounts payable by it under the Guarantee are secured by the Security Interest equally and rateably with the Relevant Indebtedness; or
  - (ii) such other Security Interest or other arrangement (whether or not it includes the giving of a Security Interest) is provided as is approved by an Extraordinary Resolution of the Noteholders.

## **5.2 Ratings**

Each of the Issuer and the Guarantor undertakes, *inter alia*, that so long as any Note remains outstanding, save with the approval of an Extraordinary Resolution of the Noteholders, the Issuer will, and the Guarantor will procure the Issuer to, use best efforts to maintain a rating on the Notes by each of the Rating Agencies.

## **5.3 Provision of Information by the Guarantor**

So long as any Note remains outstanding, the Guarantor shall file with the Trustee:

- (a) as soon as they are available, but in any event within 180 calendar days after the end of each Relevant Period (and in the case of the Compliance Certificate, within 14 days of a written request of the Trustee), copies of the relevant Guarantor Audited Financial Reports in the English language, together with a Compliance Certificate of the Guarantor (on which the Trustee may conclusively rely as to such compliance); and
- (b) as soon as they are available, but in any event within 120 calendar days after the end of each Relevant Period, copies of the relevant Guarantor Semi-Annual Unaudited Financial Reports in the English language, together with a certificate signed by the person then authorised to sign financial statements on behalf of the Guarantor, to the effect that the relevant Guarantor Semi-Annual Unaudited Financial Reports are true in all material respects and present fairly the financial position of the Guarantor, as at the end of, and the results of its operations for, the Relevant Period;

*provided that*, if at any time the Capital Stock of the Guarantor are listed for trading on a recognised stock exchange, the Guarantor will file with the Trustee, as soon as they are available but in any event not more than 10 calendar days after any financial or other reports of the Guarantor are filed with any recognised exchange on which the Guarantor's shares are at any time listed for trading, true and correct copies of any financial or other report filed with such exchange in lieu of the reports identified in clauses (i) and (ii) above, if such financial or other report is in English language.

## **5.4 Provision of Information by the Company**

So long as any Note remains outstanding, the Company shall file with the Trustee:

- (a) as soon as they are available, but in any event within 180 calendar days after the end of each Relevant Period (and in the case of the Compliance Certificate, within 14 days of a written request of the Trustee), copies of the relevant Company Audited Financial Reports in the English language, together with a Compliance Certificate of the Company (on which the Trustee may conclusively rely as to such compliance); and
- (b) as soon as they are available, but in any event within 120 calendar days after the end of each Relevant Period, copies of the relevant Company Semi-Annual Unaudited Financial Reports in the English language, together with a certificate signed by the person then authorised to sign financial statements on behalf of the Company, to the effect that the relevant Company Semi-Annual Unaudited Financial Reports are true in all material respects and present fairly the financial position of the Company, as at the end of, and the results of its operations for, the Relevant Period;

*provided that*, if at any time the Capital Stock of the Company are listed for trading on a recognised stock exchange, the Company will file with the Trustee, as soon as they are available but in any event not more than 10 calendar days after any financial or other reports of the Company are filed with any recognised exchange on which the Company's shares are at any time listed for trading, true and correct copies of any financial or other report filed with such exchange in lieu of the reports identified in clauses (i) and (ii) above, if such financial or other report is in English language.

### 5.5 *Obligation to Acquire Equity Interest*

Upon the occurrence of any Event of Default (as defined under Condition 10), the Trustee shall give to the Company (with a copy to the Guarantor and the Issuer) a notice in writing in accordance with the Trust Deed notifying the Company of its obligations to purchase under clause 6 of the Keepwell Deed. Upon the completion of any equity purchase made in accordance with the Keepwell Deed, each of the Issuer, the Guarantor and the Company undertakes to (i) in the event that a Relevant Transferor (as defined in the Keepwell Deed) is not the Issuer, procure such Relevant Transferor to promptly on-lend or distribute in full the proceeds received under the Keepwell Deed to the Issuer prior to any other use, disposal or transfer of the proceeds received and (ii) promptly do all such things (including entering into and executing any agreements or arrangements required) and take all actions necessary for the proceeds received by the Issuer under the Keepwell Deed or pursuant to any on-loan or distribution referred to in (i) above of this Condition 5.5 to be applied solely towards the payment in accordance with the Trust Deed of any outstanding amounts under the Trust Deed and the Notes (including any interest accrued but unpaid on the Notes) prior to any other use, disposal or transfer of the proceeds received.

### 5.6 *Interpretation*

In these Conditions:

- (i) **Capital Stock** means any and all shares, interests (including joint venture interests), participations or other equivalents (however designated) of capital stock of a corporation or any and all equivalent ownership interests in a Person (other than a corporation);
- (ii) **Company Audited Financial Reports** means annual consolidated financial statements of the Company, which include a statement of income, balance sheet and cash flow statement of the Company, audited by a member firm of independent accountants, together with the auditors' report and notes to the financial statements;
- (iii) **Company Semi-Annual Unaudited Financial Reports** means semi-annual unaudited consolidated financial statements of the Company, which include a statement of income, balance sheet and cash flow statement of the Company prepared on a basis consistent with the Company Audited Financial Reports;
- (iv) **Compliance Certificate of the Company** means a certificate of the Company signed by any of its authorised signatories (as previously notified to the Trustee in writing in accordance with the Agency Agreement) that, having made all reasonable enquiries, to the best of the knowledge, information and belief of the Company as at a date (the Certification Date) not more than five days before the date of the certificate, each of the Issuer, the Guarantor and the Company has complied with all its obligations under the Trust Deed and the Notes;
- (v) **Compliance Certificate of the Guarantor** means a certificate of the Guarantor signed by any of its authorised signatories (as previously notified to the Trustee in writing in accordance with the Agency Agreement) that, having made all reasonable enquiries, to the best of the knowledge, information and belief of the Guarantor as at the Certification Date not more than five days before the date of the certificate:
  - (A) no Event of Default or Potential Event of Default had occurred since the Certification Date of the last such certificate or (if none) the date of the Trust Deed or, if such an event had occurred, giving details of it; and
  - (B) each of the Issuer and the Guarantor has complied with all its obligations under the Trust Deed and the Notes;
- (vi) **Guarantor Audited Financial Reports** means annual consolidated financial statements of the Guarantor, which include a statement of income, balance sheet and cash flow statement of the Guarantor, audited by a member firm of independent accountants, together with the auditors' report and notes to the financial statements;



- (vii) **Guarantor Semi-Annual Unaudited Financial Reports** means semi-annual unaudited consolidated financial statements of the Guarantor, which include a statement of income, balance sheet and cash flow statement of the Guarantor prepared on a basis consistent with the Guarantor Audited Financial Reports;
- (viii) **Non-Listed Principal Subsidiary** at any time shall mean a Principal Subsidiary (as defined in Condition 10) of the Guarantor whose shares are not at the relevant time listed on any stock exchange;
- (ix) **Person** means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organisation, government or any agency or political subdivision thereof or any other entity;
- (x) **PRC** means the People's Republic of China excluding the Special Administrative Regions of Hong Kong and Macau and the region of Taiwan;
- (xi) **Rating Agencies** means (1) Moody's Investor Service, Inc. (**Moody's**), Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. (**Standard & Poor's**) and Fitch Ratings Ltd. (**Fitch**) and their respective successors; or (2) if none of Moody's, Standard & Poor's and Fitch shall make a rating of the Notes publicly available, the Issuer shall select any other reputable credit rating agency of international standing;
- (xii) **Relevant Indebtedness** means any present or future indebtedness (whether being principal, premium, interest or other amounts) for or in respect of any bonds, notes, debentures, loan stock certificates or other securities which for the time being are, or are intended to be or capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter market or other securities market;
- (xiii) **Relevant Period** means, in relation to each of the Guarantor Audited Financial Reports or the Company Audited Financial Reports, each period of twelve months ending on the last day of the financial year (being 31 December of that financial year) and in relation to the Guarantor Semi-Annual Unaudited Financial Reports or the Company Semi-Annual Unaudited Financial Reports, each period of six months ending on the last day of the first half financial year (being 30 June of that financial year); and
- (xiv) **Subsidiary** of any person means (a) any company or other business entity of which that person owns or controls (either directly or through one or more other Subsidiaries) more than 50 per cent. of the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such company or other business entity, or (b) any company or other business entity which at any time has its accounts consolidated with those of that person or which, under the law, regulations or generally accepted accounting principles of the jurisdiction of incorporation of such person from time to time, should have its accounts consolidated with those of that person.

## 6. Interest

The Notes bear interest on their outstanding principal amount from and including 26 January 2015 at the rate of 1.50 per cent. per annum, payable annually in arrear on 26 January in each year (each an **Interest Payment Date**) commencing on 26 January 2016. Each Note will cease to bear interest from the due date for redemption unless, upon surrender of the Certificate representing such Note, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant holder, and (b) the day which is seven days after the Trustee or the Principal Paying Agent has notified Noteholders of receipt of all sums due in respect of all the Notes up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

If interest is required to be calculated for a period (the **Calculation Period**) and (a) the Calculation Period is equal to or shorter than the Determination Period during which it falls, the relevant day-count fraction will be the number of days in the Calculation Period divided by the product of

(x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and (b) if the Calculation Period is longer than one Determination Period, the sum of: (x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (i) the number of days in such Determination Period and (ii) the number of Determination Periods normally ending in any year; and (y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (i) the number of days in such Determination Period and (ii) the number of Determination Periods normally ending in any year.

In these Conditions:

- (a) **Determination Date** means the Interest Payment Date.
- (b) **Determination Period** means the period from and including a Determination Date in any year to but excluding the next Determination Date.

Interest in respect of any Note shall be calculated per €1,000 in principal amount of the Notes (the **Calculation Amount**). The amount of interest payable per Calculation Amount for any period shall be equal to the product of the rate of interest specified above, the Calculation Amount and the day-count fraction for the relevant period, rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

## **7. Redemption and Purchase**

### **7.1 Final Redemption**

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 26 January 2022. The Notes may not be redeemed at the option of the Issuer other than in accordance with this Condition 7.

### **7.2 Redemption for Taxation Reasons**

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders and the Trustee (which notice shall be irrevocable), at their principal amount, together with interest accrued up to but excluding the date fixed for redemption but unpaid, if:

- (a) (i) the Issuer has or will become obliged to pay Additional Tax Amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of the United Kingdom, Hong Kong or the PRC or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including but not limited to any decision by a court of competent jurisdiction), which change or amendment becomes effective on or after 20 January 2015 and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; or
- (b) (i) the Guarantor has or (if a demand was made under the Guarantee) would become obliged to pay Additional Tax Amounts as provided or referred to in Condition 9 or the Guarantee, as the case may be, as a result of any change in, or amendment to, the laws or regulations of the United Kingdom, Hong Kong or the PRC or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including but not limited to any decision by a court of competent jurisdiction), which change or amendment becomes effective on or after 20 January 2015 and (ii) such obligation cannot be avoided by 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 Tax Amounts were a payment in respect of the Notes then due or, as the case may be, a demand under the Guarantee were then made.



Prior to the publication of any notice of redemption pursuant to this Condition 7.2, the Issuer shall deliver to the Trustee:

- (x) a certificate signed by any authorised signatory of the Issuer or, as the case may be, the Guarantor stating that the obligation referred to in subparagraph (a)(i) or (b)(i) above, as the case may be, cannot be avoided by the Issuer or the Guarantor, as the case may be, taking reasonable measures available to it; and
- (y) an opinion in form and substance satisfactory to the Trustee of independent legal advisers of recognised international standing to the effect that the Issuer or, as the case may be, the Guarantor has or will become obligated to pay such Additional Tax Amounts as a result of such change or amendment.

The Trustee shall be entitled to, and without liability to any person for doing so, accept such certificate and opinion as conclusive evidence of the satisfaction of the condition precedent set out in subparagraph (a)(ii) or (b)(ii) above, as the case may be, in which event it shall be conclusive and binding on the Noteholders.

### **7.3 Optional Redemption**

The Guarantor or the Issuer may, at the Guarantor's option, at any time upon giving not less than 30 nor more than 60 days' notice to Noteholders in accordance with Condition 17 (which notice shall be irrevocable), redeem the Notes, in whole or in part, at a redemption price equal to the greater of (1) 100 per cent. of the principal amount of the Notes to be redeemed and (2) the sum of the present values of the remaining scheduled payments of principal and interest on the Notes to be redeemed (excluding interest accrued to the date of redemption), discounted to the date of redemption on an annual basis (Actual/Actual (ICMA)) at the Comparable Government Bond Rate plus 25 basis points, plus accrued and unpaid interest on the applicable Notes to be redeemed, if any, to the date of redemption.

In this Condition 7.3:

**Comparable Government Bond** means, in relation to any Comparable Government Bond Rate calculation, at the discretion of the Independent Investment Bank, a German *Bundesanleihe* security whose maturity is closest to the maturity of the Notes, or if such Independent Investment Bank in its discretion considers that such similar bond is not in issue, such other German *Bundesanleihe* security as such Independent Investment Bank may, with the advice of three brokers of, and/or market makers in, German *Bundesanleihe* securities selected by such Independent Investment Bank, determine to be appropriate for determining the Comparable Government Bond Rate;

**Comparable Government Bond Rate** means the price, expressed as a percentage (rounded to three decimal places, 0.0005 being rounded upwards), at which the gross redemption yield on the Notes, if they were to be purchased at such price on the third London Business Day prior to the date fixed for redemption or the date of accelerated payment, would be equal to the gross redemption yield on such London Business Day of the Comparable Government Bond on the basis of the middle market price of the Comparable Government Bond prevailing at 11:00 a.m. (London time) on such London Business Day as determined by the Independent Investment Bank;

**Independent Investment Bank** means an investment bank of recognised standing that is a primary dealer in German *Bundesanleihe* securities, selected by the Guarantor in good faith; and

**London Business Day** means a day (other than a Saturday or Sunday) on which commercial banks are open for business in London.

### **7.4 Redemption upon a Change of Control Triggering Event**

At any time following the occurrence of a Change of Control Triggering Event (as defined below), the holder of any Note will have the right, at such holder's option, to require the Issuer to redeem all but not some only of that holder's Notes on the Put Settlement Date (as defined herein) at 101 per cent. of their principal amount, together with accrued interest up to but excluding such Put

Settlement Date. To exercise such right, the holder of the relevant Note must deposit at the specified office of the Principal Paying Agent or any Transfer Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the specified office of the Principal Paying Agent or any Transfer Agent (a **Put Exercise Notice**), together with the Certificate evidencing the Notes to be redeemed by not later than 30 days following a Change of Control Triggering Event, or, if later, 30 days following the date upon which notice thereof is given to the Noteholders by the Issuer in accordance with Condition 17.

The **Put Settlement Date** shall be the fourteenth day or, if such day is not a business day, the next following business day after the expiry of such period of 30 days as referred to above. A Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Notes the subject of the Put Exercise Notices delivered as aforesaid on the Put Settlement Date.

The Issuer shall give notice to Noteholders in accordance with Condition 17 and to the Trustee, the Transfer Agent and the Principal Paying Agent by not later than 14 days following the first day on which it becomes aware of the occurrence of a Change of Control Triggering Event, which notice shall specify the procedure for exercise by holders of their rights to require redemption of the Notes pursuant to this Condition 7.4.

The Trustee and the Agents shall not be required to take any steps to ascertain whether a Change of Control Triggering Event has occurred and shall not be responsible or liable to the Noteholders, the Issuer, the Guarantor, the Company or any other person for any loss arising from any failure to do so.

In this Condition 7.4:

a **business day** means a day other than a Saturday or Sunday on which banks and foreign exchange markets are open for business in the place in which the specified office of the Registrar is located and in Hong Kong, Beijing and a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (**TARGET2**) System is open;

a **Change of Control** occurs when: (i) SASAC or any other person or entity directly controlled by the central government of the PRC (such person or entity and SASAC, each a **PRC Government Person**) ceases to Control, directly or indirectly, the Company; (ii) the Company or the Guarantor consolidates with or merges into or sells or transfers all or substantially all of its assets to any other person or persons, acting together, except where such person(s) is/are Controlled, directly or indirectly, by a PRC Government Person; (iii) the Company at any time and for any reason ceases to, directly or indirectly, own or control 51 per cent. or more of the Voting Rights of the issued share capital of the Issuer or the Guarantor, and Control the Issuer or the Guarantor; or (iv) the Guarantor at any time and for any reason ceases to, directly or indirectly, own or control 100 per cent. of the Voting Rights of the issued share capital of the Issuer;

**Change of Control Triggering Event** means a Change of Control, provided that, in the event that the Notes are, on the Rating Date, rated Investment Grade by two or more Rating Agencies, a Change of Control Triggering Event shall mean the occurrence of both a Change of Control and a Rating Decline (as defined below). No Change of Control Triggering Event will be deemed to have occurred in connection with any particular Change of Control unless and until such Change of Control has actually been consummated;

**Control** means (where applicable): (i) the ownership or control of more than 50 per cent. of the Voting Rights of the issued share capital of a person or (ii) the possession, directly or indirectly, of the power to nominate or designate no less than 50 per cent. of the members then in office of a person's board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of Voting Rights, contract or otherwise or (iii) the possession, directly or indirectly, of the power to direct or cause the direction of the management policies of a person. For the avoidance of doubt, a person is deemed to Control another person so long as it fulfils one of the three foregoing requirements and the terms **Controlling** and **Controlled** have meanings correlative to the foregoing;

**Investment Grade** means a rating of “AAA”, “AA”, “A” or “BBB”, as modified by a “+” or “-” indication, or an equivalent rating representing one of the four highest rating categories, by Standard & Poor’s or any of its successors or assigns; a rating of “Aaa”, “Aa”, “A” or “Baa”, as modified by a “1”, “2” or “3” indication, or an equivalent rating representing one of the four highest rating categories, by Moody’s or any of its successors or assigns; a rating of “BBB-” or better by Fitch or any of its successors or assigns; or the equivalent ratings of any reputable credit rating agency or agencies of international standing, as the case may be, which shall have been designated by the Guarantor as having been substituted for Standard & Poor’s, Moody’s, or Fitch or any combination thereof, as the case may be;

a **person** includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state, agency of a state (in each case whether or not being a separate legal entity) but does not include:

- (a) the Company’s board of directors or any other governing board; and
- (b) the Company’s wholly-owned direct or indirect Subsidiaries (as defined in Condition 4);

**Rating Date** means, in connection with a Change of Control Triggering Event, that date which is 90 days prior to the earlier of (i) a Change of Control and (ii) a public notice of the occurrence of a Change of Control or of the intention by the Company or any other Person or Persons to effect a Change of Control;

**Rating Decline** means, in connection with a Change of Control Triggering Event, the occurrence on, or within six months after, the date, or public notice of the occurrence of, a Change of Control or the intention by the Company or any other person or persons to effect a Change of Control (which period shall be extended (by no more than an additional three months after the consummation of the Change of Control) so long as the rating of the Notes is under publicly announced consideration for possible downgrade by any of the Rating Agencies) of any of the events listed below: (i) in the event the Notes are (a) on the Rating Date (x) rated by three Ratings Agencies and (y) rated Investment Grade by each such Rating Agency, and (b) cease to be rated Investment Grade by at least two of such Rating Agencies; or (ii) in the event the Notes are (a) on the Rating Date (x) rated by two but not more Ratings Agencies and (y) rated Investment Grade by each such Rating Agency, and (b) cease to be rated Investment Grade by both such Rating Agencies;

**SASAC** means the State-owned Assets Supervision and Administration Commission of the State Council of the PRC or its successor; and

**Voting Rights** means the right generally to vote at a general meeting of shareholders of the Issuer or, as the case may be, the Guarantor (irrespective of whether or not, at the time, stock of any other class or classes shall have, or might have, voting power by reason of the happening of any contingency, and any such voting power shall therefore be excluded for the purpose of this definition).

## **7.5 Notices of redemption**

If there is more than one notice of redemption given in respect of any Note (which shall include any notice given by the Issuer pursuant to Condition 7.2 or Condition 7.3 and any Put Exercise Notice given by a Noteholder pursuant to Condition 7.4), the notice given first in time shall prevail and in the event of two notices being given on the same date, the first to be given shall prevail.

## **7.6 Notice of redemption**

All Notes in respect of which any notice of redemption is given under Condition 7.2 or Condition 7.3 shall be redeemed on the date specified in such notice in accordance with this Condition 7.

## 7.7 *Purchase*

The Issuer, the Guarantor, the Company and each of their respective Subsidiaries may at any time purchase Notes in the open market or otherwise at any price. The Notes so purchased, while held by or on behalf of the Issuer, the Guarantor, the Company or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for, among other things, the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Conditions 10, 13.1 or 14.

## 7.8 *Cancellation*

All Certificates representing Notes purchased by or on behalf of the Issuer, the Guarantor, the Company or any of their respective Subsidiaries shall be surrendered for cancellation to the Principal Paying Agent and, upon surrender thereof, all such Notes shall be cancelled forthwith. Any Certificates so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

## 7.9 *Calculations*

Neither the Trustee nor any Agent shall be responsible for calculating or verifying the calculations of any amount payable under any notice of redemption and shall not be liable to the Noteholders or any other person for not doing so.

## 8. *Payments*

### 8.1 *Method of Payment*

- (a) Payments of principal and premium (if any) shall be made (subject to surrender of the relevant Certificates at the specified office of any Transfer Agent or of the Registrar if no further payment falls to be made in respect of the Notes represented by such Certificates) in a manner provided in paragraph (b) below.
- (b) Interest on each Note shall be paid to the person shown on the Register at the close of business on the fifth Payment Business Day before the due date for payment thereof (the **Record Date**). Payments of interest on each Note shall be made by transfer to a euro account maintained by the payee by or on behalf of it with a bank that processes payments in euros, details of which appear on the Register at the close of business on the Payment Business Day before the due date for payment, or by euro cheque drawn on a bank that processes payments in euros mailed to the address of the Noteholder appearing on the Register at the time if the Noteholder does not have a registered account.

*So long as the Notes are represented by the Global Certificate, each payment in respect of the Global Certificate will be made to the person shown as the holder of the Notes in the Register at the close of business (of the relevant clearing system) on the Clearing System Business Day before the due date for such payments, where **Clearing System Business Day** means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.*

- (c) If the amount of principal being paid upon surrender of the relevant Certificate is less than the outstanding principal amount of such Certificate, the Registrar will annotate the Register with the amount of principal so paid and will (if so requested in writing by the Issuer or a Noteholder) issue a new Certificate with a principal amount equal to the remaining unpaid outstanding principal amount. If the amount of interest being paid is less than the amount then due, the Registrar will annotate the Register with the amount of interest so paid.

### 8.2 *Payments subject to Applicable Laws*

All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment but without prejudice to the provisions of Condition 9 and 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. No commission or expenses shall be charged to the Noteholders in respect of such payments.

### **8.3 *Payment Initiation***

Where payment is to be made by transfer to a registered account, payment instructions (for value on the due date or, if that is not a Payment Business Day, for value the first following day which is a Payment Business Day) will be initiated on the due date for payment (or, if that date is not a Payment Business Day, on the first following day which is a Payment Business Day), or, in the case of payments of principal and premium (if any) where the relevant Certificate has not been surrendered at the specified office of any Transfer Agent or of the Registrar, on the first Payment Business Day on which the Principal Paying Agent is open for business and on or following which the relevant Certificate is surrendered.

### **8.4 *Appointment of Agents***

The Principal Paying Agent, the Registrar and the Transfer Agent initially appointed by the Issuer and the Guarantor and their respective specified offices are listed below. The Principal Paying Agent, the Registrar and the Transfer Agent act solely as agents of the Issuer and the Guarantor and do not assume any obligation or relationship of agency or trust for or with any Noteholder. The Issuer and the Guarantor reserve the right at any time with the prior written approval of the Trustee to vary or terminate the appointment of the Principal Paying Agent, the Registrar, any Transfer Agent or any of the other Agents and to appoint additional or other Agents, provided that the Issuer and the Guarantor shall at all times maintain (i) a Principal Paying Agent, (ii) a Registrar, (iii) a Transfer Agent, and (iv) such other agents as may be required by any other stock exchange on which the Notes may be listed, in each case, as approved in writing by the Trustee.

Notice of any such change or any change of any specified office of any Agent shall promptly be given by the Issuer to the Noteholders in accordance with Condition 17.

### **8.5 *Delay in Payment***

Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a Note if the due date is not a Payment Business Day, or if the Noteholder is late in surrendering or cannot surrender its Certificate (if required to do so).

### **8.6 *Non-Payment Business Days***

If any date for payment in respect of any Note is not a Payment Business Day, the holder shall not be entitled to payment until the following Payment Business Day nor to any interest or other sum in respect of such postponed payment.

In this Condition 8, **Payment Business Day** means a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets are open for business in London, Hong Kong, Beijing and a day on which the TARGET2 System is open, and the place in which the specified office of the Registrar is located and, if surrender of the relevant Certificate is required, in the place in which the Certificate is surrendered.

## **9. *Taxation***

All payments of principal, premium and interest by or on behalf of the Issuer or the Guarantor in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the United Kingdom, Hong Kong or the PRC or any political subdivision or authority therein or thereof having power to tax, unless such withholding or deduction is required by law.

Where such withholding or deduction is made by the Issuer or the Guarantor as a result of the Issuer or the Guarantor being deemed to be a PRC tax resident at the rate of up to and including 10 per cent., the Issuer or, as the case may be, the Guarantor will increase the amounts paid by it to the extent required (**PRC Taxes**), so that the net amount received by Noteholders equals the amounts which would otherwise have been receivable by them had no such withholding or deduction been required.

In the event that any such PRC deduction or withholding in excess of 10 per cent. or any United Kingdom or Hong Kong deduction or withholding is required, the Issuer or, as the case may be, the Guarantor shall pay such additional amounts (**Additional Tax Amounts**, which for the avoidance of doubt shall include the PRC Taxes) as will result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no Additional Tax Amounts shall be payable in respect of any Note:

- (a) **Other connection:** to a holder (or to a third party on behalf of a holder) who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with the United Kingdom, Hong Kong or the PRC other than the mere holding of the Note; or
- (b) **Surrender more than 30 days after the Relevant Date:** in respect of which the Certificate representing it is presented for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such Additional Tax Amounts on surrendering the Certificate representing such Note for payment on the last day of such period of 30 days; or
- (c) **Payment to individuals:** (i) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or (ii) to a holder who would not be liable for or subject to such withholding or deduction by making a declaration of identity, non-residence or other similar claim for exemption to the relevant tax authority if, after having been requested to make such a declaration or claim, such holder fails to do so within any applicable period prescribed by such relevant tax authority; or
- (d) **Payment by another Paying Agent:** to a holder who would have been able to avoid such withholding or deduction by arranging to receive the relevant payment through another Paying Agent in a member state of the European Union.

**Relevant Date** in respect of any Note means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further surrender of the Certificate representing such Note being made in accordance with these Conditions, such payment will be made, provided that payment is in fact made upon such surrender.

Neither the Trustee nor any Agent shall be responsible for paying any tax, duty, charges, withholding or other payment referred to in this Condition 9 or for determining whether such amounts are payable or the amount thereof, and shall not be responsible or liable for any failure by the Issuer, the Guarantor or any Noteholder to pay such tax, duty, charges, withholding or other payment.



## 10. Events of Default

If any of the following events (each an **Event of Default**) occurs, the Trustee at its discretion may, and if so requested by holders of at least 25 per cent. in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall (provided that in either such case, the Trustee shall have been indemnified and/or secured and/or pre-funded to its satisfaction), give notice to the Issuer and the Guarantor that the Notes are, and they shall immediately become, due and payable at their principal amount together (if applicable) with accrued interest.

An **Event of Default** occurs if:

- (a) **Non-Payment under the Notes:** there is failure to pay the principal of or interest on any of the Notes when due and in the case of interest, such failure continues for a period of seven Payment Business Days; or
- (b) **Breach of Other Obligations:** the Issuer, the Guarantor or the Company does not perform or comply with any one or more of its other obligations under the Notes, the Trust Deed, the Keepwell Deed and Agency Agreement which default is incapable of remedy or, if capable of remedy, is not remedied within 30 days after the Trustee has given written notice thereof to the Issuer, the Guarantor or the Company, as the case may be; or
- (c) **Cross-Default (Issuer and Guarantor):** (i) any other indebtedness of the Issuer, the Guarantor or any of their respective Subsidiaries for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (ii) any such indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, or (iii) the Issuer, the Guarantor or any of their respective Subsidiaries fails to pay when due, any amount payable by it under any present or future security or guarantee for, or indemnity in respect of, any moneys borrowed or raised, provided that the aggregate amount of the relevant indebtedness, securities, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition 10(c) have occurred equals or exceeds (either individually or in aggregate) US\$100,000,000 or its equivalent; or
- (d) **Enforcement Proceedings (Issuer and Guarantor):** (i) any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries over all or a substantial part of the assets of the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries becomes enforceable and (x) proceedings are initiated against the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries, or (y) the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries initiates or consents to any judicial proceedings relating to itself, under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a general moratorium in respect of all or a substantial part of its debts), or (ii) an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed or a distress, attachment, execution or other legal process is levied, enforced or sued out on or against all or a substantial part of the undertaking or assets of the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries or an encumbrancer takes possession of all or a material part of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon or put in force against all or a substantial part of the undertaking or assets of any of them, and in any such case in sub-paragraphs (i) or (ii) above of this Condition 10(d) except where (other than the appointment of an administrator) such application or legal process is initiated by the relevant company and is discharged or stayed within 30 days; or
- (e) **Insolvency (Issuer and Guarantor):** the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries (i) is (or is deemed by law or a competent court to be) insolvent or bankrupt or unable to pay its debts as and when such debts fall due, stops, suspends or threatens



to stop or suspend payment of, all or a material part of its debts, (ii) proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of its debts (or of a material part of its debts at that time, and which it will or might otherwise be unable to pay when due), (iii) proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all of the debts of the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries or a material part of such debts; or

- (f) **Winding-up (Issuer and Guarantor):** an order is made or an effective resolution passed for the winding-up or dissolution of the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries, or the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries ceases or through an official action of the board of directors of the Issuer or the Guarantor or the relevant Principal Subsidiary of the Guarantor, threatens to cease to carry on all or substantially all of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution of the holders of the Notes; or (ii) in the case of a Principal Subsidiary of the Guarantor where the material undertaking and assets of the Principal Subsidiary of the Guarantor are transferred to or otherwise vested in the Issuer, the Guarantor, the Company or another of their respective Subsidiaries or (iii) a disposal of a Principal Subsidiary of the Guarantor on an arm's length basis where the assets (whether in cash or otherwise) resulting from such disposal is vested in Issuer, the Guarantor, the Company or any of their respective Subsidiaries; or

- (g) **Events of default in respect of the Company:** any of the following occurs:

- (i) (a) failure to pay upon final maturity (after giving effect to the expiration of any applicable grace period therefor) the principal of any Indebtedness of the Company or any of its Principal Subsidiaries, (b) acceleration of the maturity of any Indebtedness of the Company or any of its Principal Subsidiaries following a default by the Company or such Principal Subsidiary, if such Indebtedness is not discharged, or such acceleration is not annulled, within 10 calendar days after receipt by the Trustee of the written notice from the Company as provided in the Keepwell Deed, or (c) failure to pay any amount payable by the Company or any of its Principal Subsidiaries under any guarantee or indemnity in respect of any Indebtedness of any other Person if such obligation is not discharged or otherwise satisfied within 10 calendar days after receipt by the Trustee of written notice as provided in the Keepwell Deed; provided, however, that no such event set forth in clause (a), (b) or (c) shall constitute an Event of Default unless the aggregate outstanding Indebtedness to which all such events relate exceeds US\$200,000,000 (or its equivalent in any other currency); or
- (ii) one or more final judgments or orders for the payment of money are rendered against the Company or any Principal Subsidiary and are not paid or discharged, and there is a period of 30 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed US\$200,000,000 (or its equivalent in any other currency) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect; or
- (iii) a decree or order is entered by a court of competent jurisdiction (i) for relief in respect of the Company or any of its Principal Subsidiaries in an involuntary case of winding up or bankruptcy proceeding under applicable law or (ii) adjudging the Company or any of its Principal Subsidiaries bankrupt or insolvent, or seeking reorganisation, winding up, arrangement, adjustment or composition of or in respect of the Company or any of its Principal Subsidiaries under applicable law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of the Company or any of its Principal Subsidiaries or of all or substantially all of its properties, or ordering the winding up or liquidation of any of their affairs, and any such decree or order remains unstayed and in effect for a period of 60 consecutive days; or

- (iv) the Company or any of its Principal Subsidiary institutes a voluntary case or proceeding under applicable bankruptcy, insolvency, reorganisation or similar law, or any other case or proceedings to be adjudicated bankrupt or insolvent, or the Company or any of its Principal Subsidiary files a petition or answer or consent seeking reorganisation or relief under applicable bankruptcy, insolvency, reorganisation or similar law, or consents to the filing of any such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of any of the Company or any of its Principal Subsidiary or of all or substantially all of its properties, or makes a general assignment for the benefit of creditors, or admits in writing its inability to pay its debts generally as they become due or takes corporate action in furtherance of any such action; or
- (h) **Government Intervention:** a material part of the assets or undertaking of the Issuer, the Guarantor, any of the Guarantor's Principal Subsidiaries, the Company and any of the Company's Principal Subsidiaries is condemned, seized, expropriated or otherwise appropriated by any person acting under the authority of any national, regional or local government; or
- (i) **Authorisation and Consents:** any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable each of the Issuer, the Guarantor and the Company lawfully to enter into, exercise its rights and perform and comply with their respective obligations under the Notes, the Trust Deed and the Keepwell Deed (other than with respect to the performance of the obligations set out in the Keepwell Deed), (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Notes, the Trust Deed and the Keepwell Deed admissible in evidence in the courts of Hong Kong is not taken, fulfilled or done; or
- (j) **Illegality:** it is or will become unlawful for the Issuer, the Guarantor or the Company (as applicable) to perform or comply with any one or more of its obligations under any of the Notes, the Trust Deed or the Keepwell Deed; or
- (k) **Unenforceability of the Guarantee:** if the enforceability of the Guarantee is contested by the Issuer or the Guarantor, or the Issuer or the Guarantor denies any one or more of its obligations under the Guarantee; or
- (l) **Keepwell Deed:** the Keepwell Deed is not (or is claimed by the Company not to be) enforceable, valid or in full force and effect, or the Keepwell Deed is modified, amended or terminated other than strictly in accordance with its terms or these Conditions; or
- (m) **Analogous Events:** any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of Conditions 10(a) to 10(k) (both inclusive).

In this Condition 10:

**Principal Subsidiary** of:

- (a) the Company at any time shall mean one of the Company's Subsidiaries
  - (i) as to which one or more of the following conditions is/are satisfied:
    - (a) its net profit or (in the case of one of the Company's Subsidiaries which has one or more Subsidiaries) consolidated net profit attributable to the Company (in each case before taxation and exceptional items) is at least 10% of the Company's consolidated net profit (before taxation and exceptional items); or
    - (b) its net assets or (in the case of one of the Company's Subsidiaries which has one or more Subsidiaries) consolidated net assets attributable to the Company (in each case after deducting minority interests in Subsidiaries) are at least 10% of the Company's consolidated net assets (after deducting minority interests in Subsidiaries);

all as calculated by reference to the then latest audited financial statements (consolidated or, as the case may be, unconsolidated) of the Company's Subsidiary and the Company's then latest consolidated financial statements, provided that: (1) in the case of a Subsidiary of the Company acquired after the end of the financial period to which the then latest relevant audited financial statements relate, the reference to the then latest audited financial statements for the purposes of the calculation above shall, until audited financial statements for the financial period in which the acquisition is made are published, be deemed to be a reference to the financial statements adjusted to consolidate the latest audited financial statements of the Subsidiary in the financial statements; (2) if, in the case of a Subsidiary of the Company which itself has one or more Subsidiaries, no consolidated financial statements are prepared and audited, its consolidated net assets and consolidated net profits shall be determined on the basis of *pro forma* consolidated financial statements of the relevant Subsidiary and its Subsidiaries prepared for this purpose and opined on by its auditors; or (3) if the financial statements of a Subsidiary of the Company (not being a Subsidiary referred to in (1) above) are not consolidated with those of the Company then the determination of whether or not the Subsidiary is a Principal Subsidiary shall, if the Company requires, be based on a *pro forma* consolidation of its financial statements (consolidated, if appropriate) with the consolidated financial statements of the Company and its Subsidiaries; or

- (ii) to which is transferred all or substantially all of the assets of the Company's Subsidiary which immediately prior to the transfer was a Principal Subsidiary, provided that, with effect from such transfer, the Subsidiary which so transfers its assets and undertakings shall cease to be a Principal Subsidiary (but without prejudice to paragraph (i) above) and the Company's Subsidiary to which the assets are so transferred shall become a Principal Subsidiary.
- (b) the Guarantor at any time shall mean one of the Guarantor's Subsidiaries
- (i) as to which one or more of the following conditions is/are satisfied:
    - (a) its net profit or (in the case of one of the Guarantor's Subsidiaries which has one or more Subsidiaries) consolidated net profit attributable to the Guarantor (in each case before taxation and exceptional items) is at least 5% of the Guarantor's consolidated net profit (before taxation and exceptional items); or
    - (b) its net assets or (in the case of one of the Guarantor's Subsidiaries which has one or more Subsidiaries) consolidated net assets attributable to the Guarantor (in each case after deducting minority interests in Subsidiaries) are at least 5% of the Guarantor's consolidated net assets (after deducting minority interests in Subsidiaries);

all as calculated by reference to the then latest audited financial statements (consolidated or, as the case may be, unconsolidated) of the Guarantor's Subsidiary and the Guarantor's then latest consolidated financial statements, provided that: (1) in the case of a Subsidiary of the Guarantor acquired after the end of the financial period to which the then latest relevant audited financial statements relate, the reference to the then latest audited financial statements for the purposes of the calculation above shall, until audited financial statements for the financial period in which the acquisition is made are published, be deemed to be a reference to the financial statements adjusted to consolidate the latest audited financial statements of the Subsidiary in the financial statements; (2) if, in the case of a Subsidiary of the Guarantor which itself has one or more Subsidiaries, no consolidated financial statements are prepared and audited, its consolidated net assets and consolidated net profits shall be determined on the basis of *pro forma* consolidated financial statements of the relevant Subsidiary and its Subsidiaries prepared for this purpose and opined on by its auditors; or (3) if the financial statements of a Subsidiary of the Guarantor (not being a Subsidiary referred to in (1) above) are not consolidated with those of the Guarantor then the determination of whether or not the Subsidiary is a

Principal Subsidiary shall, if the Guarantor requires, be based on a *pro forma* consolidation of its financial statements (consolidated, if appropriate) with the consolidated financial statements of the Guarantor and its Subsidiaries; or

- (ii) to which is transferred all or substantially all of the assets of the Guarantor's Subsidiary which immediately prior to the transfer was a Principal Subsidiary, provided that, with effect from such transfer, the Subsidiary which so transfers its assets and undertakings shall cease to be a Principal Subsidiary (but without prejudice to paragraph (i) above) and the Guarantor's Subsidiary to which the assets are so transferred shall become a Principal Subsidiary.

A certificate of the Company's or the Guarantor's auditors as to whether or not the Company's or the Guarantor's Subsidiary is a Principal Subsidiary shall be conclusive and binding on all parties in the absence of manifest error.

Neither the Trustee nor any Agent shall be required to take any steps to ascertain whether an Event of Default has occurred and shall not be responsible or liable to the Noteholders, the Issuer, the Guarantor, the Company or any other person for any loss arising from any failure to do so.

## **11. Prescription**

Claims against the Issuer for payment in respect of the Notes shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

## **12. Replacement of Certificates**

If any Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations or other relevant regulatory authority regulations, at the specified office of the Registrar or any Transfer Agent as may from time to time be designated by the Issuer for that purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security, indemnity, prefunding and otherwise as the Issuer and/or the Registrar or such Transfer Agent may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

## **13. Meetings of Noteholders, Modification and Waiver**

### **13.1 Meetings of Noteholders**

The Trust Deed contains provisions for convening meetings of Noteholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of the Noteholders of a modification of any of these Conditions or any provisions of the Trust Deed, the Agency Agreement or the Keepwell Deed. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in principal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution of the Noteholders will be one or more persons holding or representing more than 50 per cent. in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Notes or the dates on which interest is payable in respect of the Notes, (ii) to reduce or cancel the principal amount of or interest on, the Notes, (iii) to change the currency of payment of the Notes, or (iv) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution of the Noteholders or (v) to cancel or modify the Keepwell Deed (subject to Condition 13.2), in which case the necessary quorum will be one or more persons holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed).

The Trust Deed provides that a resolution in writing signed by or on behalf of the Noteholders holding not less than 90 per cent. in principal amount of the Notes for the time being outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

### **13.2 *Modification and Waiver***

The Trustee may agree, without the consent of the Noteholders, to (i) any modification of any of these Conditions or any of the provisions of the Trust Deed, the Agency Agreement or the Keepwell Deed that is in its opinion of a formal, minor or technical nature or is made to correct a manifest error or to comply with any mandatory provision of law, or (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of these Conditions or any of the provisions of the Trust Deed, the Agency Agreement or the Keepwell Deed that is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and such modification, authorisation or waiver shall be notified by the Issuer, failing whom, the Guarantor or the Company, to the Noteholders as soon as practicable.

### **13.3 *Entitlement of the Trustee***

In connection with the exercise of its functions, rights, powers and/or discretions (including but not limited to those referred to in this Condition 13), the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders, and the Trustee shall not be entitled to require on behalf of any Noteholder, nor shall any Noteholder be entitled to claim, from the Issuer, the Guarantor or the Trustee, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

### **13.4 *Certificates and Reports***

The Trustee may rely without liability to Noteholders or to any other person on any information, report, advice, opinion, confirmation or certificate obtained from a Rating Agency and any lawyers, valuers, accountants (including the auditors), surveyors, financial advisers or financial institutions, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such information, report, confirmation, certificate, advice or opinion and, in such event, such information, report, confirmation, certificate, advice or opinion shall be binding on the Issuer, the Guarantor, the Company and the Noteholders.

## **14. *Enforcement***

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer, the Guarantor or the Company (as applicable) as it may think fit to enforce the terms of the Trust Deed, the Notes or the Keepwell Deed, but it need not take any such proceedings unless (i) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by Noteholders holding at least 25 per cent. in principal amount of the Notes outstanding, and (ii) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction. No Noteholder may proceed directly against the Issuer, the Guarantor or the Company unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

## **15. *Indemnification of the Trustee***

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee's compensation and reimbursement of liabilities (if any) shall be paid in priority to the claims of the Noteholders. The Trustee is entitled to enter into business transactions with the Issuer, the Guarantor, the Company and any entity related to the Issuer, the Guarantor or the Company without accounting for any profit.



## **16. Further Issues**

The Issuer may from time to time without the consent of the Noteholders create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes). References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes. However, such further securities may only be issued if (i) the Rating Agency has been informed of such issue; and (ii) such issue will not result in any change in the then credit rating of the Notes. Any further securities forming a single series with the outstanding securities of any series (including the Notes) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of securities of other series where the Trustee so decides.

## **17. Notices**

Notices to the holders of Notes shall be mailed at the expense of the Issuer or, as the case may be, the Guarantor to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. The Issuer and the Guarantor shall also ensure that notices are duly published at the Issuer's or, as the case may be, the Guarantor's expense in a manner that complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made.

*So long as the Notes are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream or the Alternative Clearing System (as defined in the Global Certificate), notices to Noteholders may be given by delivery of the relevant notice to Euroclear or Clearstream or the Alternative Clearing System, for communication by it to entitled accountholders in substitution for notification as required by the Conditions.*

## **18. Currency Indemnity**

Euro is the sole currency of account and payment for all sums payable by the Issuer, the Guarantor and the Company (as applicable) under or in connection with the Notes, the Guarantee and the Keepwell Deed, including damages. Any amount received or recovered in a currency other than euro (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Issuer, the Guarantor, the Company or otherwise) by any Noteholder in respect of any sum expressed to be due to it from the Issuer, the Guarantor or the Company will only constitute a discharge to the Issuer, the Guarantor or the Company to the extent of the euro amount which the recipient 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 euro amount is less than the euro amount expressed to be due to the recipient under any Note, the Issuer and the Guarantor will indemnify (and the Company shall ensure that the Issuer or, as the case may be, the Guarantor has sufficient funds to do so) such recipient and the Trustee against any loss sustained by it as a result. In any event, the Issuer and the Guarantor will indemnify (and the Company shall ensure that the Issuer or, as the case may be, the Guarantor has sufficient funds to do so) the recipient and the Trustee against the cost of making any such purchase. For the purposes of this Condition, it will be sufficient for the Noteholder, as the case may be, to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Issuer's, the Guarantor's and the Company's other obligations, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted by any Noteholder and will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note, the Keepwell Deed or any other judgment or order.



## **19. Governing Law and Jurisdiction**

### **19.1 Governing Law**

The Trust Deed, the Agency Agreement, the Keepwell Deed and the Notes and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

### **19.2 Jurisdiction**

The courts of Hong Kong are to have exclusive jurisdiction to settle any disputes, claims, difference or controversy which may arise out of or in connection with the Trust Deed, the Agency Agreement, the Notes or the Keepwell Deed, including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of its nullity and any dispute relating to any non-contractual obligations arising out of or in connection with them (a **Dispute**) and accordingly any legal action or proceedings arising out of or in connection with any Notes, the Trust Deed, the Agency Agreement or the Keepwell Deed (**Proceedings**) may be brought in such courts. Each of the Issuer, the Guarantor and the Company has in the Trust Deed irrevocably submitted to the exclusive jurisdiction of such courts and waives any objection to Proceedings in such courts on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.

### **19.3 Agent for Service of Process**

Each of the Issuer and the Company (as applicable) has irrevocably appointed the Guarantor as its agent for service of process in Hong Kong based on the Trust Deed, the Agency Agreement, the Keepwell Deed or any of the Notes. If for any reason the Guarantor shall cease to be such agent for service of process, the Company shall forthwith appoint a new agent for service of process in Hong Kong and shall deliver to the Trustee a copy of the new agent's acceptance of that appointment within 30 days of the Guarantor ceasing to be such agent for service of process. Each of the Issuer and the Company agree that failure by a process agent to notify it of any process will not invalidate the relevant proceedings. Nothing in these Conditions shall affect the right to serve process in any other manner permitted by law.

### **19.4 Waiver of Immunity**

To the fullest extent permitted by law, each of the Issuer, the Guarantor and the Company has irrevocably and unconditionally:

- (a) submitted to the jurisdiction of the Hong Kong courts in relation to any Dispute and has waived and agreed not to claim any sovereign or other immunity from the jurisdiction of the Hong Kong courts in relation to any Dispute (including to the extent that such immunity may be attributed to it), and agreed to ensure that no such claim is made on its behalf;
- (b) submitted to the jurisdiction of the Hong Kong courts and the courts of any other jurisdiction in relation to the recognition of any judgment or order of the Hong Kong courts in relation to any Dispute and has waived and agreed not to claim any sovereign or other immunity from the jurisdiction of the Hong Kong courts or the courts of any other jurisdiction in relation to the recognition of any such judgment or court order and agreed to ensure that no claim is made on its behalf; and
- (c) consented to the enforcement of any order or judgment made or given in connection with any Dispute and the giving of any relief in the Hong Kong courts and the courts of any other jurisdiction whether before or after final judgment including, without limitation:
  - (i) relief by way of interim or final injunction or order for specific performance or recovery of any property;
  - (ii) attachment of its assets; and

- (iii) enforcement or execution against and any similar defence, and irrevocably consents to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property, revenues or other assets whatsoever (irrespective of its their use or intended use),

has waived and agreed not to claim any sovereign or other immunity from the jurisdiction of the Hong Kong courts or the courts of any other jurisdiction in relation to such enforcement and the giving of such relief (including to the extent that such immunity may be attributed to it), and agreed to ensure that no such claim is made on its behalf.

## **20. Rights of Third Parties**

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

## TERMS AND CONDITIONS OF THE SERIES B NOTES

*The following are the Terms and Conditions of the Series B Notes substantially in the form in which they (other than the text in italics) will be endorsed on the definitive notes and referred to in the Global Certificate representing the Series B Notes.*

The issue of the Series B €300,000,000 2.45 per cent. guaranteed notes due 2027 (the **Notes**, which expression includes, unless the context requires otherwise, any further notes issued pursuant to Condition 16 and consolidated and forming a single series therewith) was authorised by written resolutions of the board of directors of State Grid Europe Development (2014) Public Limited Company (the **Issuer**) dated 5 January 2015. The Notes are constituted by a Trust Deed (the **Trust Deed**) dated 26 January 2015 between the Issuer, State Grid International Development Limited 國家電網國際發展有限公司 (the **Guarantor**) as guarantor and The Hongkong and Shanghai Banking Corporation Limited (the **Trustee**, which expression shall include all persons for the time being as the trustee or trustees under the Trust Deed, and shall include its successors or assigns) as trustee for itself and the holders of the Notes. The Notes are the subject of an Agency Agreement (the **Agency Agreement**) dated 26 January 2015 relating to the Notes between the Issuer, the Guarantor, the Trustee and The Hongkong and Shanghai Banking Corporation Limited as registrar (the **Registrar**), as transfer agent (the **Transfer Agent**), as initial principal paying agent (the **Principal Paying Agent**), and other agents named therein. References herein to **Agents** means the Principal Paying Agent, the Registrar, the Transfer Agent and any other agent or agents appointed from time to time pursuant to the Agency Agreement with respect to the Notes and shall include their respective successors or assigns. The Notes have the benefit of a keepwell deed (the **Keepwell Deed**) dated 26 January 2015 executed by the Issuer, the Guarantor, State Grid Corporation of China (the **Company**) and the Trustee in favour of the Trustee, in its capacity as trustee for the holders of the Notes. The entry into of the Keepwell Deed was authorised by the resolutions of the board of directors of the Issuer on 5 January 2015, by the resolutions of the sole director of the Guarantor on 5 January 2015 and by the management approval of the Company on 31 October 2014. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and of those provisions of the Agency Agreement and the Keepwell Deed applicable to them. Copies of the Trust Deed, the Agency Agreement and the Keepwell Deed are available for inspection by Noteholders during usual business hours at the specified office for the time being of the Principal Paying Agent located at Level 30, HSBC Main Building, 1 Queen's Road Central, Hong Kong. These terms and conditions (these **Conditions**) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Notes and the Agency Agreement.

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

### 1. Form, Denomination and Title

The Notes are issued in the specified denomination of €100,000 and integral multiples of €1,000 in excess thereof.

The Notes are represented by registered certificates (**Certificates**) which shall be numbered serially and, save as provided in Condition 2.1, each Certificate shall represent the entire holding of Notes by the same holder.

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

In these Conditions, **Noteholder** and **holder** (in relation to a Note) means the person in whose name a Note is registered in the Register (or in the case of a joint holding, the first named thereof).

*Upon issue, the Notes will be represented by a global certificate (the **Global Certificate**) registered in the name of a nominee of, and deposited with, a common depositary for Euroclear Bank SA/NV and Clearstream Banking, société anonyme. These conditions are modified by certain provisions contained in the Global Certificate. See "Summary of Provisions relating to the Notes While in Global Form" in the Offering Memorandum.*

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

## **2. Transfers of Notes and Issue of Certificates**

### **2.1 Transfer**

A Note may, subject to the Agency Agreement and Condition 2.4, be transferred in whole or in part upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate(s) representing such Notes to be transferred, together with the form of transfer endorsed on such Certificate(s) (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may require. In the case of a transfer of part only of a holding of Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of Notes to a person who is already a holder of Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding. All transfers of Notes and entries on the Register will be made in accordance with the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. No transfer of title to a Note will be valid unless and until entered on the Register. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee, or by the Registrar with the prior written approval of the Trustee. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request (free of charge to the Noteholder at the Issuer's expense).

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

### **2.2 Delivery of New Certificates**

Each new Certificate to be issued pursuant to Condition 2.1 shall be available for delivery within five business days of receipt by the Registrar or, as the case may be, any Transfer Agent, of a duly completed and signed form of transfer and surrender of the existing Certificate(s). The form of transfer is available at the specified offices of each Transfer Agent. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar (as the case may be) the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2.2, **business day** means a day, other than a Saturday, Sunday or public holiday, on which commercial banks are generally open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

### **2.3 Transfer Free of Charge**

Certificates, on transfer of Notes, shall be issued and registered without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent, but upon (i) payment by the relevant holder of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity and/or security and/or pre-funding as the Registrar or the relevant Transfer Agent may require); (ii) the Registrar or the relevant Transfer Agent being satisfied in its absolute discretion with the documents of title or identity of the person making the application; and (iii) the relevant Agent being satisfied that the Regulations concerning transfer of the Notes have been complied with.

### **2.4 Closed Periods**

No Noteholder may require the transfer of a Note to be registered (i) during the period of 15 days ending on (and including) the due date for redemption of that Note; (ii) during the period of seven days ending on (and including) any Record Date; and (iii) after the exercise of the put option in Condition 7.4.

### 3. Status of the Notes

The Notes constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 5.1 (*Negative Pledge*)) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes shall, save for such exceptions as may be provided by applicable law, at all times rank at least equally with all the Issuer's other present and future unsecured and unsubordinated obligations.

### 4. Guarantee

#### 4.1 Guarantee

The payment of the principal and interest in respect of the Notes and all other moneys payable by the Issuer under or pursuant to the Notes and the Trust Deed has been unconditionally and irrevocably guaranteed by the Guarantor (the **Guarantee**) in the Trust Deed.

#### 4.2 Status of the Guarantee

The obligations of the Guarantor under the Guarantee constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 5.1 (*Negative Pledge*)) unsecured obligations of the Guarantor and shall, save for such exceptions as may be provided by applicable law, at all times rank at least equally with all the Guarantor's other present and future unsecured and unsubordinated obligations.

### 5. Negative Pledge and Other Covenants

#### 5.1 Negative Pledge

So long as any of the Notes remains outstanding:

- (a) the Issuer will not create or have outstanding any mortgage, charge, lien, pledge or other security interest (each a **Security Interest**) upon, or with respect to, any of its present or future business, undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness, or any guarantee or indemnity in respect of any Relevant Indebtedness, unless the Issuer, in the case of the creation of a Security Interest, before or at the same time and, in any other case, promptly, takes any and all action necessary to ensure that:
  - (i) all amounts payable by it under the Notes and the Trust Deed are secured by the Security Interest equally and rateably with the Relevant Indebtedness; or
  - (ii) such other Security Interest or other arrangement (whether or not it includes the giving of a Security Interest) is provided as is approved by an Extraordinary Resolution (which is defined in the Trust Deed as a resolution duly passed by a majority of not less than three-fourths of the votes cast; a resolution in writing signed by or on behalf of the holders of not less than 90 per cent. in principal amount of the Notes; or consent given by way of electronic consents through the relevant Clearing System(s) by or on behalf of the Noteholders of not less than 90 per cent. in principal amount of the Notes, in accordance with the Trust Deed) of the Noteholders; and
- (b) the Guarantor will not, and the Guarantor will ensure that none of its Non-Listed Principal Subsidiaries (as defined below) will, create or have outstanding any Security Interest upon, or with respect to, any of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness, or any guarantee or indemnity in respect of any Relevant Indebtedness, unless the Guarantor, in the case of the creation of a Security Interest, before or at the same time and, in any other case, promptly, take any and all action necessary to ensure that:
  - (i) all amounts payable by it under the Guarantee are secured by the Security Interest equally and rateably with the Relevant Indebtedness; or
  - (ii) such other Security Interest or other arrangement (whether or not it includes the giving of a Security Interest) is provided as is approved by an Extraordinary Resolution of the Noteholders.

## **5.2 Ratings**

Each of the Issuer and the Guarantor undertakes, *inter alia*, that so long as any Note remains outstanding, save with the approval of an Extraordinary Resolution of the Noteholders, the Issuer will, and the Guarantor will procure the Issuer to, use best efforts to maintain a rating on the Notes by each of the Rating Agencies.

## **5.3 Provision of Information by the Guarantor**

So long as any Note remains outstanding, the Guarantor shall file with the Trustee:

- (a) as soon as they are available, but in any event within 180 calendar days after the end of each Relevant Period (and in the case of the Compliance Certificate, within 14 days of a written request of the Trustee), copies of the relevant Guarantor Audited Financial Reports in the English language, together with a Compliance Certificate of the Guarantor (on which the Trustee may conclusively rely as to such compliance); and
- (b) as soon as they are available, but in any event within 120 calendar days after the end of each Relevant Period, copies of the relevant Guarantor Semi-Annual Unaudited Financial Reports in the English language, together with a certificate signed by the person then authorised to sign financial statements on behalf of the Guarantor, to the effect that the relevant Guarantor Semi-Annual Unaudited Financial Reports are true in all material respects and present fairly the financial position of the Guarantor, as at the end of, and the results of its operations for, the Relevant Period;

*provided that*, if at any time the Capital Stock of the Guarantor are listed for trading on a recognised stock exchange, the Guarantor will file with the Trustee, as soon as they are available but in any event not more than 10 calendar days after any financial or other reports of the Guarantor are filed with any recognised exchange on which the Guarantor's shares are at any time listed for trading, true and correct copies of any financial or other report filed with such exchange in lieu of the reports identified in clauses (i) and (ii) above, if such financial or other report is in English language.

## **5.4 Provision of Information by the Company**

So long as any Note remains outstanding, the Company shall file with the Trustee:

- (a) as soon as they are available, but in any event within 180 calendar days after the end of each Relevant Period (and in the case of the Compliance Certificate, within 14 days of a written request of the Trustee), copies of the relevant Company Audited Financial Reports in the English language, together with a Compliance Certificate of the Company (on which the Trustee may conclusively rely as to such compliance); and
- (b) as soon as they are available, but in any event within 120 calendar days after the end of each Relevant Period, copies of the relevant Company Semi-Annual Unaudited Financial Reports in the English language, together with a certificate signed by the person then authorised to sign financial statements on behalf of the Company, to the effect that the relevant Company Semi-Annual Unaudited Financial Reports are true in all material respects and present fairly the financial position of the Company, as at the end of, and the results of its operations for, the Relevant Period;

*provided that*, if at any time the Capital Stock of the Company are listed for trading on a recognised stock exchange, the Company will file with the Trustee, as soon as they are available but in any event not more than 10 calendar days after any financial or other reports of the Company are filed with any recognised exchange on which the Company's shares are at any time listed for trading, true and correct copies of any financial or other report filed with such exchange in lieu of the reports identified in clauses (i) and (ii) above, if such financial or other report is in English language.



### 5.5 *Obligation to Acquire Equity Interest*

Upon the occurrence of any Event of Default (as defined under Condition 10), the Trustee shall give to the Company (with a copy to the Guarantor and the Issuer) a notice in writing in accordance with the Trust Deed notifying the Company of its obligations to purchase under clause 6 of the Keepwell Deed. Upon the completion of any equity purchase made in accordance with the Keepwell Deed, each of the Issuer, the Guarantor and the Company undertakes to (i) in the event that a Relevant Transferor (as defined in the Keepwell Deed) is not the Issuer, procure such Relevant Transferor to promptly on-lend or distribute in full the proceeds received under the Keepwell Deed to the Issuer prior to any other use, disposal or transfer of the proceeds received and (ii) promptly do all such things (including entering into and executing any agreements or arrangements required) and take all actions necessary for the proceeds received by the Issuer under the Keepwell Deed or pursuant to any on-loan or distribution referred to in (i) above of this Condition 5.5 to be applied solely towards the payment in accordance with the Trust Deed of any outstanding amounts under the Trust Deed and the Notes (including any interest accrued but unpaid on the Notes) prior to any other use, disposal or transfer of the proceeds received.

### 5.6 *Interpretation*

In these Conditions:

- (i) **Capital Stock** means any and all shares, interests (including joint venture interests), participations or other equivalents (however designated) of capital stock of a corporation or any and all equivalent ownership interests in a Person (other than a corporation);
- (ii) **Company Audited Financial Reports** means annual consolidated financial statements of the Company, which include a statement of income, balance sheet and cash flow statement of the Company, audited by a member firm of independent accountants, together with the auditors' report and notes to the financial statements;
- (iii) **Company Semi-Annual Unaudited Financial Reports** means semi-annual unaudited consolidated financial statements of the Company, which include a statement of income, balance sheet and cash flow statement of the Company prepared on a basis consistent with the Company Audited Financial Reports;
- (iv) **Compliance Certificate of the Company** means a certificate of the Company signed by any of its authorised signatories (as previously notified to the Trustee in writing in accordance with the Agency Agreement) that, having made all reasonable enquiries, to the best of the knowledge, information and belief of the Company as at a date (the Certification Date) not more than five days before the date of the certificate, each of the Issuer, the Guarantor and the Company has complied with all its obligations under the Trust Deed and the Notes;
- (v) **Compliance Certificate of the Guarantor** means a certificate of the Guarantor signed by any of its authorised signatories (as previously notified to the Trustee in writing in accordance with the Agency Agreement) that, having made all reasonable enquiries, to the best of the knowledge, information and belief of the Guarantor as at the Certification Date not more than five days before the date of the certificate:
  - (A) no Event of Default or Potential Event of Default had occurred since the Certification Date of the last such certificate or (if none) the date of the Trust Deed or, if such an event had occurred, giving details of it; and
  - (B) each of the Issuer and the Guarantor has complied with all its obligations under the Trust Deed and the Notes;
- (vi) **Guarantor Audited Financial Reports** means annual consolidated financial statements of the Guarantor, which include a statement of income, balance sheet and cash flow statement of the Guarantor, audited by a member firm of independent accountants, together with the auditors' report and notes to the financial statements;

- (vii) **Guarantor Semi-Annual Unaudited Financial Reports** means semi-annual unaudited consolidated financial statements of the Guarantor, which include a statement of income, balance sheet and cash flow statement of the Guarantor prepared on a basis consistent with the Guarantor Audited Financial Reports;
- (viii) **Non-Listed Principal Subsidiary** at any time shall mean a Principal Subsidiary (as defined in Condition 10) of the Guarantor whose shares are not at the relevant time listed on any stock exchange;
- (ix) **Person** means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organisation, government or any agency or political subdivision thereof or any other entity;
- (x) **PRC** means the People's Republic of China excluding the Special Administrative Regions of Hong Kong and Macau and the region of Taiwan;
- (xi) **Rating Agencies** means (1) Moody's Investor Service, Inc. (**Moody's**), Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. (**Standard & Poor's**) and Fitch Ratings Ltd. (**Fitch**) and their respective successors; or (2) if none of Moody's, Standard & Poor's and Fitch shall make a rating of the Notes publicly available, the Issuer shall select any other reputable credit rating agency of international standing;
- (xii) **Relevant Indebtedness** means any present or future indebtedness (whether being principal, premium, interest or other amounts) for or in respect of any bonds, notes, debentures, loan stock certificates or other securities which for the time being are, or are intended to be or capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter market or other securities market;
- (xiii) **Relevant Period** means, in relation to each of the Guarantor Audited Financial Reports or the Company Audited Financial Reports, each period of twelve months ending on the last day of the financial year (being 31 December of that financial year) and in relation to the Guarantor Semi-Annual Unaudited Financial Reports or the Company Semi-Annual Unaudited Financial Reports, each period of six months ending on the last day of the first half financial year (being 30 June of that financial year); and
- (xiv) **Subsidiary** of any person means (a) any company or other business entity of which that person owns or controls (either directly or through one or more other Subsidiaries) more than 50 per cent. of the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such company or other business entity, or (b) any company or other business entity which at any time has its accounts consolidated with those of that person or which, under the law, regulations or generally accepted accounting principles of the jurisdiction of incorporation of such person from time to time, should have its accounts consolidated with those of that person.

## 6. Interest

The Notes bear interest on their outstanding principal amount from and including 26 January 2015 at the rate of 2.45 per cent. per annum, payable annually in arrear on 26 January in each year (each an **Interest Payment Date**) commencing on 26 January 2016. Each Note will cease to bear interest from the due date for redemption unless, upon surrender of the Certificate representing such Note, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant holder, and (b) the day which is seven days after the Trustee or the Principal Paying Agent has notified Noteholders of receipt of all sums due in respect of all the Notes up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

If interest is required to be calculated for a period (the **Calculation Period**) and (a) the Calculation Period is equal to or shorter than the Determination Period during which it falls, the relevant day-count fraction will be the number of days in the Calculation Period divided by the product of

(x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and (b) if the Calculation Period is longer than one Determination Period, the sum of: (x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (i) the number of days in such Determination Period and (ii) the number of Determination Periods normally ending in any year; and (y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (i) the number of days in such Determination Period and (ii) the number of Determination Periods normally ending in any year.

In these Conditions:

- (a) **Determination Date** means the Interest Payment Date.
- (b) **Determination Period** means the period from and including a Determination Date in any year to but excluding the next Determination Date.

Interest in respect of any Note shall be calculated per €1,000 in principal amount of the Notes (the **Calculation Amount**). The amount of interest payable per Calculation Amount for any period shall be equal to the product of the rate of interest specified above, the Calculation Amount and the day-count fraction for the relevant period, rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

## **7. Redemption and Purchase**

### **7.1 Final Redemption**

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 26 January 2027. The Notes may not be redeemed at the option of the Issuer other than in accordance with this Condition 7.

### **7.2 Redemption for Taxation Reasons**

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders and the Trustee (which notice shall be irrevocable), at their principal amount, together with interest accrued up to but excluding the date fixed for redemption but unpaid, if:

- (a) (i) the Issuer has or will become obliged to pay Additional Tax Amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of the United Kingdom, Hong Kong or the PRC or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including but not limited to any decision by a court of competent jurisdiction), which change or amendment becomes effective on or after 20 January 2015 and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; or
- (b) (i) the Guarantor has or (if a demand was made under the Guarantee) would become obliged to pay Additional Tax Amounts as provided or referred to in Condition 9 or the Guarantee, as the case may be, as a result of any change in, or amendment to, the laws or regulations of the United Kingdom, Hong Kong or the PRC or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including but not limited to any decision by a court of competent jurisdiction), which change or amendment becomes effective on or after 20 January 2015 and (ii) such obligation cannot be avoided by 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 Tax Amounts were a payment in respect of the Notes then due or, as the case may be, a demand under the Guarantee were then made.

Prior to the publication of any notice of redemption pursuant to this Condition 7.2, the Issuer shall deliver to the Trustee:

- (x) a certificate signed by any authorised signatory of the Issuer or, as the case may be, the Guarantor stating that the obligation referred to in subparagraph (a)(i) or (b)(i) above, as the case may be, cannot be avoided by the Issuer or the Guarantor, as the case may be, taking reasonable measures available to it; and
- (y) an opinion in form and substance satisfactory to the Trustee of independent legal advisers of recognised international standing to the effect that the Issuer or, as the case may be, the Guarantor has or will become obligated to pay such Additional Tax Amounts as a result of such change or amendment.

The Trustee shall be entitled to, and without liability to any person for doing so, accept such certificate and opinion as conclusive evidence of the satisfaction of the condition precedent set out in subparagraph (a)(ii) or (b)(ii) above, as the case may be, in which event it shall be conclusive and binding on the Noteholders.

### **7.3 Optional Redemption**

The Guarantor or the Issuer may, at the Guarantor's option, at any time upon giving not less than 30 nor more than 60 days' notice to Noteholders in accordance with Condition 17 (which notice shall be irrevocable), redeem the Notes, in whole or in part, at a redemption price equal to the greater of (1) 100 per cent. of the principal amount of the Notes to be redeemed and (2) the sum of the present values of the remaining scheduled payments of principal and interest on the Notes to be redeemed (excluding interest accrued to the date of redemption), discounted to the date of redemption on an annual basis (Actual/Actual (ICMA)) at the Comparable Government Bond Rate plus 35 basis points, plus accrued and unpaid interest on the applicable Notes to be redeemed, if any, to the date of redemption.

In this Condition 7.3:

**Comparable Government Bond** means, in relation to any Comparable Government Bond Rate calculation, at the discretion of the Independent Investment Bank, a German *Bundesanleihe* security whose maturity is closest to the maturity of the Notes, or if such Independent Investment Bank in its discretion considers that such similar bond is not in issue, such other German *Bundesanleihe* security as such Independent Investment Bank may, with the advice of three brokers of, and/or market makers in, German *Bundesanleihe* securities selected by such Independent Investment Bank, determine to be appropriate for determining the Comparable Government Bond Rate;

**Comparable Government Bond Rate** means the price, expressed as a percentage (rounded to three decimal places, 0.0005 being rounded upwards), at which the gross redemption yield on the Notes, if they were to be purchased at such price on the third London Business Day prior to the date fixed for redemption or the date of accelerated payment, would be equal to the gross redemption yield on such London Business Day of the Comparable Government Bond on the basis of the middle market price of the Comparable Government Bond prevailing at 11:00 a.m. (London time) on such London Business Day as determined by the Independent Investment Bank;

**Independent Investment Bank** means an investment bank of recognised standing that is a primary dealer in German *Bundesanleihe* securities, selected by the Guarantor in good faith; and

**London Business Day** means a day (other than a Saturday or Sunday) on which commercial banks are open for business in London.

### **7.4 Redemption upon a Change of Control Triggering Event**

At any time following the occurrence of a Change of Control Triggering Event (as defined below), the holder of any Note will have the right, at such holder's option, to require the Issuer to redeem all but not some only of that holder's Notes on the Put Settlement Date (as defined herein) at 101 per cent. of their principal amount, together with accrued interest up to but excluding such Put

Settlement Date. To exercise such right, the holder of the relevant Note must deposit at the specified office of the Principal Paying Agent or any Transfer Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the specified office of the Principal Paying Agent or any Transfer Agent (a **Put Exercise Notice**), together with the Certificate evidencing the Notes to be redeemed by not later than 30 days following a Change of Control Triggering Event, or, if later, 30 days following the date upon which notice thereof is given to the Noteholders by the Issuer in accordance with Condition 17.

The **Put Settlement Date** shall be the fourteenth day or, if such day is not a business day, the next following business day after the expiry of such period of 30 days as referred to above. A Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Notes the subject of the Put Exercise Notices delivered as aforesaid on the Put Settlement Date.

The Issuer shall give notice to Noteholders in accordance with Condition 17 and to the Trustee, the Transfer Agent and the Principal Paying Agent by not later than 14 days following the first day on which it becomes aware of the occurrence of a Change of Control Triggering Event, which notice shall specify the procedure for exercise by holders of their rights to require redemption of the Notes pursuant to this Condition 7.4.

The Trustee and the Agents shall not be required to take any steps to ascertain whether a Change of Control Triggering Event has occurred and shall not be responsible or liable to the Noteholders, the Issuer, the Guarantor, the Company or any other person for any loss arising from any failure to do so.

In this Condition 7.4:

a **business day** means a day other than a Saturday or Sunday on which banks and foreign exchange markets are open for business in the place in which the specified office of the Registrar is located and in Hong Kong, Beijing and a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (**TARGET2**) System is open;

a **Change of Control** occurs when: (i) SASAC or any other person or entity directly controlled by the central government of the PRC (such person or entity and SASAC, each a **PRC Government Person**) ceases to Control, directly or indirectly, the Company; (ii) the Company or the Guarantor consolidates with or merges into or sells or transfers all or substantially all of its assets to any other person or persons, acting together, except where such person(s) is/are Controlled, directly or indirectly, by a PRC Government Person; (iii) the Company at any time and for any reason ceases to, directly or indirectly, own or control 51 per cent. or more of the Voting Rights of the issued share capital of the Issuer or the Guarantor, and Control the Issuer or the Guarantor; or (iv) the Guarantor at any time and for any reason ceases to, directly or indirectly, own or control 100 per cent. of the Voting Rights of the issued share capital of the Issuer;

**Change of Control Triggering Event** means a Change of Control, provided that, in the event that the Notes are, on the Rating Date, rated Investment Grade by two or more Rating Agencies, a Change of Control Triggering Event shall mean the occurrence of both a Change of Control and a Rating Decline (as defined below). No Change of Control Triggering Event will be deemed to have occurred in connection with any particular Change of Control unless and until such Change of Control has actually been consummated;

**Control** means (where applicable): (i) the ownership or control of more than 50 per cent. of the Voting Rights of the issued share capital of a person or (ii) the possession, directly or indirectly, of the power to nominate or designate no less than 50 per cent. of the members then in office of a person's board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of Voting Rights, contract or otherwise or (iii) the possession, directly or indirectly, of the power to direct or cause the direction of the management policies of a person. For the avoidance of doubt, a person is deemed to Control another person so long as it fulfils one of the three foregoing requirements and the terms **Controlling** and **Controlled** have meanings correlative to the foregoing;

**Investment Grade** means a rating of "AAA", "AA", "A" or "BBB", as modified by a "+" or "-" indication, or an equivalent rating representing one of the four highest rating categories, by Standard & Poor's or any of its successors or assigns; a rating of "Aaa", "Aa", "A" or "Baa", as modified by



a “1”, “2” or “3” indication, or an equivalent rating representing one of the four highest rating categories, by Moody’s or any of its successors or assigns; a rating of “BBB-” or better by Fitch or any of its successors or assigns; or the equivalent ratings of any reputable credit rating agency or agencies of international standing, as the case may be, which shall have been designated by the Guarantor as having been substituted for Standard & Poor’s, Moody’s, or Fitch or any combination thereof, as the case may be;

a **person** includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state, agency of a state (in each case whether or not being a separate legal entity) but does not include:

- (a) the Company’s board of directors or any other governing board; and
- (b) the Company’s wholly-owned direct or indirect Subsidiaries (as defined in Condition 4);

**Rating Date** means, in connection with a Change of Control Triggering Event, that date which is 90 days prior to the earlier of (i) a Change of Control and (ii) a public notice of the occurrence of a Change of Control or of the intention by the Company or any other Person or Persons to effect a Change of Control;

**Rating Decline** means, in connection with a Change of Control Triggering Event, the occurrence on, or within six months after, the date, or public notice of the occurrence of, a Change of Control or the intention by the Company or any other person or persons to effect a Change of Control (which period shall be extended (by no more than an additional three months after the consummation of the Change of Control) so long as the rating of the Notes is under publicly announced consideration for possible downgrade by any of the Rating Agencies) of any of the events listed below: (i) in the event the Notes are (a) on the Rating Date (x) rated by three Ratings Agencies and (y) rated Investment Grade by each such Rating Agency, and (b) cease to be rated Investment Grade by at least two of such Rating Agencies; or (ii) in the event the Notes are (a) on the Rating Date (x) rated by two but not more Ratings Agencies and (y) rated Investment Grade by each such Rating Agency, and (b) cease to be rated Investment Grade by both such Rating Agencies;

**SASAC** means the State-owned Assets Supervision and Administration Commission of the State Council of the PRC or its successor; and

**Voting Rights** means the right generally to vote at a general meeting of shareholders of the Issuer or, as the case may be, the Guarantor (irrespective of whether or not, at the time, stock of any other class or classes shall have, or might have, voting power by reason of the happening of any contingency, and any such voting power shall therefore be excluded for the purpose of this definition).

## **7.5 Notices of redemption**

If there is more than one notice of redemption given in respect of any Note (which shall include any notice given by the Issuer pursuant to Condition 7.2 or Condition 7.3 and any Put Exercise Notice given by a Noteholder pursuant to Condition 7.4), the notice given first in time shall prevail and in the event of two notices being given on the same date, the first to be given shall prevail.

## **7.6 Notice of redemption**

All Notes in respect of which any notice of redemption is given under Condition 7.2 or Condition 7.3 shall be redeemed on the date specified in such notice in accordance with this Condition 7.

## **7.7 Purchase**

The Issuer, the Guarantor, the Company and each of their respective Subsidiaries may at any time purchase Notes in the open market or otherwise at any price. The Notes so purchased, while held by or on behalf of the Issuer, the Guarantor, the Company or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for, among other things, the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Conditions 10, 13.1 or 14.



## 7.8 Cancellation

All Certificates representing Notes purchased by or on behalf of the Issuer, the Guarantor, the Company or any of their respective Subsidiaries shall be surrendered for cancellation to the Principal Paying Agent and, upon surrender thereof, all such Notes shall be cancelled forthwith. Any Certificates so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

## 7.9 Calculations

Neither the Trustee nor any Agent shall be responsible for calculating or verifying the calculations of any amount payable under any notice of redemption and shall not be liable to the Noteholders or any other person for not doing so.

## 8. Payments

### 8.1 Method of Payment

- (a) Payments of principal and premium (if any) shall be made (subject to surrender of the relevant Certificates at the specified office of any Transfer Agent or of the Registrar if no further payment falls to be made in respect of the Notes represented by such Certificates) in a manner provided in paragraph (b) below.
- (b) Interest on each Note shall be paid to the person shown on the Register at the close of business on the fifth Payment Business Day before the due date for payment thereof (the **Record Date**). Payments of interest on each Note shall be made by transfer to a euro account maintained by the payee by or on behalf of it with a bank that processes payments in euros, details of which appear on the Register at the close of business on the Payment Business Day before the due date for payment, or by euro cheque drawn on a bank that processes payments in euros mailed to the address of the Noteholder appearing on the Register at the time if the Noteholder does not have a registered account.

*So long as the Notes are represented by the Global Certificate, each payment in respect of the Global Certificate will be made to the person shown as the holder of the Notes in the Register at the close of business (of the relevant clearing system) on the Clearing System Business Day before the due date for such payments, where **Clearing System Business Day** means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.*

- (c) If the amount of principal being paid upon surrender of the relevant Certificate is less than the outstanding principal amount of such Certificate, the Registrar will annotate the Register with the amount of principal so paid and will (if so requested in writing by the Issuer or a Noteholder) issue a new Certificate with a principal amount equal to the remaining unpaid outstanding principal amount. If the amount of interest being paid is less than the amount then due, the Registrar will annotate the Register with the amount of interest so paid.

### 8.2 Payments subject to Applicable Laws

All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment but without prejudice to the provisions of Condition 9 and 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. No commission or expenses shall be charged to the Noteholders in respect of such payments.

### 8.3 Payment Initiation

Where payment is to be made by transfer to a registered account, payment instructions (for value on the due date or, if that is not a Payment Business Day, for value the first following day which is a Payment Business Day) will be initiated on the due date for payment (or, if that date is not a Payment Business Day, on the first following day which is a Payment Business Day), or, in the case of

payments of principal and premium (if any) where the relevant Certificate has not been surrendered at the specified office of any Transfer Agent or of the Registrar, on the first Payment Business Day on which the Principal Paying Agent is open for business and on or following which the relevant Certificate is surrendered.

#### **8.4 Appointment of Agents**

The Principal Paying Agent, the Registrar and the Transfer Agent initially appointed by the Issuer and the Guarantor and their respective specified offices are listed below. The Principal Paying Agent, the Registrar and the Transfer Agent act solely as agents of the Issuer and the Guarantor and do not assume any obligation or relationship of agency or trust for or with any Noteholder. The Issuer and the Guarantor reserve the right at any time with the prior written approval of the Trustee to vary or terminate the appointment of the Principal Paying Agent, the Registrar, any Transfer Agent or any of the other Agents and to appoint additional or other Agents, provided that the Issuer and the Guarantor shall at all times maintain (i) a Principal Paying Agent, (ii) a Registrar, (iii) a Transfer Agent, and (iv) such other agents as may be required by any other stock exchange on which the Notes may be listed, in each case, as approved in writing by the Trustee.

Notice of any such change or any change of any specified office of any Agent shall promptly be given by the Issuer to the Noteholders in accordance with Condition 17.

#### **8.5 Delay in Payment**

Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a Note if the due date is not a Payment Business Day, or if the Noteholder is late in surrendering or cannot surrender its Certificate (if required to do so).

#### **8.6 Non-Payment Business Days**

If any date for payment in respect of any Note is not a Payment Business Day, the holder shall not be entitled to payment until the following Payment Business Day nor to any interest or other sum in respect of such postponed payment.

In this Condition 8, **Payment Business Day** means a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets are open for business in London, Hong Kong, Beijing and a day on which the TARGET2 System is open, and the place in which the specified office of the Registrar is located and, if surrender of the relevant Certificate is required, in the place in which the Certificate is surrendered.

### **9. Taxation**

All payments of principal, premium and interest by or on behalf of the Issuer or the Guarantor in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the United Kingdom, Hong Kong or the PRC or any political subdivision or authority therein or thereof having power to tax, unless such withholding or deduction is required by law.

Where such withholding or deduction is made by the Issuer or the Guarantor as a result of the Issuer or the Guarantor being deemed to be a PRC tax resident at the rate of up to and including 10 per cent., the Issuer or, as the case may be, the Guarantor will increase the amounts paid by it to the extent required (**PRC Taxes**), so that the net amount received by Noteholders equals the amounts which would otherwise have been receivable by them had no such withholding or deduction been required.

In the event that any such PRC deduction or withholding in excess of 10 per cent. or any United Kingdom or Hong Kong deduction or withholding is required, the Issuer or, as the case may be, the Guarantor shall pay such additional amounts (**Additional Tax Amounts**, which for the avoidance of doubt shall include the PRC Taxes) as will result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no Additional Tax Amounts shall be payable in respect of any Note:

- (a) **Other connection:** to a holder (or to a third party on behalf of a holder) who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with the United Kingdom, Hong Kong or the PRC other than the mere holding of the Note; or
- (b) **Surrender more than 30 days after the Relevant Date:** in respect of which the Certificate representing it is presented for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such Additional Tax Amounts on surrendering the Certificate representing such Note for payment on the last day of such period of 30 days; or
- (c) **Payment to individuals:** (i) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or (ii) to a holder who would not be liable for or subject to such withholding or deduction by making a declaration of identity, non-residence or other similar claim for exemption to the relevant tax authority if, after having been requested to make such a declaration or claim, such holder fails to do so within any applicable period prescribed by such relevant tax authority; or
- (d) **Payment by another Paying Agent:** to a holder who would have been able to avoid such withholding or deduction by arranging to receive the relevant payment through another Paying Agent in a member state of the European Union.

**Relevant Date** in respect of any Note means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further surrender of the Certificate representing such Note being made in accordance with these Conditions, such payment will be made, provided that payment is in fact made upon such surrender.

Neither the Trustee nor any Agent shall be responsible for paying any tax, duty, charges, withholding or other payment referred to in this Condition 9 or for determining whether such amounts are payable or the amount thereof, and shall not be responsible or liable for any failure by the Issuer, the Guarantor or any Noteholder to pay such tax, duty, charges, withholding or other payment.

## 10. Events of Default

If any of the following events (each an **Event of Default**) occurs, the Trustee at its discretion may, and if so requested by holders of at least 25 per cent. in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall (provided that in either such case, the Trustee shall have been indemnified and/or secured and/or pre-funded to its satisfaction), give notice to the Issuer and the Guarantor that the Notes are, and they shall immediately become, due and payable at their principal amount together (if applicable) with accrued interest.

An **Event of Default** occurs if:

- (a) **Non-Payment under the Notes:** there is failure to pay the principal of or interest on any of the Notes when due and in the case of interest, such failure continues for a period of seven Payment Business Days; or

- (b) **Breach of Other Obligations:** the Issuer, the Guarantor or the Company does not perform or comply with any one or more of its other obligations under the Notes, the Trust Deed, the Keepwell Deed and Agency Agreement which default is incapable of remedy or, if capable of remedy, is not remedied within 30 days after the Trustee has given written notice thereof to the Issuer, the Guarantor or the Company, as the case may be; or
- (c) **Cross-Default (Issuer and Guarantor):** (i) any other indebtedness of the Issuer, the Guarantor or any of their respective Subsidiaries for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (ii) any such indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, or (iii) the Issuer, the Guarantor or any of their respective Subsidiaries fails to pay when due, any amount payable by it under any present or future security or guarantee for, or indemnity in respect of, any moneys borrowed or raised, provided that the aggregate amount of the relevant indebtedness, securities, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition 10(c) have occurred equals or exceeds (either individually or in aggregate) US\$100,000,000 or its equivalent; or
- (d) **Enforcement Proceedings (Issuer and Guarantor):** (i) any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries over all or a substantial part of the assets of the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries becomes enforceable and (x) proceedings are initiated against the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries, or (y) the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries initiates or consents to any judicial proceedings relating to itself, under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a general moratorium in respect of all or a substantial part of its debts), or (ii) an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed or a distress, attachment, execution or other legal process is levied, enforced or sued out on or against all or a substantial part of the undertaking or assets of the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries or an encumbrancer takes possession of all or a material part of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon or put in force against all or a substantial part of the undertaking or assets of any of them, and in any such case in sub-paragraphs (i) or (ii) above of this Condition 10(d) except where (other than the appointment of an administrator) such application or legal process is initiated by the relevant company and is discharged or stayed within 30 days; or
- (e) **Insolvency (Issuer and Guarantor):** the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries (i) is (or is deemed by law or a competent court to be) insolvent or bankrupt or unable to pay its debts as and when such debts fall due, stops, suspends or threatens to stop or suspend payment of, all or a material part of its debts, (ii) proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of its debts (or of a material part of its debts at that time, and which it will or might otherwise be unable to pay when due), (iii) proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all of the debts of the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries or a material part of such debts; or

- (f) **Winding-up (Issuer and Guarantor):** an order is made or an effective resolution passed for the winding-up or dissolution of the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries, or the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries ceases or through an official action of the board of directors of the Issuer or the Guarantor or the relevant Principal Subsidiary of the Guarantor, threatens to cease to carry on all or substantially all of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution of the holders of the Notes; or (ii) in the case of a Principal Subsidiary of the Guarantor where the material undertaking and assets of the Principal Subsidiary of the Guarantor are transferred to or otherwise vested in the Issuer, the Guarantor, the Company or another of their respective Subsidiaries or (iii) a disposal of a Principal Subsidiary of the Guarantor on an arm's length basis where the assets (whether in cash or otherwise) resulting from such disposal is vested in Issuer, the Guarantor, the Company or any of their respective Subsidiaries; or
- (g) **Events of default in respect of the Company:** any of the following occurs:
- (i) (a) failure to pay upon final maturity (after giving effect to the expiration of any applicable grace period therefor) the principal of any Indebtedness of the Company or any of its Principal Subsidiaries, (b) acceleration of the maturity of any Indebtedness of the Company or any of its Principal Subsidiaries following a default by the Company or such Principal Subsidiary, if such Indebtedness is not discharged, or such acceleration is not annulled, within 10 calendar days after receipt by the Trustee of the written notice from the Company as provided in the Keepwell Deed, or (c) failure to pay any amount payable by the Company or any of its Principal Subsidiaries under any guarantee or indemnity in respect of any Indebtedness of any other Person if such obligation is not discharged or otherwise satisfied within 10 calendar days after receipt by the Trustee of written notice as provided in the Keepwell Deed; provided, however, that no such event set forth in clause (a), (b) or (c) shall constitute an Event of Default unless the aggregate outstanding Indebtedness to which all such events relate exceeds US\$200,000,000 (or its equivalent in any other currency); or
  - (ii) one or more final judgments or orders for the payment of money are rendered against the Company or any Principal Subsidiary and are not paid or discharged, and there is a period of 30 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed US\$200,000,000 (or its equivalent in any other currency) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect; or
  - (iii) a decree or order is entered by a court of competent jurisdiction (i) for relief in respect of the Company or any of its Principal Subsidiaries in an involuntary case of winding up or bankruptcy proceeding under applicable law or (ii) adjudging the Company or any of its Principal Subsidiaries bankrupt or insolvent, or seeking reorganisation, winding up, arrangement, adjustment or composition of or in respect of the Company or any of its Principal Subsidiaries under applicable law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of the Company or any of its Principal Subsidiaries or of all or substantially all of its properties, or ordering the winding up or liquidation of any of their affairs, and any such decree or order remains unstayed and in effect for a period of 60 consecutive days; or
  - (iv) the Company or any of its Principal Subsidiary institutes a voluntary case or proceeding under applicable bankruptcy, insolvency, reorganisation or similar law, or any other case or proceedings to be adjudicated bankrupt or insolvent, or the Company or any of its Principal Subsidiary files a petition or answer or consent seeking reorganisation or relief under applicable bankruptcy, insolvency, reorganisation or similar law, or consents to the filing of any such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of any of the

Company or any of its Principal Subsidiary or of all or substantially all of its properties, or makes a general assignment for the benefit of creditors, or admits in writing its inability to pay its debts generally as they become due or takes corporate action in furtherance of any such action; or

- (h) **Government Intervention:** a material part of the assets or undertaking of the Issuer, the Guarantor, any of the Guarantor's Principal Subsidiaries, the Company and any of the Company's Principal Subsidiaries is condemned, seized, expropriated or otherwise appropriated by any person acting under the authority of any national, regional or local government; or
- (i) **Authorisation and Consents:** any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable each of the Issuer, the Guarantor and the Company lawfully to enter into, exercise its rights and perform and comply with their respective obligations under the Notes, the Trust Deed and the Keepwell Deed (other than with respect to the performance of the obligations set out in the Keepwell Deed), (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Notes, the Trust Deed and the Keepwell Deed admissible in evidence in the courts of Hong Kong is not taken, fulfilled or done; or
- (j) **Illegality:** it is or will become unlawful for the Issuer, the Guarantor or the Company (as applicable) to perform or comply with any one or more of its obligations under any of the Notes, the Trust Deed or the Keepwell Deed; or
- (k) **Unenforceability of the Guarantee:** if the enforceability of the Guarantee is contested by the Issuer or the Guarantor, or the Issuer or the Guarantor denies any one or more of its obligations under the Guarantee; or
- (l) **Keepwell Deed:** the Keepwell Deed is not (or is claimed by the Company not to be) enforceable, valid or in full force and effect, or the Keepwell Deed is modified, amended or terminated other than strictly in accordance with its terms or these Conditions; or
- (m) **Analogous Events:** any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of Conditions 10(a) to 10(k) (both inclusive).

In this Condition 10:

**Principal Subsidiary** of:

- (a) the Company at any time shall mean one of the Company's Subsidiaries
  - (i) as to which one or more of the following conditions is/are satisfied:
    - (a) its net profit or (in the case of one of the Company's Subsidiaries which has one or more Subsidiaries) consolidated net profit attributable to the Company (in each case before taxation and exceptional items) is at least 10% of the Company's consolidated net profit (before taxation and exceptional items); or
    - (b) its net assets or (in the case of one of the Company's Subsidiaries which has one or more Subsidiaries) consolidated net assets attributable to the Company (in each case after deducting minority interests in Subsidiaries) are at least 10% of the Company's consolidated net assets (after deducting minority interests in Subsidiaries);

all as calculated by reference to the then latest audited financial statements (consolidated or, as the case may be, unconsolidated) of the Company's Subsidiary and the Company's then latest consolidated financial statements, provided that: (1) in the case of a Subsidiary of the Company acquired after the end of the financial period to which the then latest relevant audited financial statements relate, the reference to the then latest audited



financial statements for the purposes of the calculation above shall, until audited financial statements for the financial period in which the acquisition is made are published, be deemed to be a reference to the financial statements adjusted to consolidate the latest audited financial statements of the Subsidiary in the financial statements; (2) if, in the case of a Subsidiary of the Company which itself has one or more Subsidiaries, no consolidated financial statements are prepared and audited, its consolidated net assets and consolidated net profits shall be determined on the basis of *pro forma* consolidated financial statements of the relevant Subsidiary and its Subsidiaries prepared for this purpose and opined on by its auditors; or (3) if the financial statements of a Subsidiary of the Company (not being a Subsidiary referred to in (1) above) are not consolidated with those of the Company then the determination of whether or not the Subsidiary is a Principal Subsidiary shall, if the Company requires, be based on a *pro forma* consolidation of its financial statements (consolidated, if appropriate) with the consolidated financial statements of the Company and its Subsidiaries; or

- (ii) to which is transferred all or substantially all of the assets of the Company's Subsidiary which immediately prior to the transfer was a Principal Subsidiary, provided that, with effect from such transfer, the Subsidiary which so transfers its assets and undertakings shall cease to be a Principal Subsidiary (but without prejudice to paragraph (i) above) and the Company's Subsidiary to which the assets are so transferred shall become a Principal Subsidiary.

(b) the Guarantor at any time shall mean one of the Guarantor's Subsidiaries

- (i) as to which one or more of the following conditions is/are satisfied:
  - (a) its net profit or (in the case of one of the Guarantor's Subsidiaries which has one or more Subsidiaries) consolidated net profit attributable to the Guarantor (in each case before taxation and exceptional items) is at least 5% of the Guarantor's consolidated net profit (before taxation and exceptional items); or
  - (b) its net assets or (in the case of one of the Guarantor's Subsidiaries which has one or more Subsidiaries) consolidated net assets attributable to the Guarantor (in each case after deducting minority interests in Subsidiaries) are at least 5% of the Guarantor's consolidated net assets (after deducting minority interests in Subsidiaries);

all as calculated by reference to the then latest audited financial statements (consolidated or, as the case may be, unconsolidated) of the Guarantor's Subsidiary and the Guarantor's then latest consolidated financial statements, provided that: (1) in the case of a Subsidiary of the Guarantor acquired after the end of the financial period to which the then latest relevant audited financial statements relate, the reference to the then latest audited financial statements for the purposes of the calculation above shall, until audited financial statements for the financial period in which the acquisition is made are published, be deemed to be a reference to the financial statements adjusted to consolidate the latest audited financial statements of the Subsidiary in the financial statements; (2) if, in the case of a Subsidiary of the Guarantor which itself has one or more Subsidiaries, no consolidated financial statements are prepared and audited, its consolidated net assets and consolidated net profits shall be determined on the basis of *pro forma* consolidated financial statements of the relevant Subsidiary and its Subsidiaries prepared for this purpose and opined on by its auditors; or (3) if the financial statements of a Subsidiary of the Guarantor (not being a Subsidiary referred to in (1) above) are not consolidated with those of the Guarantor then the determination of whether or not the Subsidiary is a Principal Subsidiary shall, if the Guarantor requires, be based on a *pro forma* consolidation of its financial statements (consolidated, if appropriate) with the consolidated financial statements of the Guarantor and its Subsidiaries; or

- (ii) to which is transferred all or substantially all of the assets of the Guarantor's Subsidiary which immediately prior to the transfer was a Principal Subsidiary, provided that, with effect from such transfer, the Subsidiary which so transfers its assets and undertakings shall cease to be a Principal Subsidiary (but without prejudice to paragraph (i) above) and the Guarantor's Subsidiary to which the assets are so transferred shall become a Principal Subsidiary.

A certificate of the Company's or the Guarantor's auditors as to whether or not the Company's or the Guarantor's Subsidiary is a Principal Subsidiary shall be conclusive and binding on all parties in the absence of manifest error.

Neither the Trustee nor any Agent shall be required to take any steps to ascertain whether an Event of Default has occurred and shall not be responsible or liable to the Noteholders, the Issuer, the Guarantor, the Company or any other person for any loss arising from any failure to do so.

## **11. Prescription**

Claims against the Issuer for payment in respect of the Notes shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

## **12. Replacement of Certificates**

If any Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations or other relevant regulatory authority regulations, at the specified office of the Registrar or any Transfer Agent as may from time to time be designated by the Issuer for that purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security, indemnity, prefunding and otherwise as the Issuer and/or the Registrar or such Transfer Agent may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

## **13. Meetings of Noteholders, Modification and Waiver**

### **13.1 Meetings of Noteholders**

The Trust Deed contains provisions for convening meetings of Noteholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of the Noteholders of a modification of any of these Conditions or any provisions of the Trust Deed, the Agency Agreement or the Keepwell Deed. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in principal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution of the Noteholders will be one or more persons holding or representing more than 50 per cent. in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Notes or the dates on which interest is payable in respect of the Notes, (ii) to reduce or cancel the principal amount of or interest on, the Notes, (iii) to change the currency of payment of the Notes, or (iv) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution of the Noteholders or (v) to cancel or modify the Keepwell Deed (subject to Condition 13.2), in which case the necessary quorum will be one or more persons holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed).

The Trust Deed provides that a resolution in writing signed by or on behalf of the Noteholders holding not less than 90 per cent. in principal amount of the Notes for the time being outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

### ***13.2 Modification and Waiver***

The Trustee may agree, without the consent of the Noteholders, to (i) any modification of any of these Conditions or any of the provisions of the Trust Deed, the Agency Agreement or the Keepwell Deed that is in its opinion of a formal, minor or technical nature or is made to correct a manifest error or to comply with any mandatory provision of law, or (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of these Conditions or any of the provisions of the Trust Deed, the Agency Agreement or the Keepwell Deed that is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and such modification, authorisation or waiver shall be notified by the Issuer, failing whom, the Guarantor or the Company, to the Noteholders as soon as practicable.

### ***13.3 Entitlement of the Trustee***

In connection with the exercise of its functions, rights, powers and/or discretions (including but not limited to those referred to in this Condition 13), the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders, and the Trustee shall not be entitled to require on behalf of any Noteholder, nor shall any Noteholder be entitled to claim, from the Issuer, the Guarantor or the Trustee, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

### ***13.4 Certificates and Reports***

The Trustee may rely without liability to Noteholders or to any other person on any information, report, advice, opinion, confirmation or certificate obtained from a Rating Agency and any lawyers, valuers, accountants (including the auditors), surveyors, financial advisers or financial institutions, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such information, report, confirmation, certificate, advice or opinion and, in such event, such information, report, confirmation, certificate, advice or opinion shall be binding on the Issuer, the Guarantor, the Company and the Noteholders.

## **14. Enforcement**

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer, the Guarantor or the Company (as applicable) as it may think fit to enforce the terms of the Trust Deed, the Notes or the Keepwell Deed, but it need not take any such proceedings unless (i) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by Noteholders holding at least 25 per cent. in principal amount of the Notes outstanding, and (ii) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction. No Noteholder may proceed directly against the Issuer, the Guarantor or the Company unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

## **15. Indemnification of the Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee's compensation and reimbursement of liabilities (if any) shall be paid in priority to the claims of the Noteholders. The Trustee is entitled to enter into business transactions with the Issuer, the Guarantor, the Company and any entity related to the Issuer, the Guarantor or the Company without accounting for any profit.

## **16. Further Issues**

The Issuer may from time to time without the consent of the Noteholders create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes). References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes. However, such further securities may only be issued if (i) the Rating Agency has been informed of such issue; and (ii) such issue will not result in any change in the then credit rating of the Notes. Any further securities forming a single series with the outstanding securities of any series (including the Notes) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of securities of other series where the Trustee so decides.

## **17. Notices**

Notices to the holders of Notes shall be mailed at the expense of the Issuer or, as the case may be, the Guarantor to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. The Issuer and the Guarantor shall also ensure that notices are duly published at the Issuer's or, as the case may be, the Guarantor's expense in a manner that complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made.

*So long as the Notes are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream or the Alternative Clearing System (as defined in the Global Certificate), notices to Noteholders may be given by delivery of the relevant notice to Euroclear or Clearstream or the Alternative Clearing System, for communication by it to entitled accountholders in substitution for notification as required by the Conditions.*

## **18. Currency Indemnity**

Euro is the sole currency of account and payment for all sums payable by the Issuer, the Guarantor and the Company (as applicable) under or in connection with the Notes, the Guarantee and the Keepwell Deed, including damages. Any amount received or recovered in a currency other than euro (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Issuer, the Guarantor, the Company or otherwise) by any Noteholder in respect of any sum expressed to be due to it from the Issuer, the Guarantor or the Company will only constitute a discharge to the Issuer, the Guarantor or the Company to the extent of the euro amount which the recipient 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 euro amount is less than the euro amount expressed to be due to the recipient under any Note, the Issuer and the Guarantor will indemnify (and the Company shall ensure that the Issuer or, as the case may be, the Guarantor has sufficient funds to do so) such recipient and the Trustee against any loss sustained by it as a result. In any event, the Issuer and the Guarantor will indemnify (and the Company shall ensure that the Issuer or, as the case may be, the Guarantor has sufficient funds to do so) the recipient and the Trustee against the cost of making any such purchase. For the purposes of this Condition, it will be sufficient for the Noteholder, as the case may be, to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Issuer's, the Guarantor's and the Company's other obligations, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted by any Noteholder and will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note, the Keepwell Deed or any other judgment or order.

## **19. Governing Law and Jurisdiction**

### **19.1 Governing Law**

The Trust Deed, the Agency Agreement, the Keepwell Deed and the Notes and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

### **19.2 Jurisdiction**

The courts of Hong Kong are to have exclusive jurisdiction to settle any disputes, claims, difference or controversy which may arise out of or in connection with the Trust Deed, the Agency Agreement, the Notes or the Keepwell Deed, including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of its nullity and any dispute relating to any non-contractual obligations arising out of or in connection with them (a **Dispute**) and accordingly any legal action or proceedings arising out of or in connection with any Notes, the Trust Deed, the Agency Agreement or the Keepwell Deed (**Proceedings**) may be brought in such courts. Each of the Issuer, the Guarantor and the Company has in the Trust Deed irrevocably submitted to the exclusive jurisdiction of such courts and waives any objection to Proceedings in such courts on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.

### **19.3 Agent for Service of Process**

Each of the Issuer and the Company (as applicable) has irrevocably appointed the Guarantor as its agent for service of process in Hong Kong based on the Trust Deed, the Agency Agreement, the Keepwell Deed or any of the Notes. If for any reason the Guarantor shall cease to be such agent for service of process, the Company shall forthwith appoint a new agent for service of process in Hong Kong and shall deliver to the Trustee a copy of the new agent's acceptance of that appointment within 30 days of the Guarantor ceasing to be such agent for service of process. Each of the Issuer and the Company agree that failure by a process agent to notify it of any process will not invalidate the relevant proceedings. Nothing in these Conditions shall affect the right to serve process in any other manner permitted by law.

### **19.4 Waiver of Immunity**

To the fullest extent permitted by law, each of the Issuer, the Guarantor and the Company has irrevocably and unconditionally:

- (a) submitted to the jurisdiction of the Hong Kong courts in relation to any Dispute and has waived and agreed not to claim any sovereign or other immunity from the jurisdiction of the Hong Kong courts in relation to any Dispute (including to the extent that such immunity may be attributed to it), and agreed to ensure that no such claim is made on its behalf;
- (b) submitted to the jurisdiction of the Hong Kong courts and the courts of any other jurisdiction in relation to the recognition of any judgment or order of the Hong Kong courts in relation to any Dispute and has waived and agreed not to claim any sovereign or other immunity from the jurisdiction of the Hong Kong courts or the courts of any other jurisdiction in relation to the recognition of any such judgment or court order and agreed to ensure that no claim is made on its behalf; and
- (c) consented to the enforcement of any order or judgment made or given in connection with any Dispute and the giving of any relief in the Hong Kong courts and the courts of any other jurisdiction whether before or after final judgment including, without limitation:
  - (i) relief by way of interim or final injunction or order for specific performance or recovery of any property;
  - (ii) attachment of its assets; and

- (iii) enforcement or execution against and any similar defence, and irrevocably consents to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property, revenues or other assets whatsoever (irrespective of its their use or intended use),

has waived and agreed not to claim any sovereign or other immunity from the jurisdiction of the Hong Kong courts or the courts of any other jurisdiction in relation to such enforcement and the giving of such relief (including to the extent that such immunity may be attributed to it), and agreed to ensure that no such claim is made on its behalf.

## **20. Rights of Third Parties**

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



## SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

*Each Global Certificate contains provisions which apply to the relevant series of Notes in respect of which the Global Certificate is issued, some of which modify the effect of the terms and conditions of the relevant series of Notes (the “**Conditions**” or the “**Terms and Conditions**”) set out in this Offering Memorandum. Terms defined in the Conditions have the same meaning in the paragraphs below. The following is a summary of those provisions:*

Each series of the Notes will be represented by a Global Certificate which will be registered in the name of a nominee of, and deposited with, a common depository on behalf of Euroclear and Clearstream.

Under each Global Certificate, the Issuer, for value received, will promise to pay such principal and interest on the relevant series of Notes to the holder of such Notes on such date or dates as the same may become payable in accordance with the Conditions.

Owners of interests in the relevant series of Notes in respect of which a Global Certificate is issued will be entitled to have title to the relevant series of Notes registered in their names and to receive individual definitive Certificates if either Euroclear or Clearstream or any other clearing system (an “**Alternative Clearing System**”) is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, **provided that** the holder of the relevant series of Notes represented by a Global Certificate has given the Registrar not less than 30 days’ notice at its specified office of such holder’s intention to effect such transfer. In such circumstances, the Issuer will cause sufficient individual definitive Certificates to be executed and delivered to the Registrar for completion, authentication and despatch to the relevant holders of the Notes. A person with an interest in the relevant series of Notes in respect of which a Global Certificate is issued must provide the Registrar with a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such individual definitive Certificates.

### **Payment**

So long as a series of Notes are represented by a Global Certificate, each payment in respect of such Global Certificate will be made to, or to the order of, the person shown as the holder of the relevant series of Notes in the Register at the close of business (of the relevant clearing system) on the Clearing System Business Day immediately prior to the due date for such payments, where “**Clearing System Business Day**” means Monday to Friday inclusive except 25 December and 1 January.

### **Trustee’s Powers**

In considering the interests of the Noteholders whilst the Global Certificate representing a series of Notes is registered in the name of a nominee for a clearing system, the Trustee may, to the extent it considers it appropriate to do so in the circumstances, but without being obliged to do so, (a) have regard to any information as may have been made available to it by or on behalf of the relevant clearing system or its operator as to the identity of its accountholders (either individually or by way of category) with entitlements in respect of the relevant series of Notes and (b) may consider such interests on the basis that such accountholders were the holder of the relevant series of Notes in respect of which such Global Certificate is issued.

### **Notices**

So long as a series of Notes is represented by a Global Certificate and such Global Certificate is held on behalf of Euroclear or Clearstream or any Alternative Clearing System, notices to Noteholders may be given by delivery of the relevant notice to Euroclear or Clearstream or such Alternative Clearing System, for communication by it to entitled accountholders in substitution for notification as required by the Terms and Conditions of the relevant series of Notes.

### **Noteholder’s Redemption**

The Noteholders’ redemption option in Condition 7.4 may be exercised by the holder of the Global Certificate representing a series of Notes giving notice to the Principal Paying Agent or any Transfer Agent of the principal amount of the relevant series of Notes in respect of which the option is exercised within the time limits specified in the Conditions.

**Transfers**

Transfers of interests in a series of Notes will be effected through the records of Euroclear and Clearstream (or any Alternative Clearing System) and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream (or any Alternative Clearing System) and their respective direct and indirect participants.

**Cancellation**

Cancellation of any Note by the Issuer following its redemption or purchase by the Issuer, the Guarantor, the Company or any of their respective Subsidiaries will be effected by reduction in the principal amount of the relevant series of Notes in the relevant register of the Noteholders.

**Meetings**

For the purposes of any meeting of Noteholders, the holder of a series of Notes represented by a Global Certificate shall (unless such Global Certificate represents only one Note) be treated as two persons for the purposes of any quorum requirements of a meeting of Noteholders and as being entitled to one vote for each €1,000 principal amount of the relevant series of Notes so produced or for which he is a proxy or representative.

## **USE OF PROCEEDS**

The Issuer estimates that the net proceeds from this Offering, after deducting underwriting commissions and other estimated expenses payable in connection with the Offering, will be approximately €990 million. The Issuer intends to use the net proceeds from the Offering for refinancing certain indebtedness and general corporate purposes of the Group.

## CAPITALISATION AND INDEBTEDNESS

The following table sets forth the consolidated indebtedness, equity and total capitalisation of the Guarantor as at 30 June 2014:

- on an actual basis;
- as adjusted to give effect to the issuance of EUR1 billion in aggregate principal amount of Notes in this offering, before deducting any fees, commission and expenses in connection with this offering. The translations from EUR to US\$ were made at a rate of EUR1.00 to US\$1.3690, the noon buying rate in effect on 30 June 2014 as set forth in the H.10 weekly statistical release of the Board of Governors of the Federal Reserve System of the United States.

	As at 30 June 2014			
	Actual		As adjusted	
	HK\$	US\$	HK\$	US\$
	(unaudited)		(unaudited)	
	(in millions)			
<b>Borrowings<sup>(1)</sup></b>				
<b>Short-term borrowings</b>				
Interest-bearing borrowings due within				
one year .....	3,765.2	485.8	3,765.2	485.8
<b>Long-term borrowings</b>				
Interest-bearing borrowings .....	36,806.8	4,749.1	36,806.8	4,749.1
Notes to be issued <sup>(2)</sup> .....	—	—	10,554.3	1,369.0
<b>Total borrowings<sup>(3)</sup> .....</b>	<b>40,572.0</b>	<b>5,234.9</b>	<b>51,126.3</b>	<b>6,603.9</b>
<b>Equity</b>				
Issued capital.....	63,421.1	8,183.2	63,421.1	8,183.2
Reserves .....	12,411.8	1,601.5	12,411.8	1,601.5
Exchange fluctuation reserve.....	(2,276.9)	(293.8)	(2,276.9)	(293.8)
Non-controlling interests .....	11,399.0	1,470.8	11,399.0	1,470.8
<b>Total equity .....</b>	<b>84,955.0</b>	<b>10,961.7</b>	<b>84,955.0</b>	<b>10,961.7</b>
<b>Total capitalisation<sup>(4)</sup> .....</b>	<b>121,761.8</b>	<b>15,710.8</b>	<b>132,316.1</b>	<b>17,079.8</b>

Notes:

- (1) The Group entered into loan facilities of EUR1.85 billion in total in connection with its acquisition of its 35% equity interest of CDP RETI in November 2014.
- (2) Refers to the aggregate principal amount of Notes to be issued, before deducting any fees, commission and expenses in connection with the offering of the Notes.
- (3) Total borrowings equal the sum of short-term borrowings and long-term borrowings.
- (4) Total capitalisation equals the sum of long-term borrowings and total equity.

Except as disclosed in this Offering Memorandum, there has been no material adverse change in the Group's capitalisation since 30 June 2014.

## THE HISTORY AND CORPORATE STRUCTURE OF THE GROUP

### History

The Company was founded on 13 May 2003 as part of the Electric Power System Restructuring Plan (the “**Restructuring Plan**”) promulgated by the State Council in March 2002, as a wholly state-owned enterprise directly under the control of Chinese central authorities. It is principally engaged in electricity transmission, distribution and sale. See “*Description of the Parent Group*”.

In 2008, the Guarantor was established as a wholly-owned subsidiary of the Company and was reorganised in 2012 as the sole platform for overseas investments and operations of the Parent Group.

In 2007, a Group-led consortium acquired the concession to operate the Philippine national power grid. After one year’s preparation, NGCP, established by shareholders from China and the Philippines, took over the operation of the Philippine national power grid in January 2009 for 25 years. The Group is the project’s single largest shareholder, holding 40 per cent. of the equity of NGCP, while two Philippine partners each hold 30 per cent.

In 2010, in Brazil, the Group acquired 100 per cent. of the equity interest in seven operating electricity transmission concessionaires and, in 2012, 100 per cent. of the equity interest of another five operating electricity transmission concessionaires. The Group has also selectively explored greenfield projects in Brazil since 2011.

In 2012, the Group acquired 25 per cent. of the equity interest in REN, the only national energy transmission company in Portugal, becoming its largest shareholder.

In 2012, in Australia, the Group acquired 41.11 per cent. of the equity interest in ElectraNet from Powerlink, and increased its shareholding to 46.56 per cent. by completing its acquisition of an additional 5.45 per cent. in shares from Australian fund Unisuper in 2013.

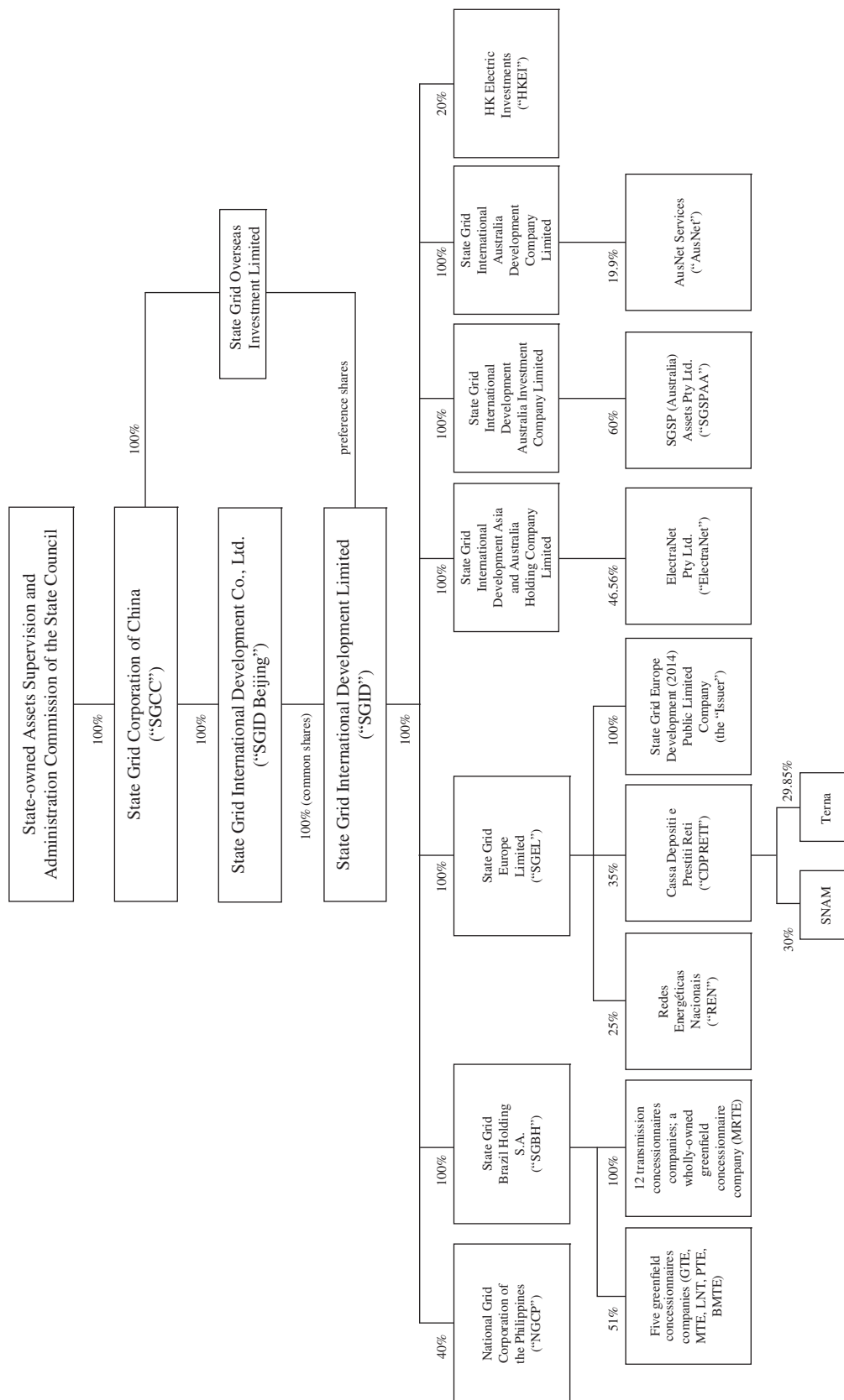
In 2014, the Group acquired 60 per cent. of the equity interest in SPI (Australia) Assets Pty Ltd. (now known as “SGSPAA”) and 19.9 per cent. of the equity interest in SP AusNet (now known as “AusNet”) from Singapore Power.

In 2014, in Hong Kong, the Group subscribed for 18 per cent. of the total issued Stapled Shares Units of HKEI as a cornerstone investor and later increased its shareholding to 20 per cent. through purchases in secondary markets.

In 2014, in Italy, the Group acquired 35 per cent. of the equity interest in CDP RETI from CDP.

## Corporate Structure

The following chart illustrates a simplified shareholding structure and group structure of the Guarantor as at the date of this Offering Memorandum:





## DESCRIPTION OF THE ISSUER

### Formation

The Issuer was incorporated as a public limited company on 20 November 2014 under the laws of the United Kingdom with the registration number 9321332. The registered office of the Issuer is at 20-22 Bedford Row, London, WC1R 4JS, United Kingdom. As at the date of this Offering Memorandum, the Issuer has a total issued share capital of £50,000 in 50,000 ordinary shares of £1 each.

The rights of State Grid Europe Limited as the sole shareholder of the Issuer are contained in the articles of association of the Issuer and the Issuer will be managed in accordance with those articles and the laws of England.

### Business Activities

The Issuer is a wholly-owned subsidiary of the Group. As at the date of this Offering Memorandum, the Issuer has not engaged, since its incorporation, in any material activities other than entering into arrangements for the proposed issue of the Notes and on-lending of the proceeds thereof to the Group. As at the date of this Offering Memorandum, the Issuer has no subsidiaries or employees.

### Directors

The directors of the Issuer as at the date of this Offering Memorandum are Mr. Zhu Guangchao, Mr. Jiang Xiaojun and Mr. Li Hong. The business address of the three directors is 20-22 Bedford Row, London, WC1R 4JS, United Kingdom. There are no potential conflicts of interest between any duties of the Issuer's directors to the Issuer, and their private interests and/or other duties.

As at the date of this Offering Memorandum, the telephone number of the Issuer is +852 2511 6390.

### Financial Statements

As at the date of this Offering Memorandum, the Issuer has no material assets or revenues and has no outstanding borrowings or contingent liabilities other than the issuance of the Notes and therefore, it has not prepared any financial information since its incorporation. As a public limited company under the laws of the United Kingdom, the Issuer is required to prepare annual audited financial reports. As a wholly-owned subsidiary of the Guarantor, the Issuer's financial information will be consolidated into the Guarantor's audited consolidated financial statements.

## **DESCRIPTION OF THE GUARANTOR**

### **Formation**

The Guarantor was incorporated as a limited liability company on 30 October 2007 under the laws of Hong Kong with the registration number 1180249. The registered office of the Guarantor is at Suite 1304, 13F, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong. As at the date of this Offering Memorandum, the Guarantor is authorised to issue 22,779,327,845 ordinary shares of HK\$1.00 each and 41,991,766,478 preference shares of HK\$1.00 each, and the Guarantor has a total issued share capital of HK\$63,421,094,323, consisting of HK\$21,429,327,845 ordinary shares of HK\$1.00 each and HK\$41,991,766,478 preference shares of HK\$1.00 each in issue.

The rights of State Grid International Development Co., Ltd. as the sole ordinary shareholder of the Guarantor are contained in the memorandum and articles of association of the Guarantor and the Guarantor will be managed in accordance with its memorandum and articles of association and with the provision of the laws of Hong Kong.

### **Director**

The sole and executive director of the Guarantor as at the date of this Offering Memorandum is Mr. Zhu Guangchao. The business address of the director is Suite 1304, 13F, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong. There are no potential conflicts of interest between any duties of the Guarantor's director to the Guarantor and his private interests and/or other duties.

As at the date of this Offering Memorandum, the telephone number of the Guarantor is +852 2511 6390.

## DESCRIPTION OF THE GROUP

### Overview

The Guarantor was established as a wholly-owned subsidiary directly supervised by the Company, and is the sole platform for overseas investments and operations of the Parent Group, implementing the Company's globalisation strategy. Benefiting from the Parent Group's advantages on financing, technologies, management and human resources, the Group has achieved significant growth in recent years through acquisitions and investments, with assets in five countries and one region across four continents in the world.

The Group is primarily engaged in the investment and operation of regulated electricity transmission and distribution businesses outside of the PRC, with assets and investments in Australia, Brazil, the Philippines, Portugal, Hong Kong and Italy. It has developed and maintained a balanced asset portfolio in both developed markets and emerging markets diversified across regions. Benefiting from transparent and robust regulatory environments, the Group believes that its operations and investments enjoy stable revenue streams and stable business outlooks.

The electricity and gas transmission businesses the Group operates or invests in do not face direct competition in their respective markets, while most of the electricity and gas distribution businesses the Group operates or invests in face limited competition in their respective markets.

The Group's consolidated business includes SGSPAA and SGBH:

- In Australia, SGSPAA owns electricity distribution, gas transmission and distribution, water and infrastructure service businesses across Australian Capital Territory, New South Wales, Victoria and Queensland.
- In Brazil, SGBH has exclusive concession rights in its electricity transmission operations, mainly in southeast Brazil, which is one of the most developed areas in Brazil.

The Group also derives profits from joint ventures and associates. These include NGCP, ElectraNet, AusNet, REN, HKEI and CDP RETI:

- In the Philippines, NGCP is the sole electricity transmission company. As at 30 June 2014, its power grids covered approximately 87 per cent. of the country by area and served approximately 93 per cent. of the Philippines' population.
- In Australia, ElectraNet builds, owns, operates and maintains the electricity transmission system in South Australia. AusNet owns regulated businesses in electricity transmission, distribution and gas distribution in Victoria, and is responsible for the operation and maintenance of electricity transmission lines in Victoria, power distribution networks in Eastern Victoria, and a gas distribution network in Midwest Victoria.
- In Portugal, REN operates the national power grids and the only national high-pressure gas transmission pipelines in Portugal.
- In Hong Kong, HKEI's business encompasses electricity generation, transmission, distribution and supply to Hong Kong Island and Lamma Island.
- In Italy, CDP RETI holds a 29.85 per cent. equity interest in Terna and a 30 per cent. equity interest in SNAM. Terna is a national electricity transmission company in Italy, operating 98.80 per cent. of Italy's transmission network. SNAM is a national natural gas company in Italy, engaging in regulated businesses such as gas transmission, gas distribution, gas storage and regasification.

The following table sets forth a breakdown of the Group's revenue by business to that is consolidated for the periods specified:

Country	Business name	Equity interest held by the Group	For the year ended 31 December <sup>(1)</sup>						For the six months ended 30 June <sup>(1)</sup>					
			2011		2012		2013			2013		2014		
			HK\$	%	HK\$	%	HK\$	US\$	%	HK\$	%	HK\$	US\$	%
			(in millions, except percentages)											
Australia .....	SGSPAA <sup>(2)</sup>	60%	-	-	-	-	-	-	-	-	-	5,916.3	763.4	81.8%
Brazil .....	SGBH	100%	2,430.0	100.0%	2,164.8	100.0%	2,811.3	362.7	100.0%	1,387.2	100.0%	1,318.6	170.1	18.2%
<b>Total .....</b>			<b>2,430.0</b>	<b>100.0%</b>	<b>2,164.8</b>	<b>100.0%</b>	<b>2,811.3</b>	<b>362.7</b>	<b>100.0%</b>	<b>1,387.2</b>	<b>100.0%</b>	<b>7,234.9</b>	<b>933.5</b>	<b>100.0%</b>

Notes:

- (1) The above figures may not be directly comparable across periods due to acquisitions.
- (2) The Group acquired 60 per cent. of the equity interest in SGSPAA from Singapore Power in January 2014.

The following table sets forth a breakdown of the Group's share of profit of associates and joint ventures by business that is not consolidated for the periods indicated:

Country	Business name	Equity interest held by the Group	For the year ended 31 December <sup>(1)</sup>						For the six months ended 30 June <sup>(1)</sup>					
			2011		2012		2013			2013		2014		
			HK\$	%	HK\$	%	HK\$	US\$	%	HK\$	%	HK\$	US\$	%
			(in millions, except percentages)											
Australia .....	AusNet <sup>(2)</sup>	19.90%	-	-	-	-	-	-	-	-	-	212.7	27.4	15.6
	ElectraNet <sup>(3)</sup>	46.56%	-	-	-	-	314.2	40.5	14.8	152.4	13.5	86.1	11.1	6.3
Philippines .....	NGCP <sup>(4)</sup>	40.00%	1,614.6	100.0	1,531.8	89.5	1,503.7	194.0	70.8	812.4	72.0	726.3	93.7	53.3
Portugal .....	REN <sup>(5)</sup>	25.00%	-	-	180.2	10.5	304.7	39.3	14.4	163.2	14.5	154.9	20.0	11.4
Hong Kong ....	HKEI <sup>(6)</sup>	20.00%	-	-	-	-	-	-	-	-	-	183.7	23.7	13.5
Italy .....	CDP RETI <sup>(7)</sup>	35.00%	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total .....</b>			<b>1,614.6</b>	<b>100.0</b>	<b>1,712.0</b>	<b>100.0</b>	<b>2,122.6</b>	<b>273.8</b>	<b>100.0</b>	<b>1,128.0</b>	<b>100.0</b>	<b>1,363.8</b>	<b>176.0</b>	<b>100.0</b>

Notes:

- (1) The above figures may not be directly comparable across periods due to acquisitions.
- (2) The Group acquired 19.90 per cent. of the equity interest in AusNet from Singapore Power in January 2014.
- (3) The Group acquired 41.11 per cent. of the equity interest in ElectraNet from Queensland-based Powerlink in December 2012, and increased its stake to 46.56 per cent. by completing its acquisition of an additional 5.45 per cent. stake from Australian fund Unisuper in May 2013.
- (4) In December 2007, the Group led a consortium with two Philippine partners to win the bid for the concession over the Philippine national power grid. After one year's preparation, NGCP established by shareholders from China and the Philippines, took over the operation of the Philippine national power grid in January 2009 for 25 years. The Group is the project's single largest shareholder, holding 40.00 per cent. of NGCP, while the two Philippine partners each hold 30.00 per cent.
- (5) The Group acquired 25.00 per cent. of the equity interest in REN in May 2012.
- (6) The Group acquired 18.00 per cent. of the equity interest in HKEI in January 2014, and subsequently increased its stake to 20 per cent. through purchases in secondary markets.
- (7) The Group acquired 35.00 per cent. of the equity interest in CDP RETI in November 2014.

## Competitive Strengths

### *Strong support from the Parent Group and the PRC government*

The Parent Group is the largest utility corporation and the largest power grid corporation in the world, and the largest power grid construction and operation company in China, each measured by revenue in 2013. As the sole overseas investment and operations platform of the Parent Group, the Guarantor has actively invested outside of the PRC with a focus on regulated assets in the power transmission and distribution business, leveraging the collective efforts, technologies, capital, human resources and management of the Parent Group. In particular:

- **Financial support:** the Guarantor has received capital injections from the Parent Group for investment outside of the PRC. In 2012 and March 2013, the Guarantor received capital injections from the Parent Group amounting to HK\$10,255.2 million and HK\$1,874.1 million, respectively, in the form of common shares. In May 2013 and May 2014, the Guarantor received capital injections from the Parent Group amounting to HK\$15,267.8 million (US\$1,969.2 million<sup>(2)</sup>) and HK\$26,724.0 million (US\$3,447.4 million<sup>(2)</sup>), respectively, in the form of preference shares, following the Parent Group's international debt issuances in the amounts of US\$2.0 billion in 2013 and US\$3.5 billion in 2014, respectively. Since 2012, the capital injections by the Parent Group amounted to approximately 70 per cent. of the Group's total investment<sup>(3)</sup> of projects, helping to ensure that the debt-to-assets ratio of the Guarantor does not exceed 60 per cent. In the Parent Group's 2015 budget, an amount of RMB20 billion has been reserved for the investment projects of the Group.
- **Technical support:** the Parent Group also provides comprehensive technical support to the Group, covering the full range of investment, construction and operation of power grids. The Parent Group is one of the international leaders in the research and development of power technologies. Particularly, it has expertise in UHVDC/UHVAC transmission core technologies, which can achieve long-distance and high efficiency power transmission and are therefore more environmentally friendly. The debut application of UHV transmission technology outside of the PRC occurred in February 2014, when the Group successfully bid for the Belo Monte  $\pm 800$  kV UHVDC transmission project in Brazil. In addition, the Parent Group has participated in the trial operation of smart grids and renewable energy projects and various international power industry standards formulating processes. The Parent Group also has design capacity and commercialised operations experience in HVDC/HVAC transmission projects, substantial power equipment research and development, manufacturing resources, and power engineering design and construction capability.
- **Human resources and management support:** the Group benefits from the human capital of the Parent Group, from which the Group can hire experts in specific fields such as UHV transmission, power grid operation and infrastructure management. Through channels such as internal recruitment, transfer, secondment and collaboration, the Parent Group has provided technical and management professionals and expertise to meet the increasing demand of talent necessary for the Group's operations and investment projects. Capitalising on the Parent Group's professional experiences on mega-large power grids in the PRC, the Group has successfully implemented its planning and operation strategies in overseas markets such as the Philippines and Brazil. The Group also benefits from the centralised worldwide procurement platform of the Parent Group, which helps to achieve lower procurement costs and to improve quality.

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Notes:

(2) Exchange rates used are those at the date of capital injection.

(3) Investment refers to the total amount paid for acquisitions of shares of companies not including any capital expenditures.

The Group also receives strong support from the PRC government, including:

- **Policy support:** in the Twelfth Five-Year Plan of the PRC, which sets out the major government policies and strategies for 2011 through 2015, the PRC government has encouraged PRC enterprises to accelerate the “go global” strategies and invest and co-operate in the overseas markets. The PRC government has also promulgated various measures to assist the “go global” strategies, such as simplifying the review and approval process for overseas acquisitions.
- **Financial support:** the Group receives financial support, directly or indirectly, from the PRC government.

For example:

- *Preferential financing:* Chinese policy financial institutions such as China Development Bank and The Export-Import Bank of China have facilitated financing for overseas projects encouraged by the PRC government with preferential interest rates.
- *Government funding:* The central government of the PRC allocates incentives every year to encourage enterprises to implement and accelerate globalisation strategies. SGID Beijing received incentives of approximately RMB98.9 million from the Ministry of Finance and Ministry of Commerce in 2013 after making an application based on the projects of the Group, and incentives of RMB183 million in 2014. The Group believes that these incentives from the government demonstrate the PRC government’s recognition and support of the Group’s operations.

***Favourable investments in regulated utilities with stable revenue streams and strong operations in key power markets***

As the Parent Group’s sole platform for overseas investments and operations, the Guarantor has actively and prudently participated in the international electric and gas network industry as a long term strategic investor. The electricity and gas transmission businesses the Group operates or invests in do not face direct competition in their respective markets, while most of the electricity and gas distribution businesses the Group operates or invests in face limited competition in their respective markets. Most of the Group’s assets benefit from long-term concession agreements with terms ranging between decades and perpetuity. For example:

- **Australia:**
  - SGSPAA owns electricity distribution, gas transmission and distribution, water and infrastructure service businesses across Australian Capital Territory (“ACT”), New South Wales (“NSW”), Victoria and Queensland, and it has perpetual concession rights in its electricity and gas distribution operations in Victoria and NSW. Regulated business contributed to 53.7 per cent. and 61.6 per cent. of the total revenue of SGSPAA in 2013 and the six months ended 30 June 2014, respectively.
  - ElectraNet is the principal electricity transmission network operator and system control operator in South Australia. It has a 200-year concession rights in its transmission assets. ElectraNet builds, owns, operates and maintains the electricity transmission system in South Australia with a regulated asset value of AU\$2,190 million, consisting of 5,591 km of transmission lines with 88 substations as at 30 June 2014. ElectraNet has concession rights in its operations in South Australia until September 2200, and regulated business contributed to 90.0 per cent. and 89.0 per cent. of the total revenue of ElectraNet in 2013 and the six months ended 30 June 2014, respectively.
  - AusNet is listed both on the Australian Securities Exchange and Singapore Exchange Limited. It owns regulated businesses in electricity transmission and distribution and gas distribution in Victoria, and is responsible for the operation and maintenance of electricity transmission lines in Victoria, power distribution networks in Eastern Victoria and a gas distribution network in Midwest Victoria, and it has perpetual concession rights in its operations in Victoria. Regulated business contributed to 87 per cent. of the total revenue of AusNet for the financial year ended 31 March 2014.



- **Brazil:** as at 30 June 2014, in terms of the length of 230 kV and higher voltage or above transmission lines, SGBH was the fourth largest electricity transmission company in Brazil, and had exclusive concession rights in its operations in Brazil, mainly in southeast Brazil, which is one of the most developed areas in Brazil. In 2012 and 2014, SGBH was awarded “Best Company in the Power Industry of Brazil” by the influential Brazilian financial daily newspaper Economic Value, based on its financial results and business performance. The Group acquired seven operating concession companies in 2010 and acquired another five Brazilian transmission concession companies, each with a secured 30-year operating right. Such terms can be extended for 20 years with approval from *Agência Nacional de Energia Elétrica* (“ANEEL”) upon expiry. Regulated business contributed 100.0 per cent. and 100.0 per cent. of the total revenue of SGBH in 2013 and the six months ended 30 June 2014, respectively.
- **The Philippines:** NGCP is the sole electricity transmission company in the Philippines, and its operating concession rights cover a large part of the country. As at 30 June 2014, its power grids covered approximately 87 per cent. of the country by area and served approximately 93 per cent. of the Philippines’ population. NGCP has an operating concession of 25 years starting from 2009. The term of the operating concession can be extended for another 25 years when it expires in 2034. Regulated business contributed to 99.8 per cent. and 99.8 per cent. of the total revenue of NGCP in 2013 and the six months ended 30 June 2014, respectively.
- **Portugal:** the Group is the single largest shareholder of REN, which is the sole national energy transmission company in Portugal. REN has an operating concession right of 50 years from 2007 for the national power grids in Portugal, and an operating concession right of 40 years from 2006 for the only national high-pressure gas transmission pipelines in Portugal. Regulated business contributed to 93 per cent. and 91 per cent. of the total revenue of REN in 2013 and the six months ended 30 June 2014, respectively.
- **Hong Kong:** HKEI’s principal operating entity is The Hongkong Electric Company Limited (“HEC”), a wholly-owned subsidiary of HKEI. HEC was established in 1889. Its business encompasses electricity generation, transmission, distribution and supply to Hong Kong Island and Lamma Island. HEC is the sole electricity provider to Hong Kong Island and Lamma Island. HEC is subject to a scheme of control agreement (“SCA”) entered into with the Hong Kong government, with the current agreement expiring on 31 December 2018 with an option for the Hong Kong government to extend it for a further term of five years ending on 31 December 2023 and the right for HEC to earn the current permitted return between 2019 and 2023 if the Hong Kong government does not exercise such option.
- **Italy:** CDP RETI holds a 29.85 per cent. equity interest in Terna and a 30 per cent. equity interest in SNAM. Terna is a national electricity transmission company in Italy, operating 98.80 per cent. of Italy’s transmission network. In terms of the length of electricity lines managed, the Group believes that Terna ranks the first among independent operators in Europe and the sixth in the world. SNAM is a national natural gas company in Italy, engaging in regulated business such as gas transmission, gas distribution, gas storage and regasification. Terna has obtained operating concession rights until 2030 in Italy, which is renewable for another 25 years upon expiration. In 2013 and the six months ended 30 June 2014, regulated business contributed to 96.63 per cent. and 94.59 per cent. of the total revenue of Terna respectively, and 99.01 per cent. and 98.09 per cent. of the total revenue of SNAM, respectively.

***Stable business outlook underpinned by transparent and robust regulatory frameworks***

The electric and gas network industry is generally highly regulated in relation to, among others, the generation, transmission, distribution, supply and tariff setting of power. The Group believes that operating in a transparent and robust regulatory environment is essential to the Group’s continued strategic planning and to achieving limited disruptions and foreseeable profitability. The Group believes that all of the countries the Group invests in have transparent and well established regulatory environments. Long-term concession agreements, transparent revenue calculation methodologies and robust regulatory structures all help to improve the stability of the Group’s business. In particular,

- **Australia:** under the Australian regulatory framework, there are upfront revenue or tariff caps and a long-term, transparent revenue calculation methodology which provide significant revenue and

cash flow visibility over the regulatory period. The regulatory process is also highly structured and visible with a clear review standard provided by the regulatory authority. The strong regulatory framework provides certainty of enforcement of revenue obligations, minimising risk. In addition, SGSPAA, ElectraNet and AusNet do not face direct competition for their regulated power transmission or distribution as well as gas distribution businesses.

- **Brazil:** under the Brazilian regulatory framework, permitted annual revenue is decided upfront with a transparent revenue amendment policy, which provides significant revenue and cash flow certainty and visibility over the long term.
- **The Philippines:** under the Philippine regulatory framework, revenue caps and the annual revenue requirement (“ARR”) are determined upfront with a long-term, transparent revenue calculation methodology. The ARR can be adjusted annually to reflect changes in operating and macroeconomic conditions. This provides significant revenue and cash flow visibility over the regulatory period. In addition, NGCP does not face direct competition for electricity transmission.
- **Portugal:** Under the Portuguese regulatory framework, the permissible revenue of REN’s electricity business and natural gas business is clearly set with predetermined calculation methods, taking into consideration factors such as RAB, RoR, depreciation, operating costs and adjustments based on previous pricing. In addition, REN does not face direct competition for electricity and gas transmission.
- **Hong Kong:** Under the Hong Kong regulatory framework, all of HEC’s business is regulated under a well-established and transparent scheme of control regime. Scheme of control regimes tend to have a longer period and higher rate of return compared with regulatory systems in other developed areas, helping HEC to continue earning favourable permitted returns.
- **Italy:** Under the Italian regulatory framework, the concession period for Terna’s electricity transmission business is 25 years and can be extended for another 25 years, while for SNAM’s gas distribution business, the concession period is between 12 to 20 years. Terna and SNAM do not face direct competition to their businesses.

#### ***Balanced asset portfolio diversified across regions***

The Group has assets in five countries and one region across four continents. The Group first entered the international electric and gas network industry through investments in emerging markets. It then developed a focus on mature assets characterised by favourable growth prospects, stable regulatory environment and controllable business risks. As at 31 December 2011, the Group had 53 per cent. and 47 per cent. of its assets in South America and Asia, respectively, and with 50 per cent. and 50 per cent. of its adjusted cash flows from operations<sup>(4)</sup> deriving from companies in these regions, respectively, and with 44 per cent. and 56 per cent. of its profit before tax deriving from companies in these regions, respectively, during the year ended 31 December 2011. As at 30 June 2014, the Group had 57 per cent., 19 per cent., 21 per cent. and 3 per cent. of its assets in Oceania, South America, Asia and Europe, respectively, and with 62 per cent., 16 per cent., 16 per cent. and 6 per cent. of its adjusted cash flows from operations<sup>(4)</sup> deriving from companies in these regions, respectively, and with 29 per cent., 30 per cent., 37 per cent. and 4 per cent. of its profit before tax deriving from companies in these regions, respectively, during the six months ended 30 June 2014. In 2013, the average dividend distribution rate for the Group’s projects in Brazil, the Philippines and Portugal was 89 per cent. In addition, the Group completed its acquisition of an equity interest in CDP RETI in November 2014. The Group believes that geographical diversification of its assets helps to limit the risks of its business while generating growth prospects.

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Note:

- (4) Adjusted cash flows from operations equal cash flows from operations plus dividends received from associates and available-for-sale investments.

### ***Proven financial track record***

The Group believes that it has maintained a strong financial position with stable earnings and cash flows from its operations. In 2011, 2012, and for the six months ended 30 June 2014, the Group's FFO/net debt ratio was 24.4 per cent., 16.3 per cent. and 13.8 per cent., respectively. In 2013, the Group recorded net cash. As of 31 December 2011, 31 December 2012, 31 December 2013, and 30 June 2014, the Group's total debt/total capital ratio was 58.1 per cent., 46.8 per cent., 35.3 per cent. and 32.3 per cent., respectively. For more details in relation to the financial ratios, see "*Summary Consolidated Financial Data of the Guarantor*".

### ***Experienced management team and highly qualified employees***

The Guarantor's management team consists of seasoned executives, each with an average of approximately 20 years of professional experience in the energy infrastructure industry. The Group also benefits from its strong overseas management teams, which are experienced in the energy infrastructure industry of their respective country. The capability of the management teams has been demonstrated by the strong track record of the Group's operational and financial performance.

The management team is supported by highly skilled and experienced employees with strong technical backgrounds and high levels of qualification and training. As at 30 June 2014, the average age of the Guarantor's employees was less than 38 with 92.9 per cent. of them having bachelor's degrees or higher, 55.4 per cent of them having master's degrees or higher, and 29 per cent. of them having been educated overseas.

The Guarantor believes that its experienced management team supported by highly skilled employees will continue to contribute to its future growth.

### ***Increasingly diversified funding channels***

The Group's funding channels have become increasingly diversified. Historically, the Group relied on the Parent Group's financial support and bank loans. As the Group achieved significant growth in recent years, it has also broadened its funding channels to include capital injections from the Parent Group, bank loans, international bond issuances and U.S. private placements with a mix of short-term and long-term tenors. As at 30 June 2014, the proportions of the Group's debt which would mature in one year, between two and five years, and after five years amounted to 9.3 per cent., 52.8 per cent., and 37.9 per cent., respectively, of its total debt, and the proportions of the Group's debt in Australian dollars, Brazilian real and U.S. dollars amounted to 80.8 per cent., 6.6 per cent., and 12.6 per cent., respectively, of its total debt.

In addition, the Group has demonstrated its ability to finance in both loan markets and bond markets in different currencies, including in U.S. dollars, British pounds, euros, Brazilian real and Australian dollars. For example, SGSPAA issued euro-denominated bonds with a principal amount of EUR500 million, a term of eight years and a coupon of 2 per cent. per annum, on 20 June 2014, and ElectraNet has been an active participant in U.S. private placement market.

Furthermore, the Group's increasingly diversified funding channels also reflect sophistication of using different forms of financing not only to achieve competitive costs but also to manage exchange rate risks. A primary tool for managing exchange rate risks is using local currency financing for acquisitions and investments. For instance, to fund its investment in HKEI in January 2014, the Group entered into a HK\$8.55 billion bridge loan. Similarly, to finance its acquisition of an equity interest in CDP RETI in November 2014, the Group entered into loan facilities with international lenders totalling EUR1.85 billion.

## **Business Strategies**

As the sole overseas investment and operation platform of the Parent Group, the Group aims to leverage the expertise and support of the Parent Group to develop and enter international markets as a strategic investor, with a focus on the regulated energy and power industry and with an aim to maintain stable operations and improve management of its multi-national operations, in order to deliver excellent services to electricity users, to execute the PRC government's "going global" strategy, and to contribute to the Parent Group's vision of building "world-class power grids and a world-class enterprise". To achieve these goals, the Group has the following major business strategies:

### ***Prudent investment strategies***

The Group plans to focus on regulated energy and power assets with stable returns, adequate cash flows and risks suitable for the Group's risk appetite. The Group plans to maintain a balanced asset portfolio with an appropriate mix of investments in operational assets and greenfield projects in order to maintain stable profitability and return on investment.

### ***Clear market strategies***

The Group plans to continue identifying and selecting markets based on clear standards. In mature markets such as Europe, North America and Oceania, the Group plans to actively develop and invest in high-quality existing regulated electric network assets. In emerging markets such as South America and Asia, the Group aims to selectively participate in significant national-level power infrastructure construction and operation projects.

### ***Differentiated management strategies***

The Group plans to maintain differentiated management strategies depending on the level of its equity interest in the entities. For wholly-owned subsidiaries, the Guarantor plans to exert full control by appointing management from the Guarantor, while implementing a localised operational strategy in accordance with local market standards. For non-wholly-owned consolidated subsidiaries, the Guarantor, as the majority shareholder, aims to control key decisions in accordance with relevant corporate governance structures and play a leading role through appointing directors and senior management from the Guarantor. For joint ventures and associates, the Guarantor aims to actively exercise its shareholder rights as a strategic investor and to actively engage in the operations of the company in accordance with relevant corporate governance structures.

## **Long-term Development Plan**

The Group has a three-stage long-term development plan:

- ***Stage One*** – the initial development stage from 2006 to 2010, which set the base for the Group's overseas development;
- ***Stage Two*** – the accelerated development stage from 2011 to 2015, which focuses on rationalising the Group's international investments, efficiency, professionalism, improvement of the structure and management of its international business, improvement of the risk and safety management of its overseas operations, and breakthroughs in exporting the UHV and smart grid technologies of the Parent Group;
- ***Stage Three*** – the prudent growth stage, from 2016 to 2020, which aims to enable the Group to become a stable source of income and a substantial part of the revenue income and assets base of the Parent Group, with increased power and credibility in the international power industry.

## Business Activities

### *Operations*

As the sole overseas investment and operation platform of the Company, the Guarantor has leveraged the Company's strengths in grid operation, management, technology, human resources, capital and brand name to actively explore the international market for investment opportunities. The Group has operations or investments in Australia, Brazil, the Philippines, Portugal, Hong Kong and Italy as at the date of this Offering Memorandum.



The Group is primarily engaged in electricity transmission and distribution businesses outside the PRC. The Group is also engaged in other businesses such as gas transmission and distribution.

### *Electricity Transmission*

Electricity transmission networks transport electricity from generators to distribution networks, which in turn transport electricity to customers. In a few cases, large businesses such as aluminium smelters are directly connected to the transmission network. A transmission network consists of towers and the wires that run between them, underground cables, transformers, switching equipment, reactive power devices, and monitoring and telecommunications equipment.

### *Electricity Distribution*

Electricity distribution networks move electricity from the transmission network to residential and business electricity customers. A distribution network consists of low-voltage substations, transformers, switching equipment, monitoring and signalling equipment and the poles, underground channels and wires that carry electricity.

### *Gas Transmission*

High-pressure transmission pipelines are used to transport natural gas over long distances. They are mainly placed underground which helps to prevent damage that could interrupt gas supplies. Some large industrial customers are directly connected to the transmission network.

### *Gas Distribution*

A network of distribution pipelines are used to deliver gas at lower pressure from points along the transmission pipelines to the end consumer. Gate stations link transmission pipelines with distribution networks. The gate stations measure the natural gas leaving a transmission system for billing purposes and reduce the pressure of the gas before it enters the distribution network.



## SGSPAA

### Overview

In January 2014, the Group completed the acquisition of a 60 per cent. equity interest in SGSPAA; the remaining 40 per cent. equity interest is held by Singapore Power. It provides gas and power distribution and infrastructure services in the ACT, NSW, Victoria and Queensland, Australia.

SGSPAA comprises two distinct operating businesses: an assets business and a services business.

SGSPAA's assets business owns or has an interest in a portfolio of network businesses in Australia's energy distribution sector. SGSPAA's assets business trades as "Jemena". Jemena is an investor in a portfolio of assets which is diversified in terms of geography, fuel and markets. The portfolio is actively managed so that any potential fluctuations in specific assets need not affect the overall annual returns from the portfolio of assets. This is achieved with effective forecasting, risk management tailored on an asset basis, and a strong awareness of the business environment.

Jemena is complemented by a services business that provides services to companies within Jemena and to third parties. The services business focuses on engineering, design and construction, as well as field-based maintenance and operational services across gas, electricity and water assets. The services business trades as "Zinfra" and whilst it is 100 per cent. owned by SGSPAA, it is managed and operated separately from Jemena.

### Jemena's Assets Business

Jemena owns or has an interest in a portfolio of network businesses in Australia's energy distribution sector (as summarised below). To complement this ownership, Jemena provides strategic asset management services in order to optimise operating and capital expenditure (including, for example, by preparing capital and maintenance plans to ensure asset integrity and performance and minimise operating risk). Jemena also develops new assets (from feasibility through to commissioning). Jemena is also responsible for ensuring SGSPAA responds appropriately to ongoing asset ownership industry, legislative, and environmental requirements.

### Distribution Assets

The following table sets out details of SGSPAA's major regulated distribution assets as at 30 June 2014:

Name	Location	Length	Regulatory Asset Base		Remaining concession period
			AU\$	US\$ <sup>(1)</sup>	
		(km)	(in millions)		
Jemena Electricity Network .....	Victoria	6,200	1,208	1,138.8	Perpetual
Jemena Gas Network.....	NSW	25,693	2,801	2,640.5	Perpetual
United Electricity Distribution .....	Victoria	13,000	2,150	2,026.8	Perpetual
ActewAGL Electricity .....	ACT	5,100	850	801.3	Perpetual
ActewAGL Gas .....	ACT	4,800	340	320.5	Perpetual
<b>Total .....</b>		<b>54,793</b>	<b>7,349</b>	<b>6,927.9</b>	

Note:

- (1) The translations from AU\$ into US\$ were made at the rate of AU\$1.00 to US\$0.9427, the noon buying rate in effect on 30 June 2014 as set forth in the H.10 weekly statistical release of the Board of Governors of the Federal Reserve System of the United States.



The Group believes that the distribution network of SGSPAA operates in good condition, with asset maintenance standards helping to ensure the normal operation of equipment and to achieve increasing operating and maintenance performance.

(a) Jemena Gas Networks (“**JGN**”)

JGN is a gas distribution network in NSW, established in 1837. JGN typically delivers 95 to 100 petajoules (“**PJ**”) per annum of natural gas to more than 1.1 million homes and businesses across NSW.

(b) Jemena Electricity Networks (“**JEN**”)

JEN owns one of the five licenced electricity distribution networks in Victoria which supplies electricity to more than 319,000 homes and businesses. The network services 950 square km of northwest greater Melbourne.

(c) ActewAGL Distribution Partnership (“**ActewAGL**”)

ActewAGL owns, plans, develops, constructs, operates and maintains the electricity network in the ACT and the gas networks in the ACT, and in Queanbeyan and Nowra in NSW. Jemena has a 50 per cent. interest in ActewAGL, the remaining 50 per cent. of the partnership is owned by ACTEW Distribution Limited, a subsidiary of ACTEW Corporation Limited. ACTEW Corporation Limited is an ACT government-owned company with assets and investments in water, wastewater, electricity and gas.

(d) United Energy Distribution Network (“**UED**”)

SGSPAA holds a 34 per cent. shareholding in UED, which distributes electricity throughout south east Melbourne and the Mornington Peninsula in Victoria. The network covers approximately 1,472 square km. The remaining 66 per cent. of UED is held by the DUET Group which is listed on the Australian Securities Exchange.

*Transmission Assets*

(a) Eastern Gas Pipeline (“**EGP**”)

EGP transports gas 797 km from the Gippsland Basin in Victoria to Sydney and regional centres and has a current capacity of approximately 106 PJ of gas per annum. The carrying value of EGP’s gas transmission assets as at 30 June 2014 was AU\$1,302 million.

(b) Queensland Gas Pipeline (“**QGP**”)

The QGP transports gas 627 km from the Surat and Bowen Basins and the Rolleston and Westgrove gas fields to Gladstone and Rockhampton in Queensland. Its current capacity is approximately 52 PJ of gas per annum. The carrying value of QGP’s gas transmission assets as at 30 June 2014 was AU\$227 million.

(c) VicHub Interconnect Facility (“**VicHub**”)

VicHub is a pipeline interconnect situated at Longford, Victoria. The facility, commissioned in January 2003, enables gas to flow between the EGP, Tasmanian Gas Pipeline (“**TGP**”) and Australian Pipeline Group’s (“**APA**”) Victorian gas transmission system. The facility has a nominal daily injection capacity of 150 terajoules (“**TJ**”) per day and a withdrawal capacity of 135 TJ per day.

(d) Colongra Gas Transmission and Storage Facility (“**Colongra**”)

Colongra is a 9 km, high-pressure gas transmission and storage pipeline delivering gas to the NSW government’s Delta Electricity (“**Delta**”) peaking power station at Munmorah, NSW.

Other assets

(a) AquaNet Recycled Water Network Sydney (“AquaNet”)

AquaNet is a recycled water treatment facility with a 20 km network capable of delivering up to 20 million litres per day of high quality recycled water to industrial and irrigation customers.

Zinfra

Jemena is complemented by Zinfra, which provides services to companies within Jemena and to third parties.

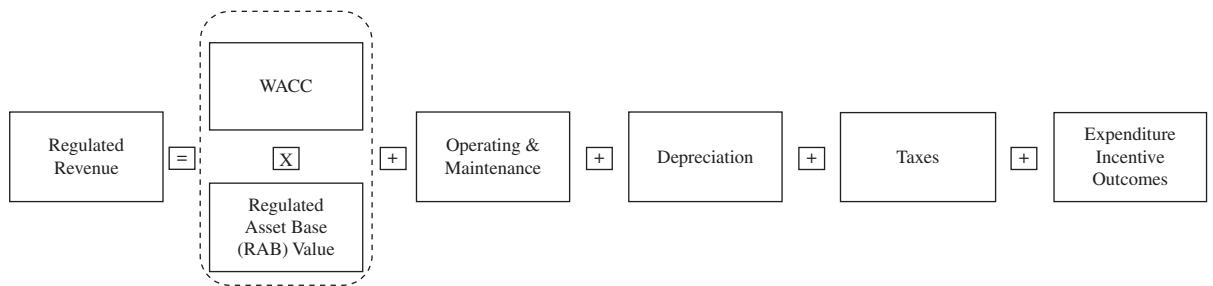
Zinfra focuses on delivering engineering, design and construction as well as field-based maintenance and operational services across gas, electricity and water assets and adjacent markets. Zinfra delivers services under contractual arrangements with asset-owning clients and developers including Jemena. These services range from multi-year contracts for a full suite of control room, construction and maintenance services, to single contracts for either construction and/or maintenance services. Services are provided across a range of assets including regulated and non-regulated electricity, water, gas distribution networks and gas transmission pipelines, as well as adjacent markets such as mining and gas production within Australia.

Economic Regulation

The economic regulation of Jemena’s gas and electricity network is overseen by the Australian Energy Regulator (“AER”). All of Jemena’s network assets are subject to regular regulatory determinations in relation to prices that in turn determine revenue able to be recovered for core services. These determinations are generally for five-year periods. This does not apply to Jemena’s pipeline transmission assets QGP, VicHub, EGP and Colongra, or Jemena’s recycled water operations.

As at the date of this Offering Memorandum, the nominal RoR is 10.43 per cent. for Jemena’s gas distribution business, and 10.33 per cent. for Jemena’s electricity distribution business. The following diagram depicts the building block methodology applicable to regulatory resets.

Regulated Revenue



Note: Expenditure Incentive Outcomes currently only apply to Jemena’s electricity distribution business

Electricity Transmission and Distribution

In the case of electricity transmission and distribution, each regulated business makes submissions to the regulator prior to commencement of the new regulatory period regarding its expected capital and operating programmes and associated costs over the period, network performance and other matters. The regulator makes a draft determination seeking comments from the business and other interested parties and then makes a final determination. This final determination is subject to limited appeal rights.

Revenue for prescribed services is regulated under a price or revenue cap regime, with network prices determined under an incentive-based framework. The AER uses a building block approach which provides for a target revenue stream that is designed to cover ongoing operations and maintenance costs, depreciation and a return on assets, calculated by reference to a benchmark-weighted average cost of capital (“WACC”), applicable to an efficient business. Network charges derived using the building block approach are smoothed over the five-year regulatory period to minimise any price volatility for end customers, except for the electricity transmission business of AusNet, whose regulatory period is currently three years.

The regime offers entities the opportunity to realise and capture the benefits of some efficiency gains in the short term. The price cap methodology applied to electricity distribution businesses exposes them to some revenue fluctuations as a consequence of volatility in demand. These entities retain the risk of operating costs exceeding the regulatory allowance.

On 7 February 2009, Victoria experienced catastrophic bushfires that resulted in substantial loss of life and property. Following that event, the Victorian Parliament passed legislation to provide for the Fire Factor Scheme (“**F-Factor Scheme**”) to help reduce the risk of electricity distribution assets starting bushfires. The F-Factor Scheme provides incentives for Victorian electricity distributors to reduce the risk of fire starts and to reduce the risk of loss or damage caused by fire starts by rewarding or penalising them for performing better or worse than their respective fire start targets under the F-Factor Scheme. The targets will be reviewed as part of the next regulatory price determination.

The service target performance incentive scheme (“**STPIS**”) provides financial incentives for electricity distribution businesses to maintain and improve service performance. The STPIS establishes performance targets based on historical performance, and provides financial rewards for electricity distributors exceeding performance and financial penalties for failing to meet the targets. The STPIS has two components, the service term (“**S-factor**”) and the Guaranteed Service Level scheme (“**GSL**”). The S-factor component adjusts the revenue that a distributor earns depending on reliability of supply and customer service performance. The GSL sets threshold levels of service for distributors to achieve, and requires direct payments to customers who experience service worse than the predetermined level.

#### *Gas Transmission and Distribution*

In the case of gas distribution, each regulated business proposes an “access arrangement” pursuant to the National Gas Rules (“**NGR**”). This is considered by the regulator, which either accepts the proposed access arrangement or proposes amendments. Regulatory determinations are subject to limited rights of appeal, which are the same as those granted with respect to electricity determination.

In the case of gas transmission, the EGP, QGP, Vichub and Colongra are not “covered” pipelines, which means that they do not have to submit access arrangements and are not subject to price regulation.

However, the EGP, QGP and Vichub have adopted non-discriminatory access policies and are committed to the provision of voluntary, non-discriminatory pipeline access to third parties in accordance with those policies, which provide that all customers have equal access to a publicly available given tariff.

### **SGBH**

#### *Overview*

SGBH is a wholly-owned subsidiary of the Guarantor in Brazil. In December 2010, SGBH acquired 100 per cent. equity interests in seven Brazilian transmission concession companies, each with a secured 30-year operating right. The assets in these companies at the time of acquisition included sixteen 500 kV transmission lines with a total length of 3,173 km, six 500 kV substations, two 500 kV switching stations and one 345 kV substation.

In December 2011, SGBH led a consortium with local companies in Brazil to win the bids for A and B sections of Teles Pires hydropower transmission, the G section of No. 7 electricity transmission concession in Brazil in 2012, and expansion projects of the 500 kV Louisiana substation and the P section of No. 7 electricity transmission concession in Brazil in 2013. Some of the substations and transmission lines in the above greenfield projects can share the transmission corridors with existing transmission and transformation assets of SGBH, which the Group believes will generate synergies. These projects are currently under construction.

In 2012, the Group acquired another five Brazilian transmission concession companies, each with a secured 30-year operating right. In 2012 and 2014, SGBH was awarded “Best Company in the Power Industry of Brazil” by the influential Brazilian financial daily newspaper Economic Value based on its financial results and business performance. In 2013, SGBH accomplished all performance assessment targets set by ANEEL, and its actual equipment availability rate reached 99.95 per cent.

In addition, the Group has set up a joint venture with Electrobras SA, a state-owned power company in Brazil, which won the bid for the Belo Monte  $\pm 800$  kV UHVDC transmission project. This is the first UHVDC transmission project overseas that the Group has won, and the first overseas UHVDC transmission project that Chinese enterprises participated into the operation of the hydropower station. The project stretches across four states in Brazil with  $\pm 800$  kV DC transmission lines of 2,092 km and two  $\pm 800$  kV converter stations. The Group owns a 51 per cent. equity interest in the joint venture. The construction period is expected to be 46 months and the concession term is for 30 years.

### Major Assets

The table below sets forth details of SGBH's major assets as at 30 June 2014:

Name	Location <sup>(1)</sup>	Length (km)	Regulatory Asset Base		Start of concession	End of concession
			BRL	US\$ <sup>(2)</sup>		
			(in millions)			
ETEE.....	MG/DF	580	348.5	158.2	December 2002	December 2032
ETIM.....	MG/DF	212	173.9	78.9	June 2004	June 2034
IrTE.....	GO/MT	814	752.3	341.5	November 2006	November 2036
PCTE.....	MG/SP	308	356.4	161.8	August 2009	August 2039
RPTE.....	GO/MG/SP	413	271.0	123.0	April 2009	April 2039
SMTE.....	GO/MG/DF	681	628.3	285.2	February 2008	February 2038
SPTE.....	MG	246	282.5	128.2	April 2009	April 2039
PPTE.....	MS	492	338.2	153.5	March 2005	March 2035
LTI.....	MS	1,041	621.2	282.0	April 2009	April 2039
ITE.....	PI/CE	400	308.7	140.1	March 2008	March 2038
CTE.....	MT/GO	606	521.9	236.9	February 2009	February 2039
ATE.....	SP	60	255.2	115.8	February 2009	February 2039
<b>Total .....</b>		<b>5,853.0</b>	<b>4,858.1</b>	<b>2,205.2</b>		

Notes:

- (1) These locations are all located in Brazil. MG refers to Minas Gerais, DF to Distrito Federal, GO to Goias, MT to Mato Grosso, SP to Sao Paulo, MS to Mato Grosso do Sul, PI to Piaui and CE to Ceara.
- (2) The translations from BRL into US\$ were made at the rate of BRL2.2030 to US\$1.00, the noon buying rate in effect on 30 June 2014 as set forth in the H.10 weekly statistical release of the Board of Governors of the Federal Reserve System of the United States.

### Economic Regulation

SGBH is subject to economic regulation which is overseen by ANEEL. The regulatory framework on the electricity transmission and distribution business in Brazil is based on the open bid regime of the 30-year concession agreement with the government. Such concession agreement will grant the electricity-related rights in a specified region to a concessionaire for 30 years, and the regulatory term extends to the end of the concession period. The bidder who provides the lowest allowed yearly revenue, *Receita Anual Permitida* (“RAP”), wins the concession agreement in the open bid. The RAP provided by the winning bidder must reflect its operating and financial capacity, efficiency and its required return ratios.

ANEEL considers the RAP provided by the winning bidder in determining the regulatory RAP, which is the aggregation of the expected free cash flow, tax, expenses and capital cost. The tax and expenses include operating and maintenance costs, operating expenses and taxes, amortisation and corporate income tax. The RAP will be adjusted on a yearly basis to reflect the aggregate changes in inflation using the methods determined in the concession agreement.

The concessionaire has the right to apply for an extension of the concession period no later than three years before the end of its concession period with ANEEL, which must decide on the extension application no later than 18 months before the end of the concession period. If the application for the extension of the concession period is granted, the economic terms in the original concession agreement, including the RAP, will be adjusted accordingly to ensure the economic and financial balance of the concession right.

Under the open bid regime, the revenue of the bid winner, which is also the regulated entity, is independent of its electricity transmission and distribution capacity, but depends on the agreed revenue between the regulated entity and the federal government in the concession agreement.

## NGCP

### Overview

In December 2007, the Group, leading a consortium with two Philippine partners, won the bid for the concession over the Philippine national power grid. After one year's preparation, NGCP, established by shareholders from China and the Philippines, took over the operation of the Philippine national power grid in January 2009 for 25 years. The Group is the project's single largest shareholder, holding 40 per cent. of NGCP, while two Philippine partners each hold 30 per cent. As at 30 June 2014, NGCP's power grids covered approximately 87 per cent. of the country by area and approximately 93 per cent. of its population.

The performance of the Philippine national power grid has improved since NGCP took over its operation in 2009. According to Performance Incentive Scheme ("PIS") data issued by the Energy Regulatory Commission ("ERC"), from 2008 to 2014 the Frequency of Tripping ("FOT") per 100 km in Luzon, Visayas and Mindanao dropped from 4.27 per cent. to 1.77 per cent., 3.63 per cent. to 0.33 per cent. and 2.62 per cent. to 1.55 per cent., respectively.

In 2014, NGCP received awards in 12 out of 16 aspects reviewed by the ERC.

### Major Assets

The following table sets forth details of the assets managed by NGCP as at 30 June 2014:

Name	Location	Length (km)	Regulatory Asset Base		Start of concession	End of concession
			PHP	US\$ <sup>(1)</sup>		
			(in millions)			
Luzon .....	Luzon	9,439	— <sup>(2)</sup>	— <sup>(2)</sup>	January 2009	January 2034
Visayas .....	Visayas	4,840	— <sup>(2)</sup>	— <sup>(2)</sup>	January 2009	January 2034
Mindanao .....	Mindanao	5,146	— <sup>(2)</sup>	— <sup>(2)</sup>	January 2009	January 2034
<b>Total .....</b>		<b>19,425</b>	<b>191,505</b>	<b>4,374.3</b>		

Notes:

(1) The translations from PHP into US\$ were made at the rate of PHP43.78 to US\$1.00, the rate on 30 June 2014 set forth in the Reference Exchange Rate Bulletin on the website of the Bangko Sentral ng Pilipinas, the central bank of the Republic of the Philippines.

(2) The sum of the RAB was PHP191,505 million as at 30 June 2014.

### Economic Regulation

NGCP is the sole electricity transmission operator in the Philippines. It is in charge of the operation, maintenance, expansion and reinforcement of the electricity transmission system, and has been vested the concession right for 25 years with an option to extend for a further 25 years. Under the Rules for Setting Transmission Wheeling Rates for 2003 to around 2027 ("RTWR"), which was promulgated by ERC, NGCP's electricity transmission business is subject to a Performance Based Regulation (the "PBR") which is overseen by the ERC.

Under the RTWR, every five-year period is a regulatory term. The ERC determines the Annual Revenue Requirement ("ARR") of the term prior to commencement of the new regulatory term, taking into consideration operating expenses, taxes, depreciation and capital returns. During the regulatory term, the ERC will also determine a maximum allowed revenue ("MAR") that the regulated entities will be able to recover to the largest extent, considering factors such as inflation rate compared with the previous year, the exchange rate fluctuation between PHP and USD compared with the previous year, the balance of the previous year's revenue, taxes resulting from the balance of the previous year's revenue, rewards from the operating performance of the grid and other efficiency factors. During the regulatory term, the ERC will evaluate whether the performance of the regulated entity meets the established standard and reward or punish accordingly. Such reward or punishment will not exceed the current regulatory term. As at the date of this Offering Memorandum, the nominal RoR for NGCP's electricity transmission business is 15.04 per cent.

Under the PBR regime, cost increase which is due to *force majeure* or changes of tax policy will be correspondingly compensated.

## HKEI

In January 2014, the Group subscribed for and was allotted 18 per cent. of the share stapled units in HK Electric Investments, a trust under the laws of Hong Kong, in its initial public offering on the main board of the HKSE. Through such subscription, the Group became the beneficial owner of an 18 per cent. equity interest in HK Electric Investments Limited, which wholly-owns HEC. The Group later increased its shareholding in HKEI to 20 per cent. through purchases in secondary markets. HKEI was incorporated in Hong Kong in 1889 and is the sole electricity supplier for Hong Kong Island and Lamma Island of Hong Kong, providing power generation, transmission, distribution and sales services. HEC's vertically integrated operations are regulated under the SCA entered into between HEC and the Hong Kong government. The current SCA has a term of 10 years, ending on 31 December 2018. The Hong Kong government is able to extend the term of the SCA for another five years, which decision needs to be made by 1 January 2016. If such extension is not granted by the Hong Kong government, HEC is entitled to continue to generate profits from its assets under the SCA at the amount existing on 1 January 2019, at the permitted rate of return on average net fixed assets as agreed in the SCA for the five years from 2019 to 2023. The Group believes that HKEI's facilities and systems operate at the highest international level, with an electricity supply reliability rating of over 99.999 per cent. since 1997.

The table below sets out HEC's major assets as at 30 June 2014:

Name	Location	Installed capacity	Length	Regulatory Asset Base		Remaining concession period
				HK\$( <sup>(1)</sup> )	US\$	
		(MW)	(km)	(in millions)		
Electricity generation .....	Po Lo Tsui on Lamma Island	3,737	—	—	—	Until 31 December 2018 under the current SCA
Electricity transmission.....	Hong Kong Island and Lamma Island	—	458	— <sup>(2)</sup>	—	
Electricity distribution .....	Hong Kong Island and Lamma Island	—	5,589	— <sup>(2)</sup>	—	
<b>Total .....</b>		<b>3,737</b>	<b>6,047</b>	<b>71,474</b>	<b>9,222.2</b>	

Notes:

- (1) The translations from HK\$ to US\$ were made at a rate of HK\$7.7502 to US\$1.00, the noon buying rate in effect on 30 June 2014 as set forth in the H.10 weekly statistical release of the Board of Governors of the Federal Reserve System of the United States.
- (2) The sum of the RAB as at 30 June 2014 was HK\$71,474 million.

The SCA regulates the tariffs that can be charged to customers by providing for a permitted return for each year during the term of the SCA. In addition, all operational expenses, including fuel expenses, can be transferred to customers for payments once approved by the government. As at the date of this Offering Memorandum, the nominal RoR for HEC is 11 per cent. for renewable resources and 9.99 per cent. for non-renewable resources.

## AusNet

In January 2014, the Group completed the acquisition of a 19.9 per cent. stake in AusNet. AusNet is listed in Australia and Singapore and is held as to 49 per cent. by the public and as to 31.1 per cent. by Singapore Power. It owns and is responsible for the operation and maintenance of the electricity transmission



networks in Victoria, the power distribution networks in east Victoria and the gas distribution networks in mid-west Victoria. In terms of operational performance, AusNet's customers' satisfaction rate was 84% in 2013 with the power failure time reduced by 13.7 per cent. and the gas failure time reduced 11.65 per cent. As at the date of this Offering Memorandum, the nominal RoR is 7.87 per cent. for electricity transmission, 9.65 per cent. for electricity distribution, and 7.07 per cent. for gas distribution.

The table below sets forth details of the AusNet's major assets:

Name	Location	Length	Regulatory Asset Base		Remaining concession period
			AU\$	US\$ <sup>(1)</sup>	
		(km)	(in millions)		
Electricity .....	Victoria	6,573 (transmission) <sup>(2)</sup>	2,876 <sup>(3)</sup>	2,711.2	Perpetual
		50,705 (distribution) <sup>(2)</sup>	2,799 <sup>(4)</sup>	2,638.6	Perpetual
Gas.....	Victoria	10,577 (distribution) <sup>(2)</sup>	1,363 <sup>(5)</sup>	1,284.9	Perpetual
<b>Total .....</b>		<b>67,855</b>	<b>7,038</b>	<b>6,634.7</b>	

Notes:

- (1) The translations from AU\$ into US\$ were made at the rate of AU\$1.00 to US\$0.9427, the noon buying rate in effect on 30 June 2014 as set forth in the H.10 weekly statistical release of the Board of Governors of the Federal Reserve System of the United States.
- (2) Data as at 30 September 2014.
- (3) Data as at 31 March 2014.
- (4) Data as at 31 December 2013.
- (5) Data as at 31 December 2013.

## REN

As at 30 June 2014, the Group held a 25 per cent. equity interest in REN, and was the single largest shareholder and a strategic investor. The Group has sent personnel to participate in the management of REN's operations as directors and senior managers.

REN engages in two principal lines of business: (i) electricity transmission and systems operation where it operates the national electricity transmission network; and (ii) natural gas, where it is engaged in the operation of the national high-pressure natural gas transportation network, the reception, storage and regasification of LNG, and the underground storage of natural gas. REN holds concession rights to the entire infrastructure operated under public concessions relating to electricity and natural gas transmission in Portugal until the end of each relevant concession period. As at the date of this Offering Memorandum, the actual RoR for REN's electricity transmission business is between 5.64 per cent. and 9.15 per cent., and the actual RoR for REN's gas transmission business is between 7.33 per cent. and 10.5 per cent..

REN's electricity transmission business is conducted through its subsidiary REN Rede Eléctrica, which holds a concession to operate the electricity transmission network in Portugal (renewed for a 50-year period commencing on 15 June 2007). Pursuant to this concession, REN provides a public utility service in Portugal, which includes planning, constructing, operating and maintaining the electricity transmission network and managing the technical aspects of the national electricity system. In 2013, the average power failure time for REN's customers was 0.09 minutes; the failure rate of substation equipments was 40.60 per thousand units; grid trip rate was 2.33 per hundred kilometres; the protection performance factor was 99.50 per cent.; and the average equipment availability was 98.89 per cent. while the performance indicator rate was 97.50 per cent.

REN's natural gas business comprises the ownership and operation of (i) the high-pressure natural gas transmission network in Portugal; (ii) the LNG terminal in Sines, which is engaged in the reception, storage and regasification of LNG; and (iii) the underground storage and related facilities in Carriço. REN operates these businesses through 40-year concessions commencing on 26 September 2006.

REN also operates certain other businesses that complement its core electricity and natural gas businesses: a telecommunications business which markets the excess telecommunications capacity of its electricity and natural gas networks, an energy trading business for the two remaining long-term power purchase agreements; a business piloting the production of electricity from sea waves and a business providing engineering and advisory services to third parties through REN Serviços. Additionally, REN holds strategic stakes in the above companies. REN has provided advisory services to the SGBH project and the CDP RETI project of the Group. It has also established a technology research centre in cooperation with the Company.

In February 2013, the Group entered into an agreement with REN to set up a joint venture research and development centre in Lisbon, Portugal. The research and development centre is owned as to 50 per cent. by REN and as to 50 per cent. by China Electric Power Science Research Institute, a subsidiary of the Company. The development and research centre plans to conduct research on the simulation and analysis of power systems, renewable energy management, smart grid technology and energy markets, and to provide consultancy services. It commenced operations in June 2013.

The table below sets forth details of REN's major assets as at 31 December 2013:

Name	Length	Regulatory Asset Base		Start of concession	End of concession
		EUR	US\$ <sup>(1)</sup>		
	(km)	(in millions)			
Electricity.....	8,733	2,412	3,302.0	2007	2057
Natural gas.....	1,375	1,108	1,516.9	2006	2046
<b>Total .....</b>	<b>10,108</b>	<b>3,520</b>	<b>4,818.9</b>		

Note:

- (1) The translations from EUR to US\$ were made at a rate of EUR1.00 to US\$1.3690, the noon buying rate in effect on 30 June 2014 as set forth in the H.10 weekly statistical release of the Board of Governors of the Federal Reserve System of the United States.

### ***Economic Regulation***

Under the Portuguese regulatory framework, the concession right for electricity transmission was renewed for a 50-year period commencing in 2007, and for gas transmission business for a 40-year period commencing in 2006. The regulatory term is three years. For the electricity transmission business, the allowable revenue is calculated based on the RAB and RoR, taking into account the operational expenses, deviation from the price setting, and rewards for extension of the equipments' utilisation period and on improving the system reliability. For the gas transmission business, the allowable revenue is calculated based on the RAB, RoR, operational expense and deviation of price.

### **ElectraNet**

In December 2012, the Group completed the acquisition of a 41.11 per cent. equity interest in ElectraNet; in May 2013, the Group acquired an additional 5.45 per cent. equity interest. ElectraNet, a transmission network service provider and a system control centre operator in South Australia, obtained a 200-year lease right over the transmission network in South Australia starting from September 2000. ElectraNet builds, owns, operates and maintains the transmission system in South Australia.

In the past eight years, ElectraNet had been rewarded by the regulatory authority for its service performance for six years. In 2013, its actual grid availability was 99.3 per cent., which was above the anticipated 98.7 per cent.; power failures which lasted more than 0.05 minutes occurred twice, and the power failure which lasted more than 0.2 minutes occurred only once, while the average power failure time was 43 minutes. As at the date of this Offering Memorandum, the nominal RoR is 7.50 per cent. for its business.

The table below sets forth details of the ElectraNet's major assets as at 30 June 2014:

<u>Name</u>	<u>Location</u>	<u>Length</u>	<u>Regulatory Asset Base</u>		<u>Start of concession</u>	<u>End of concession</u>
			<u>AU\$</u>	<u>US\$<sup>(1)</sup></u>		
		(km)	(in millions)			
ElectraNet.....	South Australia	5,591	2,190	2,064.5	September 2000	September 2200

Note:

- (1) The translations from AU\$ into USD was made at the rate of AU\$1.00 to US\$0.9427, the noon buying rate in effect on 30 June 2014 as set forth in the H.10 weekly statistical release of the Board of Governors of the Federal Reserve System of the United States.

## CDP RETI

In November 2014, the Group acquired a 35 per cent. equity interest in CDP RETI for a consideration of EUR2.1 billion, which represents the largest Chinese investment in Italy in terms of amount invested in a single deal so far. CDP RETI holds a 29.85 per cent. equity interest in Terna and a 30 per cent. equity interest in SNAM. Terna is a national electricity transmission company in Italy, operating 98.8 per cent. of Italy's transmission network. In terms of the length of electricity lines managed, the Group believes that Terna ranks the first among independent operators in Europe and the sixth in the world. The concession rights for Terna's electricity transmission and electricity dispatch businesses are both for 25 years, starting from November 2005. Such concession rights can be extended for another 25 years upon expiration. SNAM is a national natural gas company in Italy, engaging in regulated business such as gas transmission, gas distribution, gas storage and regasification. In terms of operating performance, CDP RETI's average system availability was 99.321 per cent. in 2013, which is above the regulatory requirement of 99.050 per cent.; in 2013, the average power failure time was 0.75 minutes, and average times of power failure was 0.17, which were both above the target standards. As at the date of this Offering Memorandum, the actual RoR is 6.3 per cent. for electricity and gas transmission, 6.9 per cent. for gas distribution, 7.2 per cent. for gas metering, 7.3 per cent. for gas regasification and 6.7 per cent. for gas storage.

The table below sets forth details of CDP RETI's major assets as at 31 December 2013.

Name	Length	Regulatory Asset Base		Start of concession	End of concession
		EUR	US\$ <sup>(1)</sup>		
	(km)	(in millions)			
Terna electricity transmission .....	63,600	11,800	16,154.2	November 2005	September 2030
SNAM gas transmission.....	32,000	— <sup>(2)</sup>	— <sup>(2)</sup>	N/A <sup>(3)</sup>	
SNAM gas distribution .	52,993	— <sup>(2)</sup>	— <sup>(2)</sup>	12 – 20 years <sup>(4)</sup>	
<b>Total .....</b>	<b>148,593</b>	<b>34,800</b>	<b>47,641.2</b>		

Notes:

- (1) The translations from EUR to US\$ were made at a rate of EUR1.00 to US\$1.3690, the noon buying rate in effect on 30 June 2014 as set forth in the H.10 weekly statistical release of the Board of Governors of the Federal Reserve System of the United States.
- (2) The total RAB of SNAM's gas transmission and distribution business as at 31 December 2013 was EUR23,000 million.
- (3) The gas transmission business of SNAM does not operate under a concession agreement.
- (4) The concession periods for SNAM gas distribution business vary from 12 to 20 years.

## ***Economic Regulation***

Under the Italian regulatory framework, the concession period for Terna's electricity transmission business is 25 years and can be extended for another 25 years, while for SNAM's gas distribution business the concession period is between 12 to 20 years. The regulatory term for power and gas transmission is four years, while the regulatory term for gas distribution is six years. The return on regulatory assets is calculated based on Group's RAB and WACC.

## **Intellectual Property**

The Group maintains a variety of trademarks and other intellectual property. In addition, the Group relies on a variety of patents, copyrights, trade secrets and trademarks of the Parent Group to maintain and enhance its competitive position. As at 31 December 2013, the Parent Group held 28,311 patents, including 2,962 inventions and 213 international patents applications. The Parent Group's research project on "±800kV ultra-high-capacity UHVDC electricity transmission key technology, equipment development and application" won the first prize of the National Electricity Science and Technology Award. The Group receives technological and intellectual property support from the Parent Group; see "*Description of the Group – Competitive Strengths – Strong Support from the Parent Group and the PRC Government*".

## **Competition**

In connection with the Group's electricity distribution and transmission business, the Group does not face direct competition in the areas it provides services in accordance with local laws and regulations, except in certain areas where it faces normal market competition.

## **Employees**

As at 30 June 2014, the Guarantor had approximately 190 employees, 92.9 per cent. of whom had bachelor's degrees or higher, 55.4 per cent. of whom had master's degrees or higher, and 29 per cent. of whom had overseas education backgrounds. As at 30 June 2014, SGSPAA had approximately 2,927 employees, and SGBH had approximately 410 employees. To attract high-level professionals, the Group actively explores the market-oriented mechanism of recruiting. It also receives human resources support from the Parent Group, which also has a dynamic and high-calibre workforce.

The Group provides its employees with welfare and benefits in line with the local standards of the countries and region where it operates and invests. The Group emphasises respecting the local working habits of the employees in the countries and region where it operates and invests. The Group participates in local government pension schemes in accordance with the law, paying into the housing funds, pensions, medical, work injury, maternity, unemployment and other social insurance. The Group also offers its employees comprehensive training programmes, ranging from professional skills and qualification training to personal development.

## **Social Responsibility**

The Group sees corporate social responsibility as of great importance. In carrying out its business in the countries and region where it operates and invests, the Group respects the international customs and local cultural traditions. The Group employs locally to foster the local economy, and aims to promote harmonious corporate, social and environmental development. The Group is also actively engaged in a range of social charitable initiatives in the countries and region where it operates and invests.

## **Environmental Protection**

The Group is subject to environmental laws and regulations in the jurisdictions where it operates or invests. Generally there are national or local standards applicable to, among others, emissions control, discharges and disposal to surface and subsurface water, and the generation, handling, storage, transportation, treatment and disposal of solid waste materials. In addition, the local environmental regulations generally require the Group to submit an environmental impact assessment report to the relevant government authority for approval before the Group undertakes any construction of a new project or any major upgrade of existing transmission lines. The Group is also engaged in ecological environmental preservation, by actively monitoring the natural habitat and the conservation of water and

soil alongside its power networks in the countries and region where it operates or invests. For risks relating to environmental protection, see *“Risk Factors – Compliance with increasingly strict environmental, health and safety laws and regulations may increase the Group’s costs and adversely affect its financial condition and results of operations.”*

### **Health and Safety**

The Group attaches great importance to the safety and health of its employees, and has implemented a number of measures to ensure compliance with the legal and regulatory requirements of the countries and region where it operates and invests, and to improve the health and safety standards of the Group. For risks relating to health and safety, see *“Risk Factors – Compliance with increasingly strict environmental, health and safety laws and regulations may increase the Group’s costs and adversely affect its financial condition and results of operations.”* and *“Risk Factors – Some of the Group’s operations are hazardous and could expose the Group to significant health and safety claims.”*

### **Insurance**

All of the grid assets of the Group are insured, subject to limitations and deductible typical for the Group’s industries. The insurance mainly includes property all risks insurance and machinery damage insurance. Property all risks insurance covers the direct physical loss of, or damage to, power grid assets caused by natural disasters or accidents including fire and explosion. Machinery damage insurance protects against losses from damage to the equipment of the Group due to grid equipment design, manufacturing or installation errors, casting and raw material defects, operational errors, overloading and overvoltage. For risks relating to the Group’s insurance, see *“Risk Factors – The Group’s insurance may not be sufficient to cover potential liabilities and losses.”*

### **Properties**

The Group holds certain land and buildings for its business operations in the countries and region where it operates or invests. The land the Group holds is mainly used for power transmission towers and poles along the grid line corridors, substations and office buildings of the Group.

### **Legal Proceedings**

The Group is involved in certain legal proceedings concerning matters arising in its ordinary course of business. The Group believes, based on currently available information, that these proceedings, individually or in the aggregate, will not have a material adverse effect on its business, financial condition or results of operations.

## DESCRIPTION OF THE PARENT GROUP

### General

The Parent Group is the largest utility group and the largest power grid group in the world, and the largest power grid construction and operation group in China, measured by revenue in 2013. The Parent Group is principally engaged in the construction and operation of a power grid network that covers 26 provinces in China, reaches more than 88 per cent. of China's territory and serves a population of over 1.1 billion. In 2013, the electricity consumption in the operating area of the Parent Group was 4,246.8 TWh and amounted to approximately 80 per cent. of the total electricity consumption of the PRC. In 2013, combined installed grid capacity in the operating area of the Parent Group was 962.5 million kW and amounted to 77 per cent. of the combined installed grid capacity in the PRC. As at 31 December 2013, the total assets of the Company amounted to RMB2,570.1 billion. In 2011, 2012, 2013 and 2014 the Parent Group ranked seventh in the "Fortune Global 500".

The Parent Group was established in May 2003 as a state-authorised and invested entity under the supervision of the SASAC. In 2014, the Parent Group ranked in the top three for the tenth consecutive year among all the SASAC-owned enterprises in terms of revenue, and was awarded "Grade A in SOEs' Annual Performance Review" by the SASAC, the highest ranking in such review, for the tenth consecutive year. From 2011 to 2013, the Parent Group received special funds of approximately RMB20 billion to RMB30 billion per year from the Ministry of Finance and received approximately RMB40 billion of special government funding in 2014.

The Parent Group maintains safe and stable operations of a large-scale power grid, and allocates power and related resources on a significant scale and with high efficiency within its extensive operating territory. The Group believes that the Parent Group is in a world-leading position in terms of power technology research and development. The Parent Group has expertise in the relevant core technologies and acquired the relevant equipment manufacturing capabilities in the fields of ultra-high voltage transmission and smart grid technology through its independent innovation and the construction and operation of demonstration projects. Its electricity transmission operations extend outside China. The Company is also an energy conservation services provider. Since the Parent Group began receiving credit ratings from international rating agencies in 2013, it has achieved the sovereign rating of the PRC for two consecutive years.

As at 31 December 2013, the Parent Group's electricity transmission lines of 110(66) kV and above reached a total length of 771,005 km. Its power transformation equipment of 110(66) kV and above reached an aggregate capacity of 3,030 GVA, and its grid-integrated generation capacity was approximately 962 GW.

For the three years ended 31 December 2011, 2012 and 2013, the Parent Group sold 3,093 TWh, 3,254 TWh, 3,523 TWh of electricity, respectively. For the same periods, the Parent Group recorded revenue of RMB1,665,852 million, RMB1,882,994 million, RMB2,049,800 million, respectively, and net income of RMB38,776 million, RMB81,331 million, RMB51,729 million, respectively.

### The Parent Group's Overseas Strategies

One of the Parent Group's targets is to leverage collective efforts of the Parent Group, integrate advantageous resources, improve strategic layout of its international business and enhance its sustainable development ability and core competitiveness. It plans to continue to seek significant growth in its overseas investments, cross-border energy cooperation, overseas EPC projects and technology consultancy services. It aims to improve its international operational capability to become a world-class energy company with integrated operational capabilities in overseas power investments, construction, operation and service, in particularly, in the areas below:

- actively and prudently participate in overseas investments, with a focus on regulated assets in the electricity transmission and distribution business, carry out overseas investments and merger and acquisition based on its risk control and expected investment return and subject to adequate analysis of investment risks, development trends and macro-economic conditions. In addition, it intends to selectively invest in overseas greenfield projects through its overseas investment platform;



- actively promote cross-border energy cooperation and explore more energy cooperation opportunities with neighbouring countries to achieve large-scale electricity transmission from those countries into China; and
- actively develop international EPC and technology consultancy businesses, utilise its resources to bid for large-scale electricity transmission and transformation projects in countries with relatively good credit, and leverage its core technologies to carry out high-end technology consultancy and management services.

## MANAGEMENT

### Director and Senior Management

The table below sets forth information regarding the Guarantor's director and senior management and their positions. The Guarantor's senior management formally hold their position with SGID Beijing and have equivalent responsibilities at SGID.

Name	Age	Title
Zhu Guangchao .....	47	executive director, president, chief executive officer
Li Haixiang .....	51	senior vice president
Wen Bo.....	49	senior vice president
Jiang Xiaojun .....	50	senior vice president
Lv Shirong.....	50	senior vice president
Tian Yajun .....	53	head of discipline inspection group of the party committee
Li Lequan .....	52	senior vice president
Li Hong .....	44	chief financial officer
Liu Yanli.....	39	senior vice president
Zhang Jian .....	42	chairman of labour union

**Mr. Zhu Guangchao (朱光超)**, aged 47, has been executive director, president and chief executive officer of SGID since December 2013.

Previously Mr. Zhu served as president, vice chief of party committee of SGID, director and executive director of SGBH from December 2011 to December 2013, as a party committee member, the chief and the senior vice president of SGID from March 2010 to December 2011, as the chief and the director in the international cooperation department of SGCC and SGID, respectively, from June 2009 to March 2010, as the vice team chief of the NGCP preparatory group from December 2007 to March 2009.

Prior to joining the Group, Mr. Zhu served as the vice chief in the Finance Department (Assets) in SGCC from December 2005 to December 2007, and as the assistant to chief in the finance department (Capital Management Centre) in SGCC from March 2005 to December 2005. Mr. Zhu also worked as the president in Tai'an Power Distribution Co., Ltd. from January 2004 to December 2005, as the vice chief in the marketing department of Power Bureau of Shandong Province from October 1998 to January 2004, and as the vice chief in the surface electricity department of Power Bureau of Shandong Province from July 1998 to October 1998.

Mr. Zhu received a bachelor degree in relay protection from Shandong Industrial University in July 1989 and a master degree in electric power system and automation from Shandong Industrial University in July 1992.

**Mr. Li Haixiang (李海翔)**, aged 51, has been the secretary of the party committee and the senior vice president of SGID Beijing since February 2014.

Previously, Mr. Li has served as the vice chief in the international cooperation department of SGCC and the senior vice president in the business service subsidiary of SGID Beijing from December 2011 to February 2014. Prior joining the Group, Mr. Li worked as the vice chief engineer and later the chief engineer in Zhejiang Electrical Power Co. Ltd from January 2006 to December 2012, as a party committee member and the chief in the Dispatching Communication Centre in the Dispatching Institute of Power and Industrial Bureau of Zhejiang Province from March 2004 to December 2006, as the vice chief in Dispatching Institute of Power and Industrial Bureau of Zhejiang province and as the chief engineer in Dispatching Institute of Power and Industrial Bureau of Zhejiang province from June 1999 to March 2004.

Mr. Li received a master degree in electric power system and automation in Huazhong Engineering Institution in July 1987.

**Mr. Wen Bo (文博)**, aged 49, has been a member of the party committee and the senior vice president of SGID Beijing since December 2010.

Mr. Wen has also been the chief in SGCC's office in the Philippines since December 2012.

Previously, Mr. Wen served as a party committee member and the senior vice president of Xinjiang Electricity Co., Ltd. from October 2009 to December 2010, as a party committee member and the senior vice president of Gansu Electricity Co., Ltd. from September 2005 to October 2009, as the vice chief engineer and the chief in the production technology department in Gansu Electricity Co., Ltd., from January 2005 to September 2005, as the alternative director in the production technology department in Gansu Electricity Co., Ltd. from September 2004 to January 2005, as the chief in Gansu Tianshui Electricity Power Distribution Bureau from June 2001 to September 2004, and as the vice chief in Gansu Province Longnan District Electricity Power Bureau from August 1996 to June 2001. Mr. Wen also worked as the vice chief in Dispatching Institution of Gansu Province Pingliang District Electricity Power Bureau from December 1993 to August 1996.

Mr. Wen received a bachelor degree in electric power system and automation from Chongqing University in July 1988 and master degree in management and engineering from Xi'an Jiaotong University in June 2002.

**Mr. Jiang Xiaojun (蒋晓军)**, aged 50, has been a member of party committee and the senior vice president of SGID Beijing since November 2008.

Previously, Mr. Jiang served as the chief accountant in SGID Beijing from August 2008 to February 2011, as the chief accountant in State Grid Shenzhen Energy Development Group Co., Ltd. from January 2007 to April 2009, as the chief accountant in Shenzhen State Grid Technology Development Co., Ltd. from April 2003 to January 2007. Mr. Jiang also worked as vice chief accountant, the manager in the finance and asset management department and the chief in finance department in SGCC's Economic Development Liaison Office in Shenzhen from October 2000 to April 2003, as the president in finance and asset management department of Shenzhen State Grid Technology Development Co., Ltd. from March 2000 to October 2000, and as the vice manager in finance department in China Electric Power Investment Co., Ltd. (now known as China Electric Power International Co., Ltd.) from June 1995 to March 2000.

Mr. Jiang received a degree in electric power related industrial accounting from Harbin Electric College in August 1986, he also obtained an executive master of business administration degree from Shanghai University of Finance and Economics in March 2007. Mr. Jiang also graduated with a doctor degree from Zhongshan University in December 2010.

**Mr. Lv Shirong (吕世荣)**, aged 50, has been a member of the party committee and the senior vice president of SGID Beijing since April 2014.

Previously, Mr. Lv served as the senior vice president of SGBH from December 2010 to April 2014, the vice chief in SGCC's Philippine office from September 2010 to December 2010, as a member in preparatory group of NGCP and the assistant to technological executive in charge of infrastructure in NGCP from December 2007 to September 2010. Mr. Lv also worked as the vice chief and later chief in international cooperation department of SGCC from December 2005 to December 2007, as the chief engineer in grid construction department and later vice chief in infrastructure department of North-western Power Grid Co., Ltd. from January 2005 to December 2005, as the vice chief and later chief in the "750 kV power grid construction office" in the planning and development department in State Grid North-western Electricity Power Design Institution from July 2001 to January 2005, as the engineer-in-charge in the Dispatching Information Centre in State Grid North-western Electricity Power Design Institution from June 1999 to July 2001.

Mr. Lv received a bachelor degree in electric power system and automation in July 1987, a master degree in electric power system and automation in June 1990 and doctor degree in electric engineering in June 1999 from Xi'an Jiaotong University.

**Mr. Tian Yajun (田雅軍)**, aged 53, has been a member of party committee and head of discipline inspection group of the party committee of SGID Beijing since February 2011.

Previously, Mr. Tian also served as the chairman of the labour union of SGID Beijing from February 2011 to October 2014. He worked as the chief in the human resources department of SGID Beijing from February 2009 to February 2011, as the chief in operating and management department and the office chief in China Electricity Power Technology Import-Export Co., Ltd. from December 2006 to February 2009, as the chief in marketing development department and the office chief in SGCC Information Centre from February 2002 to November 2006.

Mr. Tian received a bachelor degree in economics and management in December 2001 and a master degree in economics and management in July 2007 from Central Party School of Communist Party of China.

**Mr. Li Lequan (李樂泉)**, aged 52, has been a member of the party committee and the senior vice president of SGID Beijing since July 2012.

Previously Mr. Li served as the chief in the development and planning department of SGID Beijing and the vice chief economist in SGID Beijing from February 2009 to July 2012, as the vice chief engineer of international procurement company of China Electricity Technology Co., Ltd. from June 2005 to February 2009, as the president of No. 2 Business Department and the senior vice president of import-export department in the China Electricity Technology International Bidding Co., Ltd. from May 1998 to June 2005.

Mr. Li obtained a master degree in atmospheric physics from the Institute of Atmospheric Physics of Chinese Academy of Sciences in August 1998.

**Mr. Li Hong (李宏)**, aged 44, has been a member of the party committee and the chief financial officer of SGID Beijing since July 2012.

Previously, Mr. Li served as the chief of the preparatory team in the finance and asset department of SGBH from September 2010 to December 2012, as the chief in the finance and asset department in SGID Beijing from February 2009 to February 2011, as the senior vice president in the finance and accounting department and subsequently chief of the finance department of China Electricity Technology Import-Export Co., Ltd. from March 2002 to February 2009. Mr. Li also worked as the senior manager and subsequently senior vice president in the finance department of the China Electricity Technology Import-Export Co., Ltd from March 1997 to March 2002.

Mr. Li received a bachelor degree in accounting from Changsha Hydraulic and Electricity Power Teachers College in July 1992, and a master degree accounting from Hunan University in March 2001.

**Ms. Liu Yanli (劉彥麗)**, aged 39, has been a member of the party committee and the senior vice president of SGID Beijing since October 2014.

Ms. Liu is also the chief in the investment and financing department of SGID Beijing since July 2012. Previously, Ms. Liu served as the senior vice president in SGID Beijing Hong Kong business office and the vice chief in the investment and financing department of SGID Beijing from March 2012 to July 2012, as the vice chief in the finance and asset department of SGID Beijing from September 2009 to March 2012. Ms. Liu also worked as the president in the accounting and finance department of Huaqiao Town Group Co., Ltd. from April 2004 to September 2009.

Ms. Liu received a bachelor degree in computer science and application from Hunan Finance and Economics University in July 1998 and a master degree in accountings from Xiamen University in September 2006.

**Ms. Zhang Jian (張健)**, aged 42, has been a member of the party committee and chairman of labour union of SGID Beijing since October 2014.

Previously, Ms. Zhang served as the chief and a first class employee in the communication department of SGCC from December 2012 to October 2014, as the vice chief and later chief in the international cooperation department of SGCC from December 2004 to December 2012.

Ms. Zhang received a bachelor degree in English literature from Wuhan University of Hydraulic and Electrical Engineering in June 1994.

## DESCRIPTION OF THE KEEPWELL DEED

*The statements under this heading are summaries of certain key provisions of the Keepwell Deed to be entered into by the Issuer, the Guarantor and the Company with the Trustee. Such statements do not purport to be complete and are qualified in their entirety by reference to the Keepwell Deed. Words and expressions defined in the Keepwell Deed shall have the same meaning in this section.*

The Company intends to assist the Issuer and the Guarantor with meeting their respective obligations under the Notes and the Guarantee. Under the Keepwell Deed, the Company will undertake to the Issuer, the Guarantor and the Trustee that it will directly or indirectly own and hold (i) not less than 51 per cent. of the legal and beneficial title to the outstanding shares of the Issuer having the right to vote for election of members of the board of directors thereof, and (ii) not less than 51 per cent. of the legal and beneficial title to the outstanding shares of the Guarantor having the right to vote for election of members of the board of directors thereof, and will not directly or indirectly pledge, grant a security interest, or in any way encumber or otherwise dispose of any such shares, unless required to dispose of any or all such shares pursuant to law or regulation or a court decree or order of any governmental authority which, in the opinion of a legal adviser to the Company, may not be successfully challenged. The Company will also undertake to procure the Guarantor to directly or indirectly own and hold all the outstanding shares of the Issuer. The Company will undertake with the Issuer, the Guarantor and the Trustee that it shall cause:

- (a) the Issuer to remain solvent and a going concern at all times under the laws and applicable accounting standards of the United Kingdom;
- (b) the Guarantor to remain solvent and a going concern at all times under the laws and applicable accounting standards of Hong Kong;
- (c) the Guarantor to have a Consolidated Net Worth not less than US\$100,000,000 or its equivalent at all times;
- (d) the Issuer to have sufficient liquidity to ensure timely payment by the Issuer of any and all amounts payable in respect of the Notes in accordance with the Trust Deed and the Conditions of the Notes and any and all payments due under the Trust Deed and the Agency Agreement; and
- (e) the Guarantor to have sufficient liquidity to ensure timely payment by the Guarantor of any and all amounts payable in respect of the Notes in accordance with the Trust Deed and the Conditions of the Notes and any and all amounts due under the Trust Deed and the Agency Agreement.

The Company will undertake to use its best efforts to obtain all approvals, clearances or other authorisation of relevant Approval Authorities required for the performance by the Company of its obligations under the aforementioned obligations mentioned in (a) to (e) above.

The Company will further undertake with the Issuer, the Guarantor and the Trustee in the Keepwell Deed that, for as long as any Note remains outstanding the Guarantor will remain the sole and primary offshore investment and operating platform of the Company, and that the Company shall:

- (i) use its best efforts to ensure that the ratio of total debts to total assets of the Guarantor will at all times not exceed 60 per cent.;
- (ii) directly or indirectly appoint all senior management of each of the Issuer and the Guarantor;
- (iii) directly or indirectly manage and supervise the businesses of each of the Issuer and the Guarantor;
- (iv) use its best efforts to ensure the long-term stability and liquidity of the financing and investing channels of the Guarantor;

- (v) procure that the Guarantor will prudently operate its existing overseas assets portfolio and accumulate its foreign business operations; and
- (vi) use its best efforts to directly and indirectly support the business operations of each of the Issuer and the Guarantor.

The Company will further undertake with the Issuer, the Guarantor and the Trustee in the Keepwell Deed, for so long as the Notes are outstanding:

- (i) not to amend the memorandum or articles of association of the Issuer or the Guarantor in a manner that is, directly or indirectly, adverse to Noteholders;
- (ii) to cause the Issuer to remain in full compliance with the Terms and Conditions of the Notes, the Trust Deed, the Agency Agreement, the Keepwell Deed and all applicable rules and regulations in the United Kingdom;
- (iii) to cause the Guarantor to remain in full compliance with the Terms and Conditions of the Notes, the Trust Deed, the Agency Agreement, the Keepwell Deed and all applicable rules and regulations in Hong Kong;
- (iv) to cause the Issuer either to use the proceeds itself or to lend the proceeds from the offering of the Notes only to the Company's offshore subsidiaries or affiliates (each a "**Relevant Affiliate**"), and to cause each such Relevant Affiliate to pay the interest and principal in respect of such intercompany loan(s) on time;
- (v) to the extent a Relevant Affiliate lends, novates or assigns any of the proceeds it receives from the Issuer from the offering of the Notes, to cause such Relevant Affiliate to lend, novate or assign such proceeds only to another Relevant Affiliate or other Relevant Affiliates;
- (vi) promptly to do all such things and take any and all such actions necessary to comply with its obligations under the Keepwell Deed; and
- (vii) to cause the Issuer and the Guarantor to do all such things and take any and all such actions necessary in a timely manner to comply with the Issuer's or, as the case may be, the Guarantor's obligations under the Keepwell Deed.

Under the Keepwell Deed, the Company will also undertake with the Issuer, the Guarantor and the Trustee that upon receipt of a written Investment Notice provided by the Trustee given following the occurrence of a Triggering Event, it shall, subject to obtaining the relevant approvals, invest (either by itself or through a Subsidiary of the Company as designated by it) in the Issuer and/or the Guarantor (by equity investment or shareholders' loan or a combination thereof). The following circumstances will constitute a Triggering Event:

- the Consolidated Net Worth of the Guarantor falls below U.S\$100,000,000 or its equivalent (a "**Financial Ratio Failure**"); or
- an Event of Default; or
- the Issuer or, as the case may be, the Guarantor determines that it will have insufficient liquidity or cash flow to meet its payment obligations under the Keepwell Deed, the Notes, the Trust Deed or the Agency Agreement as they fall due (a "**Shortfall Event**").

In the event that the performance by the Company of its obligations to invest in the Issuer and/or the Guarantor requires obtaining any approval, clearance or other authorisation of any approval authorities, the Company will undertake to use its best efforts to do all such things and take all such actions as may be necessary or desirable to obtaining the Relevant Investment Approvals as soon as reasonably practicable.

The obligations of the Company to invest in the Issuer and/or the Guarantor shall be suspended if each of the Company and the Issuer receives a notice in writing from the Trustee stating that the Triggering Event(s) has been remedied.



Under the Keepwell Deed, the Company also undertakes to the Trustee that, so long as any Note remains outstanding (as defined in the Trust Deed), the Company will not, and will not permit any of the Issuer, the Guarantor, the Guarantor's Non-Listed Principal Subsidiaries or the Company's Principal Subsidiaries to, create, incur, assume or permit to exist any mortgage, charge, pledge, lien, encumbrance, hypothecation, title retention, security interest or security arrangement of any kind ("**Lien**") (other than Permitted Liens) upon any of its property or assets, now owned or hereafter acquired, to secure any Relevant Indebtedness of the Company or any of the Issuer, the Guarantor, the Guarantor's Non-Listed Principal Subsidiaries or the Company's Principal Subsidiaries (or any guarantee or indemnity in respect thereof) without, in any such case, making effective provision whereby the Notes will be secured either at least equally and rateably with such Relevant Indebtedness or by such other Lien as shall have been approved by the Noteholders as provided in Condition 13.1 of the Terms and Conditions of the Notes, for so long as such Relevant Indebtedness will be so secured, unless after giving effect to the issuance thereof, the aggregate outstanding principal amount of all such secured Relevant Indebtedness entered into after the date of the Keepwell Deed does not exceed 10 per cent. of the Company's shareholders' equity as determined under PRC GAAP.

The foregoing restriction does not apply to the following ("**Permitted Liens**"):

- (a) any Lien which is in existence prior to the date of the Keepwell Deed and any replacement thereof created in connection with the refinancing (together with interest, fees and other charges attributable thereto) of the Relevant Indebtedness originally secured (but the principal amount secured by any such Lien may not be increased);
- (b) any Lien arising or having already arisen automatically by operation of law which is promptly discharged or disputed in good faith by appropriate proceedings;
- (c) any Lien either over any asset acquired after the date of the Keepwell Deed which is in existence at the time of such acquisition or in respect of the obligations of any Person which becomes a Subsidiary of the Company or which merges with and into the Company after the date of the Keepwell Deed which is in existence at the date on which it becomes a Subsidiary of the Company and in both cases any replacement thereof created in connection with the refinancing (together with interest, fees and other charges attributable thereto) of the Relevant Indebtedness originally secured (but the principal amount secured by any such Lien may not be increased); provided that any such Lien was not incurred in anticipation of such acquisition or of such company becoming a Subsidiary of the Company;
- (d) any Lien created on any property or asset acquired, leased or developed (including improved, constructed, altered or repaired) after the date of the Keepwell Deed; *provided*, however, that (a) any such Lien shall be confined to the property or asset acquired, leased or developed (including improved, constructed, altered or repaired), and (b) any such Lien shall be created concurrently with or within two years following the acquisition, lease or development (including construction, improvement, repair or alteration) of such property or asset;
- (e) any Lien created or outstanding in favour of the Company or any of its Subsidiaries;
- (f) any Lien on any property or asset to secure all or part of the cost of development, production, gathering, processing or marketing of such property or asset or to secure Relevant Indebtedness incurred to provide funds for any such purpose;
- (g) any Lien arising in connection with industrial revenue, development or similar bonds or other Relevant Indebtedness or means of project financing (not to exceed the value of the project financed and limited to the project financed);
- (h) any Lien in respect of Relevant Indebtedness of the Company or any of its Subsidiaries with respect to which the Company or such Subsidiary has paid money or deposited money or securities with a fiscal agent, trustee or depositary to pay or discharge in full the obligations of the Company and its Subsidiary in respect thereof (other than the obligation that such money or securities so paid or deposited, and the proceeds therefrom, be sufficient to pay or discharge such obligations in full); or
- (i) any Lien arising out of the refinancing, extension, renewal or refunding of any Relevant Indebtedness secured by any Lien permitted by any of the foregoing paragraphs; provided that such Relevant Indebtedness is not increased and is not secured by any additional property or assets.

Further, pursuant to the terms of the Keepwell Deed, the Company agrees to purchase (either by itself or through a Wholly-owned Subsidiary of the Company as designated by it (the “**Designated Purchaser**”)) certain equity interests upon receiving a written purchase notice (the “**Purchase Notice**”) from the Trustee. The equity interests comprise the interests held by the Relevant Transferor(s) (as defined in the Keepwell Deed) in the registered capital (the “**Equity Interest**”) of any direct or indirect PRC-incorporated Group Entity (as defined in the Keepwell Deed) of the Issuer, the Guarantor and/or their respective subsidiaries incorporated outside the PRC.

Following the occurrence of an Event of Default under the Notes, the Trustee shall issue a Purchase Notice to the Company. Within 60 business days after the date of the Purchase Notice, the Company shall determine the purchase price of the Equity Interest (the “**Purchase Price**”). The Company is obliged to determine the Purchase Price in compliance with any applicable PRC laws and regulations in force at the time of the determination and other applicable terms relating to the Purchase, including any third-party valuation requirements. The Purchase Price may not be less than the amount sufficient to enable the Issuer to discharge all of its actual or contingent payment obligations then outstanding under the Notes. The Company’s determination of this Purchase Price is final and binding on the Company, the Guarantor, the Issuer and the Designated Purchaser (where relevant) except in the case of manifest error.

Within 60 business days after the date of the Purchase Notice, the Company or, as the case may be, the Designated Purchaser shall execute the relevant equity interest transfer agreement(s) with the Relevant Transferor(s) and file the same with MOFCOM or its local counterpart for approval of the transfer(s) of the Equity Interest(s). Within 15 business days after receipt of approval from MOFCOM or its local counterpart, the Company or, as the case may be, the Designated Purchaser shall submit an application to the competent AIC for AIC registration of the transfer(s) of the Equity Interest(s). Within 15 business days after receipt of AIC registration from the competent AIC, the Company shall complete the procedures in respect of withholding tax for the Relevant Transferor(s) required by applicable laws and regulations of the PRC with the competent tax authority to obtain the tax opinion from such tax authority.

Within 15 business days after completion of the AIC registration and receipt of the tax opinion, the Company shall submit an application to SAFE (i) to change the SAFE registration of the companies for which the Equity Interests is or (as the case may be) are subject to purchase and (ii) for remittance of the Purchase Price. Closing shall take place on the 15<sup>th</sup> business day after receipt of the approvals from SAFE whereupon the Company shall pay to or to the order of the Relevant Transferor(s) the corresponding amount of the Purchase Price in immediately available funds in U.S. dollars (or another currency designated by the Company or the Designated Purchaser, as the case may be) to an account in London designated by the Relevant Transferor(s).

The parties to the Keepwell Deed have acknowledged that in order for the Company to comply with its obligations under the Keepwell Deed, it may require all necessary approvals, consents, licences, orders, permits and any other authorisations from the relevant approval authorities and filing pursuant to applicable laws. Under the Keepwell Deed, the Company will undertake promptly to do all such things and take any and all such actions necessary to comply with its obligations under the Keepwell Deed. However, there is no assurance that such approvals can be obtained. In the event that the Company is unable to obtain the relevant PRC regulatory approvals, authorisations or consents, the Company may be unable to complete the relevant equity interest acquisition as required under the Keepwell Deed. See “*Risk Factors – Performance by the Company of its undertaking under the Keepwell Deed is subject to approvals of the PRC government authorities*”.

The Keepwell Deed is not and will not, and nothing therein contained and nothing done pursuant thereto by the Company shall be deemed to constitute, or shall be construed as a guarantee by or any legal binding obligation of the Company of the payment of any obligation, indebtedness or liability, of any kind or character whatsoever, of the Issuer or the Guarantor under the laws of any jurisdiction, including the PRC.

The Company will acknowledge in the Keepwell Deed that the same is being entered into for the benefit of the Trustee on behalf of the Noteholders, and agree that the provisions of the Keepwell Deed may be enforced by the Trustee in accordance with the terms of the Trust Deed.

If the Company is in default of its obligations under the Keepwell Deed, the Company shall be liable by way of liquidated damages to the Issuer or, as the case may be, the Guarantor for such breach in an amount equal to the sum that the Company would have paid or loaned or injected, as the case may be, had it performed in full its obligations under the Keepwell Deed and the Issuer or, as the case may be, the Guarantor shall be entitled to claim accordingly.

The Keepwell Deed shall remain in full force and effect so long as any of the Notes remain outstanding.

The Keepwell Deed and any non-contractual obligations arising out of or in connection with it shall be governed by and construed in accordance with English law. The courts of Hong Kong are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Keepwell Deed. A person who is not a party to the Keepwell Deed has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of the Keepwell Deed.

## EXCHANGE RATE INFORMATION

### Hong Kong

The HK dollar is freely convertible into the U.S. dollar. Since 1983, the HK dollar has been linked to the U.S. dollar. Under existing Hong Kong law, there are no foreign exchange controls or other laws, decrees or regulations that affect the remittance of payments to U.S. residents. The Basic Law of the Hong Kong Special Administrative Region of the PRC, which came into effect on 1 July 1997, provides that no foreign exchange control policies may be applied in Hong Kong. Although the market exchange rate of the HK dollar against the U.S. dollar was and continues to be determined by forces of supply and demand in the foreign exchange markets, between 1983 and May 2005 Hong Kong maintained a fixed rate system which set the rate of exchange at HK\$7.80 per U.S. dollar (the “**Linked Exchange Rate System**”). However, in May 2005, the Hong Kong Monetary Authority broadened the 22-year trading band from the original rate of HK\$7.80 per U.S. dollar to a new range varying between HK\$7.75 and HK\$7.85 per U.S. dollar. The Hong Kong government has indicated its intention to maintain the Linked Exchange Rate System. The Hong Kong government has also stated that it has no intention of imposing exchange controls and that the HK dollar will remain freely convertible into other currencies, including the U.S. dollar. However, no assurance can be given that the Hong Kong government will maintain the trading band at HK\$7.75 to HK\$7.85 per U.S. dollar or at all. As a result of the Linked Exchange Rate System, exchange rates between the HK dollar and other currencies are influenced by the value of the U.S. dollar.

The following tables sets forth, for the periods indicated, certain information concerning the exchange rates between HK dollars and U.S. dollars. The exchange rates reflect the exchange rates as set forth in the H.10 statistical release of the Federal Reserve Board.

Period	Exchange Rate			
	Period End	Average <sup>(1)</sup>	High	Low
		(HK\$ per US\$1.00)		
2009 .....	7.7536	7.7513	7.7618	7.7495
2010 .....	7.7810	7.7692	7.8040	7.7506
2011 .....	7.7663	7.7793	7.8087	7.7634
2012 .....	7.7507	7.7557	7.7699	7.7493
2013 .....	7.7539	7.7565	7.7652	7.7503
2014				
January .....	7.7642	7.7578	7.7663	7.7534
February .....	7.7608	7.7585	7.7645	7.7547
March .....	7.7567	7.7612	7.7669	7.7563
April .....	7.7527	7.7540	7.7568	7.7517
May .....	7.7523	7.7523	7.7535	7.7514
June .....	7.7517	7.7517	7.7537	7.7504
July .....	7.7497	7.7502	7.7517	7.7495
August .....	7.7501	7.7504	7.7514	7.7496
September .....	7.7648	7.7524	7.7650	7.7500
October .....	7.7551	7.7572	7.7645	7.7541
November .....	7.7548	7.7543	7.7572	7.7519
December (through 26 December) .....	7.7616	7.7537	7.7616	7.7509

Note:

- (1) Determined by averaging the rates on the last business day of each month during the relevant year, except for monthly average rates, which are determined by averaging the daily rates during the respective months.

## Euro

The following tables sets forth, for the periods indicated, certain information concerning the exchange rates between euro and the U.S. dollar. The exchange rates reflect the exchange rates as set forth in the H.10 statistical release of the Federal Reserve Board.

Period	Noon buying rate			
	Period End	Average <sup>(1)</sup>	High	Low
		(USD per €1.00)		
2008 .....	1.3919	1.4695	1.6010	1.2446
2009 .....	1.4332	1.3955	1.5100	1.2547
2010 .....	1.3269	1.3216	1.4536	1.1959
2011 .....	1.2973	1.4002	1.4875	1.2926
2012 .....	1.3186	1.2909	1.3463	1.2062
2013 .....	1.3779	1.3303	1.3816	1.2774
2014				
January .....	1.3500	1.3618	1.3682	1.3500
February .....	1.3806	1.3665	1.3806	1.3507
March .....	1.3777	1.3828	1.3927	1.3731
April .....	1.3870	1.3810	1.3898	1.3704
May .....	1.3640	1.3739	1.3924	1.3596
June .....	1.3690	1.3595	1.3690	1.3522
July .....	1.3390	1.3533	1.3681	1.3378
August .....	1.3150	1.3315	1.3436	1.3150
September .....	1.2628	1.2889	1.3136	1.2628
October .....	1.2530	1.2677	1.2812	1.2517
November .....	1.2438	1.2473	1.2554	1.2394
December (through 26 December) .....	1.2188	1.2359	1.2504	1.2180

Note:

- (1) Determined by averaging the rates on the last business day of each month during the relevant year, except for monthly average rates, which are determined by averaging the daily rates during the respective periods.

## TAXATION

*The following summary of certain tax consequences relating to the Notes is based upon applicable laws, rules and regulations in effect as at the date of this Offering Memorandum, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Notes should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of Notes, including any possible consequences under the laws of their country of citizenship, residence or domicile.*

### PRC

#### *Taxation on Interest*

Pursuant to the EIT Law and its implementation regulations, enterprises that are established under laws of foreign countries and regions whose “**de facto management bodies**” are within the territory of the PRC may be deemed by the relevant PRC tax authorities to be PRC tax resident enterprises for the purpose of the EIT Law and required to pay enterprise income tax at the rate of 25 per cent. in respect of their income sourced from both within and outside China. If the relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the “**de facto management body**” of the Issuer is within the territory of the PRC, the Issuer may be held to be a PRC tax resident enterprise for the purpose of the EIT Law and be subject to enterprise income tax at the rate of 25 per cent. on its income sourced from both within and outside PRC.

The EIT Law, its implementation regulations impose withholding tax at the rate of 10 per cent., or a lower rate if tax treaty benefits are available, on PRC-source income paid to a “non-resident enterprise” that does not have an establishment or place of business in China or that has an establishment or place of business in China but the relevant income is not effectively connected therewith. Pursuant to these provisions of the EIT Law, in the event the Issuer is considered a PRC resident enterprise by the PRC tax authorities in the future, interest payable to non-resident enterprise holders of the Notes may be treated as income derived from sources within China and be subject to such PRC withholding tax. Further, in accordance with the Individual Income Tax Law of the PRC which was revised on 30 June 2011 and took effect on 1 September 2011 and its implementation regulations which was revised on 19 July 2011 and took effect on 1 September 2011, if the Issuer is considered a PRC tax resident enterprise, interest payable to non-resident individual holders of the Notes may be treated as income derived from sources within China and be subject to a 20 per cent. individual income tax; accordingly, if the Issuer is treated as a PRC tax resident enterprise, the Issuer would be obliged to withhold such individual income tax on payments of interests to non-resident individual holders of the Notes. To the extent that China has entered into arrangements relating to the avoidance of double-taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of withholding tax, such lower rate may apply to qualified holders of the Notes.

As confirmed by the Issuer, as at the date of this Offering Memorandum, the Issuer has not been given notice or informed by the PRC tax authorities that it is considered as a PRC tax resident enterprise for the purpose of the EIT Law, nor has it sought clarification from the PRC tax authorities in this regard. On that basis, non-resident enterprise holders of the Notes would not be subject to income tax imposed by any governmental authority in the PRC in respect of the holding of the Notes or any repayment of principal and payment of interest made thereon. However, there is no assurance that the Issuer will not be treated as a PRC tax resident enterprise under the EIT Law and related implementation regulations in the future.

#### *Stamp Duty*

No PRC stamp tax will be chargeable upon the issue or transfer of a Note to the extent that the register of holders of the Notes is maintained outside mainland China. The Issuer intends to maintain the register of holders of the Notes outside mainland China.



## **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 profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Under the Inland Revenue Ordinance (Cap. 112) of Hong Kong (the “**Inland Revenue Ordinance**”) as it is currently applied by the Inland Revenue Department, interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, professional or business carried on in Hong Kong in the following circumstances:

- (a) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or
- (b) interest on the Notes is derived from Hong Kong and is received by or accrues to a company carrying on a trade, profession or business in Hong Kong; or
- (c) interest on the Notes is derived from Hong Kong and is received by or accrues to a person other than a company (such as a partnership), carrying on a trade, profession or business in Hong Kong and is in respect of the funds of the trade, profession or business.

Sums derived from the sale, disposal or redemption of the Notes will 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. The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired and disposed of.

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 and redemption of the Notes will be subject to profits tax.

If the Notes are short or medium term debt instruments (as defined in the Inland Revenue Ordinance), profits tax will be assessable at one-half of the standard profits tax rate.

### ***Stamp duty***

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

### ***Estate duty***

No Hong Kong estate duty is payable in respect of the Notes.

## **United Kingdom**

### ***United Kingdom***

The following is a summary of the United Kingdom withholding taxation treatment at the date hereof in relation to payments of principal and interest in respect of the Notes. It is based on current law and the practice of Her Majesty’s Revenue and Customs (“**HMRC**”), which may be subject to change, sometimes with retrospective effect. The comments do not deal with other United Kingdom tax aspects of acquiring, holding or disposing of Notes. The comments relate only to the position of persons who are absolute beneficial owners of the Notes. The following is a general guide for information purposes and should be treated with appropriate caution. It is not intended as tax advice and it does not purport to describe all of the tax considerations that may be relevant to a prospective purchaser. Noteholders who are in any doubt

as to their tax position should consult their professional advisers. Noteholders who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of the Notes are particularly advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the Notes. In particular, Noteholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Notes even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.

#### ***UK Withholding Tax on UK Source Interest***

The Notes will constitute “quoted Eurobonds” provided they are and continue to be listed on a recognised stock exchange. Whilst the Notes are and continue to be quoted Eurobonds, payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax.

Securities will be “listed on a recognised stock exchange” for this purpose if they are admitted to trading on an exchange designated as a recognised stock exchange by an order made by the Commissioners for HMRC and either they are included in the United Kingdom official list (within the meaning of Part 6 of the Financial Services and Markets Act 2000) or they are officially listed, in accordance with provisions corresponding to those generally applicable in European Economic Area states, in a country outside the United Kingdom in which there is a recognised stock exchange.

The Irish Stock Exchange is a recognised stock exchange. The Issuer’s understanding of current HMRC practice is that securities which are officially listed and admitted to trading on the Global Exchange Market of that Exchange may be regarded as “listed on a recognised stock exchange” for these purposes.

Interest on the Notes may also be paid without withholding or deduction on account of United Kingdom tax where interest on the Notes is paid by a company and, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Notes is paid reasonably believes) that the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest, provided that HMRC has not given a direction (in circumstances where it has reasonable grounds to believe that it is likely that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

In cases falling outside the exemption described above, interest on the Notes that has a United Kingdom source may fall to be paid under deduction of United Kingdom income tax at the basic rate (currently 20%) subject to such relief as may be available following a direction from HMRC pursuant to the provisions of any applicable double taxation treaty, or to any other exemption which may apply.

If the Guarantor makes any payments in respect of interest on the Notes (or other amounts due under such Notes other than the repayment of amounts subscribed for the Notes) having a United Kingdom source such payments may be subject to United Kingdom withholding tax at the basic rate (currently 20%) subject to such relief as may be available under the provisions of any applicable double taxation treaty or to any other exemption which may apply. Such payments by the Guarantor may not be eligible for the exemption described above.

#### ***Provision of Information***

HMRC has powers to obtain information and documents relating to the Notes, including in relation to issues of and other transactions in the Notes, interest, payments treated as interest and other payments derived from the Notes. This may include details of the beneficial owners of the Notes, of the persons for whom the Notes are held and of the persons to whom payments derived from the Notes are or may be paid. Information may be obtained from a range of persons including persons who effect or are a party to such transactions on behalf of others, registrars and administrators of such transactions, the registered holders of the Notes, persons who make, receive or are entitled to receive payments derived from the Notes and persons by or through whom interest and payments treated as interest are paid or credited. Information obtained by HMRC may be provided to tax authorities in other jurisdictions.

### ***Notes Issued at a Discount or Premium***

The Notes are issued at an issue price of less than 100 per cent of their principal amount. This discount element on the Notes should not be subject to any United Kingdom withholding tax, but may be subject to reporting requirements as outlined above in “*Provision of Information*”. The Notes may be redeemed at a premium. Any such element of premium may constitute a payment of interest. Payments of interest are subject to United Kingdom withholding tax and reporting requirements as outlined above in “*Provision of Information*”.

### ***References to “interest”***

The references to “interest” in this “*United Kingdom*” section mean “interest” as understood in United Kingdom tax law. The statements above do not take any account of any different definitions of “interest” or “principal” which may prevail under any other law or which may be created by the terms and conditions of the Notes or any related documentation.

The above description of the United Kingdom withholding tax position assumes that there will be no substitution of the Issuer and does not consider the tax consequences of any such substitution.

### ***EU Savings Directive***

Under Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of other Member States details of certain payments of interest or similar income paid or secured by a person established in a Member State to or for the benefit of an individual resident in another Member State or certain limited types of entities established in another Member State.

On 24 March 2014, the Council of the European Union adopted a Council Directive amending and broadening the scope of the requirements described above. Member States are required to apply these new requirements from 1 January 2017. The changes will expand the range of payments covered by the Directive, in particular to include additional types of income payable on securities. The Directive will also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported. This approach will apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union. For a transitional period, Austria is required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments. The changes referred to above will broaden the types of payments subject to withholding in those Member States which still operate a withholding system when they are implemented.

The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

Investors who are in any doubt as to their position should consult their professional advisers.

### ***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 financial transactions tax in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “**Participating Member States**”).

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 the 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.

A joint statement issued in May 2014 by ten of the eleven Participating Member States indicated an intention to implement the FTT progressively, such that it would initially apply to shares and certain derivatives, with this initial implementation occurring by 1 January 2016. The FTT, as initially implemented on this basis, may not apply to dealings in the Notes.

The FTT proposal remains subject to negotiation between the Participating Member States. It may therefore be altered prior to any implementation. 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.

#### ***FATCA Withholding***

Whilst the Notes are in global form and held within the Clearing Systems, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Notes by the Issuer, the Guarantor, any paying agent and the common depositary for the Clearing Systems, given that each of the entities in the payment chain beginning with the Issuer and ending with the Clearing Systems is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an intergovernmental agreement will be unlikely to affect the Notes. The documentation expressly contemplates the possibility that the securities may go into definitive form and therefore that they may be taken out of the Clearing Systems. If this were to happen, then a non-FATCA compliant holder could be subject to withholding. However, definitive Notes will only be printed in remote circumstances.

## SUBSCRIPTION AND SALE

The Issuer and the Guarantor have entered into a subscription agreement with the Joint Lead Managers dated 20 January 2015 (the “**Subscription Agreement**”), pursuant to which and subject to certain conditions contained therein, the Issuer has agreed to sell to the Joint Lead Managers, and the Joint Lead Managers have agreed to subscribe and pay for, severally but not jointly or to procure subscribers to subscribe and pay for, the aggregate principal amount of each series of Notes indicated in the following table.

	Principal amount of the Series A Notes to be subscribed	Principal amount of the Series B Notes to be subscribed
	(EUR)	(EUR)
Deutsche Bank AG, London Branch.....	210,000,000	90,000,000
The Hongkong and Shanghai Banking Corporation Limited .....	210,000,000	90,000,000
Morgan Stanley & Co. International plc .....	210,000,000	90,000,000
Australia and New Zealand Banking Group Limited.....	17,500,000	7,500,000
Bank of China Limited.....	17,500,000	7,500,000
Barclays Bank PLC .....	17,500,000	7,500,000
The Royal Bank of Scotland plc .....	17,500,000	7,500,000
<b>Total</b> .....	<b>700,000,000</b>	<b>300,000,000</b>

The Subscription Agreement provides that the Issuer and the Guarantor will jointly and severally indemnify the Joint Lead Managers and their respective affiliates against certain liabilities in connection with the offer and sale of the Notes. The Subscription Agreement provides that the obligations of the Joint Lead Managers are subject to certain conditions precedent, and entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

The Issuer and the Guarantor have also entered into certain arrangements with the Co-managers in connection with the offer and sale of the Notes without the Co-managers taking on any underwriting commitment.

The Joint Lead Managers, the Co-managers and certain of their respective subsidiaries or affiliates have performed certain investment banking and advisory services for, and entered into certain commercial banking transactions with, the Issuer, the Guarantor, the Company and/or their respective subsidiaries, from time to time, for which they have received customary fees and expenses. The Joint Lead Managers, the Co-managers and their respective subsidiaries or affiliates may, from time to time, engage in transactions with and perform services for the Issuer, the Guarantor, the Company and/or their respective subsidiaries in the ordinary course of business.

In connection with the Offering of the Notes, the Joint Lead Managers, the Co-managers and/or their respective affiliate(s) may act as an investor for its own account and may take up Notes in the Offering and in that capacity may retain, purchase or sell for its own account such securities and any securities of the Issuer or the Guarantor or related investments and may offer or sell such securities or other investments otherwise than in connection with the Offering. Accordingly, references herein to the Notes being offered should be read as including any Offering of the Notes to the Joint Lead Managers, the Co-managers and/or their respective affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

### General

The distribution of this Offering Memorandum or any offering material and the offering, sale or delivery of the Notes is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Memorandum or any offering material are advised to consult their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Memorandum may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

No action has been or will be taken in any jurisdiction by the Issuer, the Guarantor, the Company, the Joint Lead Managers or the Co-managers that would permit a public offering, or any other offering under circumstances not permitted by applicable law, of the Notes, or possession or distribution of this Offering Memorandum, any amendment or supplement thereto issued in connection with the proposed resale of the Notes or any other offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Memorandum nor any other offering material or advertisements in connection with the Notes may be distributed or published, by the Issuer, the Guarantor, the Company, the Joint Lead Managers or the Co-managers, in or from any country or jurisdiction, except in circumstances which will result in compliance with all applicable rules and regulations of any such country or jurisdiction and will not impose any obligations on the Issuer, the Guarantor, the Company, the Joint Lead Managers or the Co-managers. If a jurisdiction requires that an offering of Notes be made by a licensed broker or dealer and the Joint Lead Managers or the Co-managers or any affiliate of the Joint Lead Managers or the Co-managers is a licensed broker or dealer in that jurisdiction, such offering shall be deemed to be made by the Joint Lead Managers or the Co-managers or such affiliate on behalf of the Issuer in such jurisdiction.

### United States

Neither the Notes nor the Guarantee have been and will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”) and may not be offered or sold within the United States. The Notes and the Guarantee are being offered and sold only outside the United States in offshore transactions in reliance on Regulation S under the Securities Act.

### European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), each Joint Lead Manager represents and agrees that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State, it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Memorandum to the public in that Relevant Member State other than:

- (a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall require the Issuer or any Joint Lead Manager 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 the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, 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.

### Italy

The offering of the Notes has not been registered pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of this Offering Memorandum or of any other document relating to the Notes be distributed in the Republic of Italy, except:

- (i) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the “**Financial Services Act**”) and Article 34-ter, first paragraph, letter (b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time (“**Regulation No. 11971**”); or



- (ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-ter of Regulation No. 11971.

Any offer, sale or delivery of the Notes or distribution of copies of this Offering Memorandum or any other document relating to the Notes in the Republic of Italy under (i) or (ii) above must be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29 October 2007 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993, as amended (the “**Banking Act**”); and
- (b) in compliance with Article 129 of the Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and
- (c) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or other Italian authority.

### **United Kingdom**

The Joint Lead Managers have represented, warranted and agreed:

- (a) they have only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the “**FSMA**”)) received by them 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; and
- (b) they have complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

### **Hong Kong**

The Joint Lead Managers have represented and agreed that:

- (a) they have not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to professional investors as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong 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
- (b) they have not issued or had in their 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 of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the 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 Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance.

### **The People’s Republic of China**

The Joint Lead Managers have represented, warranted and agreed that the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the People’s Republic of China (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan) as part of the initial distribution of the Notes, except as permitted by the securities laws of the People’s Republic of China.

## GENERAL INFORMATION

1. **Clearing Systems:** The Series A Notes have been accepted for clearance through Euroclear and Clearstream under Common Code 116575485 and ISIN XS1165754851. The Series B Notes have been accepted for clearance through Euroclear and Clearstream under Common Code 116575663 and ISIN XS1165756633.
2. **Authorisations:** The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of its obligations under the Notes, the Trust Deed, the Agency Agreement and the Keepwell Deed. The issue of the Notes was authorised by resolutions of the board of directors of the Issuer on 5 January 2015. The Guarantor has obtained all necessary consents, approvals and authorisations in connection with the giving and performance of the Guarantee and the execution of the Trust Deed, the Agency Agreement and the Keepwell Deed. The giving of the Guarantee was authorised by resolutions of the sole director of the Guarantor on 5 January 2015. The Company has obtained all necessary consents, approvals and authorisations in connection with entry into the Keepwell Deed and the entry into the Keepwell Deed in connection with the Notes was authorised by approval of the management of the Company on 31 October 2014. PRC counsels to the Joint Lead Managers have advised that no approvals or consents are required from any regulatory authorities or other relevant authorities in the PRC for the Company to enter into the Keepwell Deed and the Trust Deed.
3. **No Material Adverse Change:** Except as disclosed otherwise in this Offering Memorandum, there has been no significant change in the financial or trading position of the Guarantor and the Group since 30 June 2014.
4. **Litigation:** There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or the Guarantor is aware) in the 12 months preceding the date of this Offering Memorandum which may have or have in such period had a significant effect upon the financial position or profitability of the Issuer, the Guarantor or the Group.
5. **Available Documents:** Copies of the Company's audited financial statements for the years ended 31 December 2012 and 2013, copies of the Guarantor's audited financial statements for the years ended 31 December 2012 and 2013, the Guarantor's unaudited but reviewed financial statements for six months ended 30 June 2014, the Trust Deed (which contains the Guarantee), the Agency Agreement, the Keepwell Deed and the Articles of Association of each of the Issuer, the Guarantor and the Company will be available for inspection in both physical and electronic format from the Issue Date at the Guarantor's principal place of business in Hong Kong at Suite 1304, 13F Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong, during normal business hours, while the Notes remain outstanding and listed on the Global Exchange Market of the Irish Stock Exchange. Each of the Guarantor and the Company prepares its annual financial statements each year.
6. **Financial Statements:** The selected consolidated financial statements of the Company are prepared under the PRC GAAP. These selected consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in other countries and jurisdictions.

The audited consolidated financial statements of the Guarantor as at and for the year ended 31 December 2012 and 2013 which have been audited by EY as stated in their respective reports appearing herein, are included elsewhere in this Offering Memorandum. The consolidated financial statements of the Guarantor as at and for the six months ended 30 June 2014, which are included elsewhere in this Offering Memorandum, have not been audited but have been reviewed by EY. The consolidated financial statements of the Guarantor are prepared under the HKFRS. These published consolidated financial statements of the Guarantor are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in other countries and jurisdictions.

7. **Listing:** Application has been made to the Irish Stock Exchange plc for the approval of this Offering Memorandum as the Listing Particulars. Application has been made to the Irish Stock Exchange for the Notes by way of debt issues to professional investors only to be admitted to the Official List and trading on the Global Exchange Market which is the exchange regulated market of the Irish Stock Exchange. The Global Exchange Market is not a regulated market for the purposes of Directive 2004/39/EC. It is expected that dealing in, and listing of, the Notes on the Irish Stock Exchange will commence on or around 27 January 2015. Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in relation to the Notes and is not itself seeking admission of the Notes to the Official List of the Irish Stock Exchange or to trading on the Global Exchange Market of the Irish Stock Exchange. The estimate of the total expenses related to admission to trading is €5,000.

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## **Independent auditors' report**

### **To the directors of State Grid International Development Limited**

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of State Grid International Development Limited (the "Company") and its subsidiaries (together, the "Group") which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Directors' responsibility for the consolidated financial statements**

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

### **Auditors' responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

**Independent auditors' report (continued)**

**To the directors of State Grid International Development Limited**  
(Incorporated in Hong Kong with limited liability)

**Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

S/S Ernst & Young  
Certified Public Accountants  
Hong Kong  
6 January 2015



STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
Year ended 31 December 2012

	Notes	2012 HK\$	2011 HK\$
REVENUE	5	2,164,769,529	2,429,950,409
Cost of sales		( <u>285,423,232</u> )	( <u>323,885,285</u> )
Gross profit		1,879,346,297	2,106,065,124
Other income	6	614,002,258	468,030,199
Administrative and other expenses		( 311,627,477 )	( 145,816,985 )
Finance costs	8	( 506,039,919 )	( 545,843,534 )
Exchange gains/(losses)		25,005,724	( 226,887,330 )
Share of profit of an associate and joint ventures		1,695,603,525	1,614,638,519
Other expense		( <u>244,932,951</u> )	( <u>15,151,176</u> )
PROFIT BEFORE TAX	7	3,151,357,457	3,255,034,817
Income tax expense	10	( <u>898,588,817</u> )	( <u>652,991,404</u> )
PROFIT FOR THE YEAR		<u>2,252,768,640</u>	<u>2,602,043,413</u>
OTHER COMPREHENSIVE INCOME			
Changes in fair value of available-for-sale investments		816,990,108	(2,260,874,416)
Amount transferred to profit from other comprehensive income		227,147,854	-
Effective portion of changes in fair value of net investment hedging instruments arising during the year		( 84,261,000 )	-
Exchange differences on translation of foreign operations		( <u>784,772,305</u> )	( <u>1,103,005,185</u> )
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		<u>2,427,873,297</u>	( <u>761,836,188</u> )

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
31 December 2012

	Notes	2012 HK\$	2011 HK\$
NON-CURRENT ASSETS			
Property, plant and equipment	12	835,601,447	872,786,866
Investment properties		15,728,144	-
Other Intangible assets	13	147,232,553	160,663,844
Investment in associates and jointly-controlled entities	14	12,570,907,467	4,259,816,585
Available-for-sale investments	15	8,946,526,521	7,894,414,637
Goodwill	16	668,056,427	407,971,095
Financial assets- Concession	17	16,045,151,282	10,357,235,845
Other non-current assets	18	<u>963,990,495</u>	<u>187,377,563</u>
Total non-current assets		<u>40,193,194,336</u>	<u>24,140,266,435</u>
CURRENT ASSETS			
Inventories	19	40,473,866	27,339,532
Trade receivables	20	351,188,985	264,308,751
Prepayments, deposits and other receivables	21	361,588,873	405,336,243
Financial assets- Concession	17	2,479,175,929	2,355,155,536
Cash and cash equivalents	23	<u>6,249,850,086</u>	<u>3,724,986,705</u>
Total current assets		<u>9,482,277,739</u>	<u>6,777,126,767</u>
CURRENT LIABILITIES			
Trade and bills payables	24	51,392,475	91,231,115
Other payables and accruals	22	766,096,115	526,307,194
Tax payable		195,147,398	98,590,691
Interest-bearing bank borrowings	26	<u>5,635,679,432</u>	<u>4,870,530,000</u>
Total current liabilities		<u>6,648,315,420</u>	<u>5,586,659,000</u>
NET CURRENT ASSETS		<u>2,833,962,319</u>	<u>1,190,467,767</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>43,027,156,655</u>	<u>25,330,734,202</u>

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)  
31 December 2012

	Notes	2012 HK\$	2011 HK\$
NON CURRENT LIABILITIES			
Interest-bearing bank borrowings	26	16,362,837,016	12,186,539,336
Deferred tax liabilities	27	1,244,252,843	741,235,833
Provisions	28	408,386,666	87,322,567
Other non-current liabilities		<u>13,187,577</u>	<u>207,210</u>
Total non-current liabilities		<u>18,028,664,102</u>	<u>13,015,304,946</u>
Net assets		<u>24,998,492,553</u>	<u>12,315,429,256</u>
EQUITY			
Issued capital	29	19,555,190,000	9,300,000,000
Reserves		7,057,414,548	3,844,768,946
Exchange fluctuation reserve		( 1,614,111,995)	( 829,339,690)
Total equity		<u>24,998,492,553</u>	<u>12,315,429,256</u>

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Zhu Guangchao  
Director

**STATE GRID INTERNATIONAL DEVELOPMENT LIMITED**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
Year ended 31 December 2012

	Issued capital HK\$	Capital reserve HK\$	Available-for-sale investments reserve HK\$	Retained earnings HK\$	Exchange fluctuation reserve HK\$	Total HK\$	
At 1 January 2011	9,300,000,000	523,422,572	966,786,921	2,013,390,456	273,665,495	13,077,265,444	
Profit for the year	-	-	-	2,602,043,413	-	2,602,043,413	
Other comprehensive loss for the year:							
Changes in fair value of available-for-sale investments, net of tax	-	-	(2,260,874,416)	-	-	( 2,260,874,416)	
Exchange differences on translation of foreign operations	-	-	-	-	(1,103,005,185)	( 1,103,005,185)	
Total comprehensive loss for the year	-	-	(2,260,874,416)	2,602,043,413	(1,103,005,185)	( 761,836,188)	
At 31 December 2011	<u>9,300,000,000</u>	<u>523,422,572 *</u>	<u>(1,294,087,495) *</u>	<u>4,615,433,869 *</u>	<u>( 829,339,690)</u>	<u>12,315,429,256</u>	
	Issued capital HK\$	Capital reserve HK\$	Available-for-sale investments reserve HK\$	Retained earnings HK\$	Hedging reserve HK\$	Exchange fluctuation reserve HK\$	Total HK\$
At 1 January 2012	9,300,000,000	523,422,572	(1,294,087,495)	4,615,433,869	-	( 829,339,690)	12,315,429,256
Profit for the year	-	-	-	2,252,768,640	-	-	2,252,768,640
Other comprehensive loss for the year:							
Changes in fair value of available-for-sale investments, net of tax	-	-	816,990,108	-	-	-	816,990,108
Impairment losses of available-for-sale assets	-	-	227,147,854	-	-	-	227,147,854
Exchange differences on translation of foreign operations	-	-	-	-	-	( 784,772,305)	( 784,772,305)
Effective portion of net changes in fair value of net investment hedging instruments	-	-	-	-	(84,261,000)	-	( 84,261,000)
Total comprehensive loss for the year	-	-	1,044,137,962	2,252,768,640	(84,261,000)	( 784,772,305)	2,427,873,297
Increase in capital	<u>10,255,190,000</u>	-	-	-	-	-	<u>10,255,190,000</u>
At 31 December 2012	<u>19,555,190,000</u>	<u>523,422,572 *</u>	<u>( 249,949,533) *</u>	<u>6,868,202,509 *</u>	<u>(84,261,000) *</u>	<u>(1,614,111,995)</u>	<u>24,998,492,553</u>

\* These reserve accounts comprise the consolidated reserves of HK\$7,057,414,548 (2011: HK\$3,844,768,946) in the consolidated statement of financial position.

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
CONSOLIDATED STATEMENT OF CASH FLOWS  
Year ended 31 December 2012

	Notes	2012 HK\$	2011 HK\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		3,151,357,457	3,255,034,817
Adjustments for:			
Finance costs	8	506,039,919	545,843,534
Finance income	6	( 262,912,774 )	( 142,960,617 )
Foreign exchange differences, net	7	( 25,005,724 )	226,887,330
Dividend income from listed investments		( 351,089,484 )	( 301,522,897 )
Share of profit of associates		( 1,695,603,525 )	( 1,614,638,519 )
Impairment of trade receivables	20	12,312,046	-
Impairment of available-for-sale assets	15	227,147,854	-
Depreciation of property, plant and equipment	12	6,964,770	696,703
Amortisation of intangible assets and non-current assets	7	460,630	205,267
Gain on disposal of items of property, plant and equipment	7	-	( 8,392,394 )
Increase in inventories		( 15,439,125 )	( 4,223,790 )
Increase in trade and bills receivables		11,478,323	( 35,857,867 )
Decrease /(increase) in prepayments, deposits and other receivables		224,325,942	( 71,328,167 )
Decrease in amount due from a fellow subsidiary		-	5,651,328
Decrease in long-term receivables		( 2,959,131 )	216,043,825
Decrease /(increase) in trade and bills payables		( 6,416,017 )	25,420,545
Increase/(decrease) in other payables and accruals		( 14,284,648 )	( 24,492,330 )
Decrease /(increase) in amount due to related parties	25	( 6,040,327 )	2,554,674
Income taxes paid		( 471,842,940 )	( 577,391,557 )
Net cash flow from operating activities		<u>1,288,493,246</u>	<u>1,497,529,885</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		( 94,731,038 )	( 872,771,507 )
Proceeds from disposals of items of property, plant and equipment		-	8,397,406
Investment in available-for-sale investments		( 235,121,776 )	( 628,515,210 )
Acquisition of subsidiaries	30	( 3,106,521,908 )	( 155,958,544 )
Guarantee received from acquisition of subsidiaries		264,726,075	-
Investment in associates		( 8,386,500,993 )	-
Interest received		244,321,828	142,960,617
Dividend received from listed investments		351,089,484	301,522,897
Dividend received from an associate		<u>1,126,952,555</u>	<u>1,343,475,052</u>
Net cash flows (used in) /from investing activities		<u>( 9,835,785,773 )</u>	<u>139,110,711</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Increase in capital from parent		10,255,190,000	-
Proceeds from bank loans		15,730,523,668	6,539,323,314
Repayment of bank loans		(14,092,086,894)	( 5,318,437,725 )
Interest paid		( 547,199,214 )	( 520,151,859 )
Net cash flows from/(used in) financing activities		<u>11,346,427,560</u>	<u>700,733,730</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		2,799,135,033	2,337,374,326
Cash and cash equivalents at beginning of year		3,724,986,705	1,533,019,616
Effect of foreign exchange rate changes, net		( 274,271,652 )	( 145,407,237 )
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	<u>6,249,850,086</u>	<u>3,724,986,705</u>

1. CORPORATE INFORMATION

State Grid International Development Limited (the “Company”) was incorporated on 30 October 2007 under the Hong Kong Companies Ordinance. In August 2012, the shareholder of the Company changed from State Grid Corporation of China to State Grid International Development Co., Ltd.. The issued capital of the Company is HK\$19,555,190,000. The registered office is located at Suite 1304, 13F, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong.

The Company commenced its operations as an investment holding company in June 2008. The principal activities include providing resources and logistics services; acting as agent for tenders and purchase; manufacturing electricity devices; research and development of electricity technology products; investment, exploitation and management of electricity; operation and maintenance of electricity networks; other business include the provision of work design, construction, management, consultancy and technical services.

In the opinion of directors, the ultimate holding company is State Grid Corporation of China. Its registered office is located at 86 West Chang An Avenue, Xicheng District, Beijing, China.



STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
NOTES TO FINANCIAL STATEMENTS  
31 December 2012

1. CORPORATE INFORMATION (continued)

Particulars of the subsidiaries as at the end of the year are as follows:

	Place of incorporation	Principal activities	Nominal value of issued and fully paid-up capital	Percentage of equity interest attributable to the Company
Expansion Transmissora Itumbiara Marimbondo S.A.	Brazil Rio de Janeiro	Grid operating	BRL 58,500,000	100%
Expansion Transmissora de Energia Eletrica S.A.	Brazil Rio de Janeiro	Grid operating	BRL 82,518,088	100%
Itumbiara Transmissora de Energia S.A.	Brazil Rio de Janeiro	Grid operating	BRL 373,710,000	100%
Pocosde Caldas Transmissora de Energia Eletrica S.A.	Brazil Rio de Janeiro	Grid operating	BRL 208,350,900	100%
Ribeirao Preto Transmissora de Energia Eletrica S.A.	Brazil Rio de Janeiro	Grid operating	BRL 170,886,000	100%
Serra Paracatu Transmissora de Energia S.A.	Brazil Rio de Janeiro	Grid operating	BRL 165,300,000	100%
Serra da Mesa Transmissora de Energia Eletrica S.A.	Brazil Rio de Janeiro	Grid operating	BRL 274,500,000	100%
Araraquara Transmissora De Energia S.A.*	Brazil Rio de Janeiro	Grid operating	BRL 155,701,128	100%
Catxere Transmissora De Energia S.A.*	Brazil Rio de Janeiro	Grid operating	BRL 313,298,233	100%
Iracema Transmissora De Energia S.A.*	Brazil Rio de Janeiro	Grid operating	BRL 209,462,000	100%
Linhas De Transmissao Do Itatim S.A.*	Brazil Rio de Janeiro	Grid operating	BRL 236,160,000	100%
Porto Primavera Transmissora De Energia S.A.*	Brazil Rio de Janeiro	Grid operating	BRL 194,035,000	100%
SGBH Expansao Participacoes Ltda.	Brazil Rio de Janeiro	Project investment and financing	BRL 621,000,000	100%
SGBH Transmissao Participacoes Ltda.	Brazil Rio de Janeiro	Project investment and financing	BRL 251,000,000	100%
International Grid Holdings Limited	British Virgin Islands	Project investment and financing	USD1	100%

\*On December 14, 2012 ,SGBH acquired these subsidiaries in Brazil and these are concession operators for transmission of electricity. Please refer to Note 28 for more information.

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
NOTES TO FINANCIAL STATEMENTS  
31 December 2012

1. CORPORATE INFORMATION (continued)

	Place of incorporation	Principal activities	Nominal value of issued and fully paid-up capital	Percentage of equity interest attributable to the Company
Top View Grid Investment Limited	British Virgin Islands	Project investment and financing	USD1	100%
State Grid Brazil Holding S.A. ("SGBH")	Brazil Rio de Janeiro	Project investment and financing	BRL 2,494,172,500	100%
State Grid Europe Limited	Britain	Project investment and financing	GBP50,000	100%
State Grid International Asia-Australia Holdings Limited	Hong Kong	Project investment and financing	AUD 570,000,000	100%

2.1 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong.

2.2 BASIS OF PREPARATION

The directors considered these financial statements are neither for statutory purpose nor prepared in accordance with Hong Kong Companies Ordinance. Thus a report from the directors containing disclosures as required by Hong Kong Companies Ordinance is not presented and a company's statement of financial position is not included.

These financial statements have been prepared under the historical cost convention, except for available-for-sale investments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest dollar except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of the subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

## 2.2 BASIS OF PREPARATION (continued)

### Basis of consolidation (continued)

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained, and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

## 2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 Amendment	Amendment to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i>
HKAS 12 Amendments	Amendments to HKAS 12 <i>Income Taxes – Deferred Tax: Recovery of Underlying Assets</i>

The adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

## 2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Government loans</i> <sup>2</sup>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities</i> <sup>2</sup>
HKFRS 9	<i>Financial Instruments</i> <sup>4</sup>
HKFRS 10	<i>Consolidated Financial Statements</i> <sup>2</sup>
HKFRS 11	<i>Joint Arrangements</i> <sup>2</sup>
HKFRS 12	<i>Disclosure of Interests in Other Entities</i> <sup>2</sup>
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – <i>Transition Guidance</i> <sup>2</sup>
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – <i>Investment Entities</i> <sup>3</sup>
HKFRS 13	<i>Fair Value Measurement</i> <sup>2</sup>
HKAS 1 Amendments	Amendments to HKAS 1 <i>Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income</i> <sup>1</sup>
HKAS 19 (2011)	<i>Employee Benefits</i> <sup>2</sup>
HKAS 27 (2011)	<i>Separate Financial Statements</i> <sup>2</sup>
HKAS 28 (2011)	<i>Investments in Associates and Joint Ventures</i> <sup>2</sup>
HKAS 32 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities</i> <sup>3</sup>
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012 <sup>2</sup>

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS  
(continued)

- <sup>1</sup> Effective for annual periods beginning on or after 1 July 2012
- <sup>2</sup> Effective for annual periods beginning on or after 1 January 2013
- <sup>3</sup> Effective for annual periods beginning on or after 1 January 2014
- <sup>4</sup> Effective for annual periods beginning on or after 1 January 2015

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address the classification and measurement of financial liabilities and derecognition of financial instruments. HKFRS 9 retains the current derecognition principles and the classification and measurement requirements for financial liabilities under HKAS 39 except for the measurement of financial liabilities that are designated at fair value through profit or loss using the fair value option. For financial liabilities measured at fair value through profit or loss, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Company expects to adopt HKFRS 9 from 1 January 2015.

HKFRS 13 establishes a single source of guidance under HKFRS for all fair value measurements. The standard does not change when an entity is required to use fair value, but provides guidance on how to measure fair value under HKFRS when fair value is required or permitted by other HKFRSs. The Company expects to adopt HKFRS 13 prospectively from 1 January 2013.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in HK(SIC)-Int 12. Based on the preliminary analyses performed, HKFRS 10 is not expected to have any impact on the currently held investments of the Group.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS  
(continued)

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

In July 2012, the HKICPA issued amendments to HKFRS 10, HKFRS 11 and HKFRS 12 which clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied.

The amendments to HKFRS 10 issued in December 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in HKFRS 10.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (2011), HKAS 28 (2011), and the subsequent amendments to these standards issued in July and December 2012 from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

The HKAS 1 Amendments change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1 January 2013.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013.

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS  
(continued)

The HKAS 32 Amendments clarify the meaning of “currently has a legally enforceable right to setoff” for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

The Annual Improvements to HKFRSs 2009-2011 Cycle issued in June 2012 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2013. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group’s policies are as follows:

- (a) HKAS 1 *Presentation of Financial Statements*: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

- (b) HKAS 32 *Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 *Income Taxes*. The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distributions to equity holders.

The following issued but not yet effective accounting standards also include: HKFRS 9, HKFRS 7 and HKAS 39 Amendments- Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39; HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments-Investment Entities; HKFRS 14-Regulatory Deferral Accounts; HKAS 19 Amendments- Defined Benefit Plans: Employee Contributions; HKAS 36 Amendments- Recoverable Amount Disclosures for Non-Financial Assets; HK(IFRIC)-Int 21-Levies; HKFRS 9 (2014); HKFRS 10 and HKAS 28 Amendments- Contribution of Assets between an Investor and its Associate or Joint Venture; HKFRS 11 Amendments- Accounting for Acquisitions of Interests in Joint Operations; HKFRS 15- Revenue from Contracts with Customers; HKAS 16 and HKAS 38 Amendments- Clarification of Acceptable Methods of Depreciation and Amortisation; HKAS 16 and HKAS 41 Amendments- Bearer Plants; HKAS 27 (2011) Amendments- Equity Method in Separate Financial Statements; 2010-2012 Cycle-Amendments to a number of HKFRSs issued in December 2013; 2011-2013 Cycle- Amendments to a number of HKFRSs issued in December 2013; Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle- Amendments to a number of HKFRSs issued in January 2014; 2012-2014 Cycle- Amendments to a number of HKFRSs issued in October 2014. The Group is not yet in a position to ascertain their impact on its results of operations and financial position.



## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

The results of subsidiaries are included in profit or loss to the extent of dividends received and receivable. Investments in subsidiaries are stated at cost less any impairment losses.

### Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits or losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

- (a) a subsidiary, if the Group/Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to the joint venture's financial and operating policies;
- (b) a jointly-controlled entity, if the Group/Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;
- (c) an associate, if the Group/Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or
- (d) an equity investment accounted for in accordance with HKAS 39, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

### Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's investments in jointly-controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's investments in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's investments in jointly-controlled entities.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly-controlled entities (continued)

The results of jointly-controlled entities are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in jointly-controlled entities are treated as noncurrent assets and are stated at cost less any impairment losses.

When an investment in a jointly-controlled entity is classified as held for sale, it is accounted for in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Company has a long term interest of generally not less than 20% of the equity voting rights and has the ability to significantly influence, but not control or joint control, over its management, including participation in the financial and operating policy decision.

The results of an associate are included in profit or loss to the extent of dividends received and receivable. An interest in an associate is accounted for as a non-current asset and is stated at cost less any impairment losses.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed in these circumstances is measured based on the relative value of the disposed operation and the portion of the cash-generating unit retained.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

or

- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Group are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Group are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
  - (vii) a person identified in (a)(i) 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).

Property, plant and equipment and depreciation

Items of plant and equipment are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Land and buildings are measured at fair value less any subsequent accumulated depreciation and impairment loss.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any revaluation surplus or deficit is dealt with as a movement in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Depreciation is calculated on a straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Land and buildings	2% to 4.75%
Office equipment	13.57%
Office renovation	20%
Transport equipment	33.33%

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

The assets' residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are land and buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land and buildings held for a currently undetermined future use. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value with changes in fair value recognised in profit or loss.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

For an intangible asset with an indefinite useful life, the Group should perform impairment test every year no matter whether there is any indication that the intangible asset may be impaired. Such intangible assets are not amortised and the useful life will be reviewed in every accounting period. If there is an indication that the useful life is finite, it would be amortised according to the accounting policy for the intangible assets with a finite useful life.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Intangible assets include software and other rights, and way of transmission lines.

*Software and other rights*

Software and other rights are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives.

*Way of transmission lines*

Way of transmission lines is not amortized but tested annually for impairment, which is stated at cost less any impairment losses.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets, investment properties, goodwill and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.



2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

*Initial recognition and measurement*

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

*Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

- (a) **Loans and receivables**  
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other expenses for receivables.
- (b) **Available-for-sale financial investments**  
Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.  
  
After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss in other expenses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

(b) Available-for-sale financial investments (continued)

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Available-for-sale financial investments*

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through profit or loss if the increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

*Initial recognition and measurement*

Financial liabilities within the scope of HKAS 39 are classified as loans and borrowings, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, an amount due to the ultimate holding company and interest-bearing bank and other borrowings.

*Subsequent measurement*

The subsequent measurement of financial liabilities depends on their classification as follows:

*Loans and borrowings*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

*Financial guarantee contracts*

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities(continued)

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Derivative financial instruments and hedge accounting

*Initial recognition and subsequent measurement*

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or
- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting(continued)

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

*Hedges of a net investment*

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a similar way to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the income statement.

*Current versus non-current classification*

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.



2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Transmission Concessions

The Group's subsidiaries in Brazil entered into electricity transmission concession agreements with the local government. These concession contracts regulate the activities of electricity transmission by the these subsidiaries, where:

- a) The contract establishes which services the operator shall render;
- b) The contract establishes performance standards related to maintaining and improving service quality to the consumers.
- c) Assets are revertible at the end of the concession and are entitled to indemnification (cash) from the Federal Government on investments not yet amortised, determined by the new replacement value.
- d) The price (tariff) is regulated and denominated Annual Allowed Revenue (RAP).

Adoption of HKFRIC 12 - Services Concession Agreements ("HKFRC 12"), applicable to public-private concession contracts in which the public entity:

- a) Controls or regulates the type of services that may be rendered, with resources to the underlying infrastructure;
- b) Controls or regulates the price for the services rendered;
- c) Controls/holds significant interest in the infrastructure at the end of the concession.

A public-private concession typically presents the following characteristics:

- a) An infrastructure underlying to the concession, which is used to render services;
- b) An agreement/contract between the Federal Government and operator;
- c) The operator renders a set of services during the concession;
- d) The operator receives compensation throughout the term of the concession agreement, either directly from the Federal Government, or from users of the infrastructure, or from both;
- e) Infrastructures are transferred to the Federal Government at the end of the concession, usually free of charge or also by means of payment.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Transmission Concessions (continued)

According to HKFRIC 12, concession infrastructures qualifying in the rule are not recognized by the concessionaire as fixed assets, once the operator is not deemed to be in control of such assets. These are, therefore, accounted for using one of the following accounting models, depending on the type of compensation commitment assumed by the Federal Government within the scope of the contract:

1) Financial asset model

This model is applicable when the concessionaire has an unconditional right to receive certain monetary amounts regardless of the level of usage of the infrastructures under the concession and it results in registering a financial asset, which was classified as loans and receivables.

2) Intangible asset model

This model is applicable when the concessionaire, within the scope of the concession, is compensated based on the degree of infrastructures usage (credit risk and demand) related to the concession, and it results in registering an intangible asset.

Based on the characteristics established in the electric power transmission service concession arrangement, the Group considers the concession arrangement falls in the scope of IFRIC 12 and financial assets model was adopted. Accordingly, the following accounting treatments are adopted:

- Estimated portion of investments made and not amortized or depreciated through the end of the concession, classified as a financial asset since it is an unconditional right to receive cash or other financial assets directly from the granting authority;
- Receivable from the granting authority is measured by the estimated future cash flows method of the portion specified in the RAP for the construction and improvement of the transmission net work, discounted by the internal rate of return of the project; and
- Revenue from operating and maintenance in an amount sufficient to cover the costs to satisfy the operation and maintenance obligations provided for in the service concession agreement; and
- Financial revenue is recognised on the rights of receivables due from the granting authority's payment to achieve the internal rate of return of the project.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

*Concession revenue*

a) Operation and maintenance revenue

The operation and maintenance revenue is recognized at the amount intended by the granting authority to meet the costs of operation and maintenance of transmission assets.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

*Concession revenue* (continued)

b) Construction revenue

The Company recognizes revenues and costs from services of construction or improvement of the infrastructure used in the rendering of electric energy transmission services. The margin of construction adopted is established as equal to zero, considering that: (i) the Company's primary activity is the transmission of electricity; (ii) every construction revenue is related to the construction of infrastructure for the Company to perform its primary activity and (iii) the Company outsources the construction of infrastructure to unrelated parties.

c) Financial revenue from concession

Financial revenue accounted for by remuneration for granting the discounted rate, which represents the internal rate of return of the project, the unconditional flow of funds established by the granting authority through annual revenue allowed.

*Interest income*

On an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

*Dividend income*

Recognized when the shareholders' right to receive payment has been established.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the income statement.

Differences arising on settlement or translation of monetary items are recognised in the income statement with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries, jointly-controlled entities and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries and jointly-controlled entities (where proportionate consolidation is adopted) are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries and jointly-controlled entities (where proportionate consolidation is adopted) which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

### 3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

#### Judgements

In the process of applying the Group's accounting policies, management has made the following judgements apart from those involving estimations which have the most significant effect on the amounts recognised in the financial statements.

(a) Impairment of available-for-sale financial investments

For available-for-sale financial investments, a significant or prolonged decline in fair value below cost is considered to be an objective evidence of impairment. Significant judgement is required when determining whether a decline in fair value has been significant or prolonged. In making this judgement, the historical data on market volatility as well as the price of the specific investment are taken into account. The Group also considers other factors, such as industry and sector performance and financial information regarding the investee.

(b) Income taxes

Significant management judgements on the future tax treatment of certain transactions are required in determining income tax provisions. The Group carefully evaluates tax implications of transactions and tax provisions are recorded accordingly. The tax treatment of such transactions is reconsidered annually to take into account all changes in tax legislation.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

(c) Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below:

(a) Impairment of property, plant and equipment

Items of property, plant and equipment are tested for impairment if there is any indication that the carrying value of these assets may not be recoverable and the assets are subject to an impairment loss. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the relevant cash-generating unit and a suitable discount rate is used in order to calculate the present value.

(b) Impairment of trade receivables

The Group maintains an allowance for estimated loss arising from the inability of its customers to make the required payments. The Group makes its estimates based on the ageing of its trade receivable balances, customers' creditworthiness, and historical write-off experience. If the financial condition of its customers was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance.

(c) Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.



4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their geographical areas and has two reportable operating segments as follows:

- (a) the Brazil segment is engaged in the operation and maintenance of electricity networks;
- (b) the “Corporate” segment comprises, principally, the Group's investments in majority associates and joint-ventures outside of Brazil.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of profit/(loss) before tax from continuing operations.

Segment assets and liabilities are also reviewed by the management for decision making.

Year ended 31 December 2012	Brazil HK\$	Corporate HK\$	Consolidated HK\$
<b>Segment revenue:</b>			
Operating revenue	<u>2,164,769,529</u>	<u>-</u>	<u>2,164,769,529</u>
<b>Segment results</b>	744,596,696	1,671,595,311	2,416,192,007
<i>Reconciliation</i>			
Elimination of other income			( 208,829,685 )
Elimination of finance costs			208,829,685
Exchange losses			<u>735,165,450</u>
Profit before tax from continuing operations			<u>3,151,357,457</u>
<b>Segment assets</b>	25,630,129,141	56,221,721,796	81,851,850,937
<i>Reconciliation</i>			
Elimination of other receivables			( 17,017,985,378 )
Long term equity investment			( 15,158,393,484 )
Total assets			<u>49,675,472,075</u>
<b>Segment liabilities</b>	15,819,014,333	26,027,441,111	41,846,455,444
<i>Reconciliation</i>			
Elimination of other payables			( 14,146,390,922 )
Elimination of long-term loans			( 3,023,085,000 )
Total liabilities			<u>24,676,979,522</u>
<b>Other segment information:</b>			
Share of profits and losses of:			
Joint ventures	( 1,194,638 )	-	( 1,194,638 )
associates	-	1,696,798,163	1,696,798,163
Impairment losses recognised in the statement of profit	12,312,046	-	12,312,046
Depreciation and amortisation	7,310,520	114,880	7,425,400
Capital expenditure*	<u>27,361,887</u>	<u>-</u>	<u>27,361,887</u>

\* Capital expenditure consists of additions to property, plant and equipment, other intangible assets and investment properties.

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4. OPERATING SEGMENT INFORMATION

Year ended 31 December 2011	Brazil HK\$	Corporate HK\$	Consolidated HK\$
<b>Segment revenue:</b>			
Operating revenue	<u>2,429,950,409</u>	<u>-</u>	<u>2,429,950,409</u>
<b>Segment results</b>	693,205,077	2,036,836,876	2,730,041,953
<i>Reconciliation</i>			
Elimination of other income			( 156,324,657 )
Elimination of finance costs			156,324,657
Exchange losses			<u>524,992,864</u>
Profit before tax from continuing operations			<u>3,255,034,817</u>
<b>Segment assets</b>	16,260,103,032	31,722,581,222	47,982,684,254
<i>Reconciliation</i>			
Elimination of other receivables			(11,744,606,396 )
Long term equity investment			<u>( 5,320,684,656 )</u>
Total assets			<u>30,917,393,202</u>
<b>Segment liabilities</b>	10,901,843,539	19,375,242,116	30,277,085,655
<i>Reconciliation</i>			
Deferred tax liabilities			129,009,022
Elimination of other payables			( 5,586,350,981 )
Elimination of long-term loans			<u>( 6,217,779,750 )</u>
Total liabilities			<u>18,601,963,946</u>
<b>Other segment information:</b>			
Share of profits and losses of:			
Joint ventures	-	-	-
Associates	-	1,614,638,519	1,614,638,519
Depreciation and amortisation	888,015	13,955	901,970
Capital expenditure*	872,771,507	-	872,771,507

\* Capital expenditure consists of additions to property, plant and equipment, other intangible assets and investment properties.

The Group's operation revenue from external customers is solely derived from its Brazil subsidiaries, which are engaged in the exploitation of public service concessions for transmission of electricity.

During the years ended 31 December 2013 and 2012, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue for these years.

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5. REVENUE

	2012 HK\$	2011 HK\$
Concession revenue	<u>2,164,769,529</u>	<u>2,429,950,409</u>

6. OTHER INCOME

Other income includes the following:

	2012 HK\$	2011 HK\$
Bank interest income	262,912,774	142,960,617
Dividend income from listed investments	351,089,484	301,522,897
Others	-	<u>23,546,685</u>
	<u>614,002,258</u>	<u>468,030,199</u>

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	2012 HK\$	2011 HK\$
Depreciation	6,964,770	696,703
Amortisation of intangible assets and non-current assets	460,630	205,267
Professional fees	202,726,388	67,449,930
Gain on disposal of items of property, plant and equipment	-	(8,392,394)
Minimum lease payments under operating leases of land and buildings	1,896,055	2,031,238
Impairment of trade receivables	12,312,046	-
Impairment losses of available-for-sale assets	227,147,854	-
Foreign exchange differences, net	(25,005,724)	226,887,330
Auditors' remuneration	367,035	203,001
Staff costs (excluding directors' remuneration (note 9))		
Wages and salaries	<u>163,701,738</u>	<u>138,899,475</u>

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8. FINANCE COSTS

	2012 HK\$	2011 HK\$
Interest on bank loans, wholly repayable within five years	408,053,839	485,341,672
Others	<u>97,986,080</u>	<u>60,501,862</u>
	<u>506,039,919</u>	<u>545,843,534</u>

9. DIRECTORS' REMUNERATION

No director received any fees or emoluments in respect of their services rendered to the Group during the year (2011: nil).

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

	2012 HK\$	2011 HK\$
Current- Elsewhere:		
Withholding tax on the dividend income from an associate – The Philippines	198,873,980	237,083,833
Income tax – Brazil	<u>516,529,832</u>	<u>410,795,626</u>
Deferred:		
Deferred tax expenses (note 27)	<u>183,185,005</u>	<u>5,111,945</u>
Tax charge for the year	<u>898,588,817</u>	<u>652,991,404</u>

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the countries in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

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10. INCOME TAX (continued)

	2012		2011	
	HK\$	%	HK\$	%
Profit before tax	<u>3,151,357,457</u>		<u>3,255,034,817</u>	
Tax at the statutory tax rate	667,394,570	21.2	658,391,633	20.2
Non-deductible expenses	425,667,871	13.5	200,657,968	6.2
Income not subject to tax	( 426,438,938)	(13.5)	( 448,253,975)	( 13.8)
Profits attributable to the Group's associate in Phillipines	229,774,369	7.3	242,195,778	7.4
Profits attributable to the Group's associate in Australia	<u>2,190,945</u>	<u>0.1</u>	<u>-</u>	<u>-</u>
Tax charge at the Group's effective rate	<u>898,588,817</u>	<u>28.6</u>	<u>652,991,404</u>	<u>20.0</u>

11. DIVIDENDS

The directors did not propose any dividend for the year (2011: nil).

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12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$	Office equipment HK\$	Transport equipment HK\$	Office renovation HK\$	Construction in progress HK\$	Total HK\$
<b>31 December 2012</b>						
At 1 January 2012:						
Cost	467,645	4,244,597	1,848,892	505,189	867,006,975	874,073,298
Accumulated depreciation	-	( 526,184)	( 255,059)	(505,189)	-	( 1,286,432)
Net carrying amount	<u>467,645</u>	<u>3,718,413</u>	<u>1,593,833</u>	<u>-</u>	<u>867,006,975</u>	<u>872,786,866</u>
At 1 January 2012, net of						
Accumulated depreciation	467,645	3,718,413	1,593,833	-	867,006,975	872,786,866
Additions	396,683,787	23,215,481	-	-	(396,683,787)	23,215,481
Depreciation provided during the year	( 3,233,463)	( 3,250,671)	( 480,636)	-	-	( 6,964,770)
Exchange realignment	-	-	-	-	( 53,436,130)	( 53,436,130)
At 31 December 2012, net of						
Accumulated depreciation	<u>393,917,969</u>	<u>23,683,223</u>	<u>1,113,197</u>	<u>-</u>	<u>416,887,058</u>	<u>835,601,447</u>
At 31 December 2012						
Cost	397,151,432	27,460,078	1,848,892	505,189	416,887,058	843,852,649
Accumulated depreciation	( 3,233,463)	( 3,776,855)	( 735,695)	(505,189)	-	( 8,251,202)
Net carrying amount	<u>393,917,969</u>	<u>23,683,223</u>	<u>1,113,197</u>	<u>-</u>	<u>416,887,058</u>	<u>835,601,447</u>
	Land and buildings HK\$	Office equipment HK\$	Transport equipment HK\$	Office renovation HK\$	Construction in progress HK\$	Total HK\$
<b>31 December 2011</b>						
At 1 January 2011:						
Cost	267,302	572,710	-	853,731	-	1,693,743
Accumulated depreciation	-	( 133,345)	-	(456,384)	-	( 589,729)
Net carrying amount	<u>267,302</u>	<u>439,365</u>	<u>-</u>	<u>397,347</u>	<u>-</u>	<u>1,104,014</u>
At 1 January 2011, net of						
Accumulated depreciation	267,302	439,365	-	397,347	-	1,104,014
Additions	240,742	3,674,898	1,848,892	-	867,006,975	872,771,507
Depreciation provided during the year	-	( 392,839)	( 255,059)	( 48,805)	-	( 696,703)
Disposals	( 40,399)	( 3,011)	-	(348,542)	-	( 391,952)
At 31 December 2011, net of						
Accumulated depreciation	<u>467,645</u>	<u>3,718,413</u>	<u>1,593,833</u>	<u>-</u>	<u>867,006,975</u>	<u>872,786,866</u>
At 31 December 2011						
Cost	467,645	4,244,597	1,848,892	505,189	867,006,975	874,073,298
Accumulated depreciation	-	( 526,184)	( 255,059)	(505,189)	-	( 1,286,432)
Net carrying amount	<u>467,645</u>	<u>3,718,413</u>	<u>1,593,833</u>	<u>-</u>	<u>867,006,975</u>	<u>872,786,866</u>

13. OTHER INTANGIBLE ASSETS

	Usage right of transmission lines HK\$
<b>31 December 2012</b>	
At 1 January 2012:	
Cost	160,675,641
Accumulated amortisation	( 11,797 )
Net carrying amount	<u>160,663,844</u>
Cost at 1 January 2012, net of accumulated amortisation	160,663,844
Exchange realignment	( 13,164,131 )
Amortisation for the year	( 267,160 )
At 31 December 2012	<u>147,232,553</u>
At 31 December 2012:	
Cost	147,511,510
Accumulated amortisation	( 278,957 )
Net carrying amount	<u>147,232,553</u>
	Usage right of transmission lines HK\$
<b>31 December 2011</b>	
At 1 January 2011:	
Cost	180,995,290
Accumulated amortisation	-
Net carrying amount	<u>180,995,290</u>
Cost at 1 January 2011, net of accumulated amortisation	180,995,290
Exchange realignment	( 20,319,649 )
Amortisation for the year	( 11,797 )
At 31 December 2011	<u>160,663,844</u>
At 31 December 2011:	
Cost	160,675,641
Accumulated amortisation	( 11,797 )
Net carrying amount	<u>160,663,844</u>



14. INVESTMENT IN ASSOCIATES AND JOINTLY-CONTROLLED ENTITIES

Name	Particulars of issued shares held	Place of incorporation	Percentage of ownership interest attributable to the Company	Principal activities
<b><u>Associates</u></b>				
National Grid Corporation of the Philippines (“NGCP”)	PHP800,000,000	Manila, The Philippines	40%	Operate electric transmission grid
REN-Redes Energeticas Nacionais, SGPS, S.A. (“REN”) (a)	EURO534,000,000	Lisbon, Portugal	25%	Operate electric transmission grid
ElectraNet Pty Ltd. (“ElectraNet”) (b)	AUD4,111	Canberra, Australia	41.11%	Operate electric transmission grid
<b><u>Jointly-controlled entities</u></b>				
Matrincha Transmissora de Energia (TP North) S.A.	BRL10,455,510	Rio de Janeiro, Brazil	51%	Operate electric transmission grid
Guaraciaba Transmissora de Energia (TP Sul) S.A.	BRL7,395,510	Rio de Janeiro, Brazil	51%	Operate electric transmission grid
Luziania-Niquelandia Transmissora S.A.	BRL969,000	Rio de Janeiro, Brazil	51%	Operate electric transmission grid

14. INVESTMENT IN ASSOCIATES AND JOINTLY-CONTROLLED ENTITIES (continued)

- (a) On 25 May 2012, the Group acquired a 25% equity interest of Redes Energéticas Nacionais, SGPS, S.A. ( "REN" ) in Europe. REN concentrated in the electricity transmission business. The purchase consideration for the acquisition was amounted to HK\$3,928,386,056 (EUR364,588,500) and generated goodwill amounted to HK\$1,226,678,323 (EUR119,488,250) in the acquisition. The Group considered that it has significant influence because it has 25% voting rights in REN.
- (b) On 17 December 2012, the Group acquired a 41.11% equity interest of ElectraNet Transmission Investments Pty Ltd in Australia ("ElectraNet"). ElectraNet engages in operation of electric transmission lines. The purchase consideration for the acquisition was amounted to HK\$3,899,977,525 (AU\$485,077,865) and generated goodwill amounted to HK\$3,161,081,455 (AU\$393,390,845) in the acquisition. The group considered that it has significant influence over ElectraNet because it has 41.11% voting rights in ElectraNet.
- (c) On 9 March 2012, SGBH together with Copel Geração e Transmissão S.A , incorporated two Specific Purpose Entities named Matrinchã Transmissora de Energia (TP North) S.A. and Guaraciaba Transmissora de Energia (TP Sul) S.A. to develop the construction of concession. The Group holds 51% equity interest of the two Specific Purpose Entities. The target companies are engaged in operation of electric transmission lines. The consideration for this acquisition was HK\$67,474,068 (BRL17,788,165).

On 19 December 2012, SGBH together with Furnas Centrais Elétricas S.A., incorporated a Specific Purpose Entity named Luiziania Niquelandia Transmissora S.A. ("LNT") to develop the construction of concession. The Group holds 51% equity interest of the Specific Purpose Entity. The target company is engaged in operation of electric transmission lines. The investment consideration for the acquisition was HK\$2,778,184 (BRL732,411).

The Company's subsidiary SGBH holds 51% interests of TP North, TP Sul and LNT in Brazil which are considered as joint ventures of the Group. Because management considered SGBH holds joint control together with its joint venture partners of these three entities.

14. INVESTMENT IN ASSOCIATES AND JOINTLY-CONTROLLED ENTITIES (continued)

	2012 HK\$	2011 HK\$
Unlisted shares, using equity method:		
Associates*	12,500,655,215	4,259,816,585
Jointly-controlled entities	<u>70,252,252</u>	<u>-</u>
	<u>12,570,907,467</u>	<u>4,259,816,585</u>

\* The following table illustrates the summarised financial information of the Company's associates, extracted from its audited financial statements:

	2012 HK\$	2011 HK\$
Assets	104,018,002,187	34,292,150,264
Liabilities	76,421,372,512	23,701,805,808
Revenues	19,173,182,174	8,205,804,598
Profit	5,492,990,284	3,902,761,590

15. AVAILABLE-FOR-SALE INVESTMENTS

	2012 HK\$	2011 HK\$
Listed equity investments, at fair value	<u>8,946,526,521</u>	<u>7,894,414,637</u>

During the year, the fair value gains in respect of the Group's available-for-sale investments was recognised in other comprehensive income amounted to HK\$816,990,108 (2011: fair value losses amounted to HK\$2,260,874,416).

The fair value of listed equity investments are based on market prices at the end of the shares quoted in Hong Kong Stock Exchange at the end of reporting period.

There was a significant decline in the market value of certain listed equity investment during the year. The directors consider that such a decline indicates that the listed equity investments have been impaired and an impairment loss of HK\$ 227,147,854 (2011: Nil), which included a reclassification from other comprehensive income of HK\$68,083,439 (2011: Nil), has been recognised in the statement of profit or loss for the year.

16. GOODWILL

The goodwill breakdown and additions and write-offs in the year ended on 31 December 2012 are as follows:

	Group HK\$
Cost at 1 January 2012, net of accumulated impairment	407,971,095
Acquisition of subsidiaries (note 30)	<u>294,654,666</u>
Cost and net carrying amount at 31 December 2012	<u>702,625,761</u>
At 31 December 2012:	
Cost	702,625,761
Accumulated impairment	-
Exchange realignment	<u>( 34,569,334)</u>
Net carrying amount	<u>668,056,427</u>

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing:

- Cash-generating unit related to the power transmission lines.

The recoverable amount of the cash-generating unit related to the power transmission lines has been determined based on a value in use calculation using cash flow projections based on the concession period agreed with the Brazilian government. The discount rate applied to the cash flow projections is 10.5% with regard to the operating subsidiaries. The growth rate used to extrapolate the cash flows of the transmission lines beyond the concession period is 3% - 5% with regard to the operating subsidiaries.

17. FINANCIAL ASSETS- CONCESSION

The item accounts receivable - financial assets arises from the application of technical interpretation – HK(IFRIC) interpretation 12– Services Concession arrangement.

The consolidated total amount of HK\$18,524,327,211 (HK\$2,479,175,929 in current assets and HK\$16,045,151,282 in non-current assets, as of 31 December 2012), was calculated retroactively to the beginning of the concession period and start-up of the electric transmission lines of the Group.

The accounts receivable - financial assets balance (both current assets and noncurrent assets) is updated based on changes in inflation rates so that it is amended every year by the deadline of the concession. The current assets primarily represents the balance of the permitted annual revenue expected to be received next year. The realization of the amounts classified as non-current assets is projected by the end of the concession.

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18. OTHER NON-CURRENT ASSETS

	2012 HK\$	2011 HK\$
Loan notes to associate	664,176,895	-
Non-current tax recoverables	90,976,067	177,382,639
Court deposits	7,486,844	9,738,870
Others	<u>201,350,689</u>	<u>256,054</u>
	<u>963,990,495</u>	<u>187,377,563</u>

In accordance with the Brazilian laws, the Group's subsidiaries in Brazil are subject to Social Contribution Tax on Gross Revenue for Social Security Funding ("COFINS") and Social Contribution Tax on Gross Revenue for Social Integration Program ("PIS"). PIS and COFINS credits derive from purchases of plant, property and equipment during the construction period of the subsidiaries transmission lines, as permitted by laws in Brazil. Such credits are available to be offset against the payment of PIS and COFINS on the monthly invoice at a rate of 1/48. As of 31 December 2012, the Group estimates tax recoverables as follows:

	2012 HK\$	2011 HK\$
Tax recoverables	<u>384,299,412</u>	<u>500,536,483</u>
Analysed into:		
Current (note 21)	293,323,345	323,153,844
Non-current	<u>90,976,067</u>	<u>177,382,639</u>
	<u>384,299,412</u>	<u>500,536,483</u>

19. INVENTORIES

	2012 HK\$	2011 HK\$
Materials	<u>40,473,866</u>	<u>27,339,532</u>

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20. TRADE RECEIVABLES

	2012 HK\$	2011 HK\$
Trade debtors	369,815,191	270,694,243
Less: Impairment provision	( 18,697,538 )	( 6,385,492 )
Exchange realignment	<u>71,332</u>	<u>-</u>
	<u>351,188,985</u>	<u>264,308,751</u>

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of three months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise the credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing. They are stated net of provisions.

At 31 December 2012, trade debtors of HK\$18,697,538 (2011: HK\$6,385,492) were determined to be impaired. Movements in the provision for impairment losses are as follows:

	2012 HK\$	2011 HK\$
At 1 January 2012	6,385,492	6,385,492
Provision for impairment losses (note 7)	<u>12,312,046</u>	<u>-</u>
At 31 December 2012	<u>18,697,538</u>	<u>6,385,492</u>

The aged analysis of trade receivables based on invoice date, net of impairment provision is as follows:

	2012 HK\$	2011 HK\$
Neither past due nor impaired	328,763,370	257,961,791
Past due but not impaired:		
Less than 30 days	362,800	817,040
31 to 60 days	278,971	472,448
61 to 90 days	265,439	399,536
Over 90 days	<u>21,518,405</u>	<u>4,657,936</u>
	<u>351,188,985</u>	<u>264,308,751</u>

Trade receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

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20. TRADE RECEIVABLES (continued)

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2012 HK\$	2011 HK\$
Prepayments	3,134,458	18,830,507
Tax recoverable-current	293,323,345	323,153,844
Other receivables	<u>65,131,070</u>	<u>63,351,892</u>
	<u>361,588,873</u>	<u>405,336,243</u>

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

22. OTHER PAYABLES AND ACCRUALS

	2012 HK\$	2011 HK\$
Provision for contingencies-current (note 28)	-	80,569,050
Amount due to related parties (note 25)	67,204,207	73,244,534
Professional fees	88,103,108	28,028,123
Other payables	<u>610,788,800</u>	<u>344,465,487</u>
	<u>766,096,115</u>	<u>526,307,194</u>

The amounts due are unsecured, non-interest bearing and have no fixed terms of repayment.



23. CASH AND CASH EQUIVALENTS

	2012	2011
	HK\$	HK\$
Cash and cash equivalents	<u>6,249,850,086</u>	<u>3,724,986,705</u>
Denominated in:		
HK\$	126,497,309	19,788,732
US\$	1,751,099,114	2,475,709,262
Brazilian Real ("BRL")	4,341,942,162	1,227,284,471
Others	<u>30,311,501</u>	<u>2,204,240</u>
	<u>6,249,850,086</u>	<u>3,724,986,705</u>

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their values.

At the end of the reporting period, the cash and bank balances of the Group denominated in Brazilian Real ("BRL") amounted to HK\$4,341,942,162 (2011: HK\$1,227,284,471). The BRL is not freely convertible into other currencies, however, according to the Brazilian regulation, the Group is permitted to exchange BRL for other currencies through financial institutions authorised to conduct foreign exchange business on certain conditions.

24. TRADE AND BILLS PAYABLES

	2012	2011
	HK\$	HK\$
Trade payables	51,392,475	48,753,065
Bill payables	<u>-</u>	<u>42,478,050</u>
	<u>51,392,475</u>	<u>91,231,115</u>

Included in trade and bills payables are trade payables of HK\$51,392,475 (2011: HK\$ 48,753,065) due to the Group's suppliers, which are unsecured, interest-free and are settled quarterly.

25. AMOUNT DUE TO RELATED PARTIES

	31-Dec	Maximum amount	
Name	2012	during the year	1-Jan
	HK\$	HK\$	HK\$
State Grid Foreign Affairs Service Co., Ltd.*	-	-	2,936,961
CLP International Travel Agency*	45,581	45,581	-
State Grid International Development Co., Ltd.	<u>67,158,626</u>	<u>67,158,626</u>	<u>70,307,573</u>
	<u>67,204,207</u>	<u>67,204,207</u>	<u>73,244,534</u>

\*The above fellow subsidiaries are controlled by State Grid International Development Co., Ltd.  
The balances are unsecured, interest-free and have no fixed terms of repayment.

26. INTEREST-BEARING BANK BORROWINGS

	2012 HK\$	2011 HK\$
Unsecured:		
Bank loans	<u>21,998,516,448</u>	<u>17,057,069,336</u>
Analysed into bank loans repayable:		
Within one year	5,635,679,432	4,870,530,000
In the second to fifth years, inclusive	<u>16,362,837,016</u>	<u>12,186,539,336</u>

- (a) The average effective interest rate (per annum) of the Group's borrowings in 2012 was 1.56% over LIBOR (2011: 1.40% over LIBOR).

- (b) The bank loans denominated in HK dollars, US dollars and Brazilian Real are as follows:

	2012 HK\$	2011 HK\$
US\$	12,420,507,309	15,606,599,336
BRL	3,983,334,139	1,450,470,000
EUR	3,182,615,000	-
AUD	<u>2,412,060,000</u>	<u>-</u>
	<u>21,998,516,448</u>	<u>17,057,069,336</u>

- (c) Bank loans of EUR310 million and AU\$300 million are designated as the hedging instruments to hedge the net investments in REN and ElectraNet respectively.

The carrying amount of interest-bearing bank borrowings approximates their fair value.

27. DEFERRED TAX LIABILITIES

	Fair value adjustments arising from acquisition of subsidiaries HK\$	Undistributed earnings HK\$	Total HK\$
At 1 January 2012	<u>612,226,810</u>	<u>129,009,023</u>	<u>741,235,833</u>
Deferred tax charged to profit or loss during the year (note 10)	152,284,616	30,900,389	183,185,005
Deferred tax from acquisition of subsidiaries recognised	359,727,675	-	359,727,675
Exchange realignment	( 51,869,815)	<u>11,974,145</u>	( 39,895,670)
At 31 December 2012	<u>1,072,369,286</u>	<u>171,883,557</u>	<u>1,244,252,843</u>

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27. DEFERRED TAX LIABILITIES (continued)

	Fair value adjustments arising from acquisition of subsidiaries HK\$	Undistributed earnings HK\$	Total HK\$
At 1 January 2011	684,762,730	123,897,078	808,659,808
Deferred tax charged to profit or loss during the year (note 10)	-	5,111,945	5,111,945
Exchange realignment	( 72,535,920)		( 72,535,920)
At 31 December 2011	<u>612,226,810</u>	<u>129,009,023</u>	<u>741,235,833</u>

28. PROVISIONS

The Group records provision for contingencies for proceedings considered as a probable loss expected, as follows:

	2012 HK\$	2011 HK\$
Current (note 24):		
Tax	-	43,511,519
Rights	-	24,797,030
Arbitral court	-	12,260,501
	<u>-</u>	<u>80,569,050</u>
Non-Current:		
Tax (a)	98,356,623	22,307,950
Civil (a)	23,131,357	8,828,692
Rights (a)	54,800,895	2,339,618
Labor (a)	720,811	947,724
Environment (a)	<u>84,289,348</u>	<u>-</u>
	<u>261,299,034</u>	<u>34,423,984</u>
Compensation measures (b)	<u>147,087,632</u>	<u>52,898,583</u>
	<u>408,386,666</u>	<u>87,322,567</u>

(a) Provisions for contingencies

The Group's subsidiaries in Brazil are involved in tax, civil, labor and others proceedings, arising in the normal course of its business. Provision for possible losses arising from such proceedings are estimated and updated by the Group's management, supported by the opinion of its independent legal advisors.

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28. PROVISIONS (continued)

(b) Other provision –compensatory measures

The Group has an electric transmission concession contract in Brazil that provides for that concessionaire shall endeavor to minimize damage to flora and fauna existing along the usage right of transmission lines on the implementation and concession period, taking into account the compliance with commitments and responsibilities defined in the environmental licensing documents.

The Group's subsidiaries in Brazil are operating in accordance with the Brazilian laws, meeting the environment and health, hygiene, safety and occupational health requirements. In the operation phase of the Group's business, environmental programs are developed in order to mitigate and offset the impacts.

As of 31 December 2012, the balance of the environmental provision is HK\$147,087,632 (31 December 2011: HK\$52,898,583 at 31 December 2011). Provisions were held under non-current liabilities because disbursement in the next year were not expected.

29. SHARE CAPITAL

	2012	2011
	HK\$	HK\$
Authorised:		
20,888,327,845 (2011: 10,650,000,000) ordinary shares of HK\$1.00 each	<u>20,888,327,845</u>	<u>10,650,000,000</u>
Issued and fully paid		
19,555,190,000 (2011: 9,300,000,000) ordinary shares of HK\$1.00 each	<u>19,555,190,000</u>	<u>9,300,000,000</u>

30. BUSINESS COMBINATION

On 15 December 2012, the Group acquired a 100% equity interest of five target companies from a third party company in Brazil. The target companies are engaged in operation of electric transmission lines. The purchase consideration for the acquisition was HK\$3,360,091,273 (BRL885,791,630) in the form of cash.

30. BUSINESS COMBINATION (continued)

The fair values of the identifiable assets and liabilities of the companies as at the date of acquisition were as follows:

	Note	Fair value recognised on acquisition HK\$
Cash and bank balances		253,569,365
Trade receivables		7,193,314,148
Inventories		8,674,809
Prepayments and other receivables		36,853,836
Property, plant and equipment		2,866,986
Trade payables		( 40,260,273)
Interest-bearing bank borrowings		(3,371,861,007)
Tax payable		( 75,110,513)
Accruals and other payables		( 582,883,069)
Deferred tax liabilities		( 359,727,675)
Total identifiable net assets at fair value		<u>3,065,436,607</u>
Goodwill, net of gains on acquisition	16	<u>294,654,666</u>
Satisfied by cash		<u>3,360,091,273</u>

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	Fair value recognised on acquisition HK\$
Cash consideration	3,360,091,273
Cash and bank balances acquired	( 253,569,265)
Net outflow of cash and cash equivalents included in cash flows from investing activities	<u>3,106,521,908</u>
	<u>3,106,521,908</u>

31. CONTINGENT LIABILITIES

- (a) At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	2012	2011
Counter-guarantees given to banks in connection with facilities granted to:		
Jointly-controlled entities	<u>271,332,419</u>	<u>-</u>
	<u>271,332,419</u>	<u>-</u>

As at 31 December 2012, the Group provided counter-guarantees to jointly-controlled entities were utilised to the extent of approximately HK\$271,332,419 (2011: Nil).

- (b) The Group's subsidiaries in Brazil are involved in tax, civil, labor and others proceedings, arising in the normal course of its business. Provision for possible losses arising from such proceedings are estimated and updated by the Group's management, supported by the opinion of its independent legal advisors. Details of probable loss expected can be found in Note 28.

Additionally, the proceedings against the Group with possible loss expected, for which no provisions for contingencies were recorded amounts to HK\$67,747,446 as of 31 December 2012 (approximately HK\$150,347,246 as of 31 December 2011).

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's exposure to market risk (including interest rate risk and foreign currency risk), credit risk, equity price risk and liquidity risk arises in the normal course of its business. These risks are managed by the Group's financial management policies and practices described below:

*Interest rate risk*

The Group's exposure to interest rate risk relates principally to the Group's short term and long term bank loans which are based on the London Interbank Offered Rate ("LIBOR"). The Group mitigates the risk by monitoring closely the movements in interest rates and reviewing its banking facilities regularly. The Group has not used any interest rate swap to hedge its exposure to interest rate risk.

As at 31 December 2012, if the interest rates on borrowings had been 100 basis points higher, with all other variables held constant, the profit after tax for the year would have been HK\$3,552,455 (2011: HK\$1,908,936) lower as a result of higher interest expenses on bank borrowings.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

*Foreign currency risk*

The Group has its 28% of cash at bank at US\$ and 69% at BRL, and its 66% of interest-bearing bank borrowings at US\$ and 33% at BRL at 31 December 2011. The exchange rate fluctuation of US\$ and BRL against HK\$ would affect the Group's operation. The Group tries to minimize the foreign currency risk by monitoring and analyzing the fluctuation of exchange rate on a daily basis.

As at 31 December 2012, as the major currency, if the exchange rate of US\$ had been 100 basis points higher, the profit after tax for the year would have been HK\$145,312,476 (2011: HK\$144,565,850) lower as a result of higher exchange rate on bank borrowings and cash and cash equivalents denominated in US\$.

Besides, the Group has net investments in foreign operation. The functional currency of NGCP, REN and ElectraNet, the Group's associates, is Philippines Peso ("P\$"), Euro and AUD respectively, while the functional currency of the Group's subsidiaries in Brazil, is Brazilian Real ("BRL"). The exchange rate fluctuation of those foreign currencies against HK\$ would significantly affect the Group's other comprehensive income. The Group tries to minimize the foreign currency risk by monitoring and analyzing the fluctuation on a quarterly basis based on the management accounts reported. In addition, the Group designated loans of Euro310 million and AUD300 million as the hedging instruments to hedge the net investments in REN and ElectraNet respectively in order to hedge the foreign currency risk.

*Credit risk*

The carrying amounts of cash and cash equivalents, trade receivables, investments and other current assets except for prepayments, represent the Group's maximum exposure to credit risk in relation to financial assets. All the Group's cash and cash equivalents are held in major financial institutions located in Hong Kong and Brazil, which management believes are of high credit quality. The Group has policies in place to evaluate credit risk when accepting new business and to limit its credit exposure to individual customers. The maximum exposure is the carrying amounts as disclosed in note 20 to the financial statements. The directors consider that the Group does not have a significant concentration of credit risk.

The Group also exposes to credit risk arises from trade receivables. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, trade receivables balance is monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

*Equity price risk*

The Group's exposure to equity price risk relates principally to the Group's investments in listed equity securities. Management manages this exposure by maintaining a portfolio of investments with different risks.

If the prices of the respective equity investments had been 1% higher/lower, with all other variables held constant, the Group's available-for-sale investment revaluation reserve would have increased/decreased by approximately HK\$89,465,265 at 31 December 2012 (2011: HK\$78,944,146) as a result of the changes in the fair value of available-for-sale investments

*Liquidity risk*

The Group aims to maintain sufficient cash and credit lines to meet its liquidity requirements. The Group finances its working capital requirements through a combination of funds generated from operations and bank and other borrowings.



STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
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32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

2012	On demand HK\$	Less than 3 months HK\$	3 to less than 12 months HK\$	1 to 5 years HK\$	Over 5 years HK\$	Total HK\$
Interest-bearing bank borrowings	-	5,333,260,264	307,279,769	13,522,192,378	9,239,172,514	28,401,904,925
Trade and bill payables	-	51,392,475	-	-	-	51,392,475
Other payables and accruals	766,096,115	-	-	-	-	766,096,115
Counter guarantees given to financial institutions in connection with facilities granted to an associate	<u>271,332,419</u> <u>1,037,428,534</u>	<u>-</u> <u>5,384,652,739</u>	<u>-</u> <u>307,279,769</u>	<u>-</u> <u>13,522,192,378</u>	<u>-</u> <u>9,239,172,514</u>	<u>271,332,419</u> <u>29,490,725,934</u>
2011	On demand HK\$	Less than 3 months HK\$	3 to less than 12 months HK\$	1 to 5 years HK\$	Over 5 years HK\$	Total HK\$
Interest-bearing bank borrowings	-	4,948,671,928	640,495,466	12,095,439,733	183,751,790	17,868,358,917
Trade and bill payables	91,231,115	-	-	-	-	91,231,115
Other payables and accruals	<u>526,307,194</u> <u>617,538,309</u>	<u>-</u> <u>4,948,671,928</u>	<u>-</u> <u>640,495,466</u>	<u>-</u> <u>12,095,439,733</u>	<u>-</u> <u>183,751,790</u>	<u>526,307,194</u> <u>18,485,897,226</u>

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

*Capital management*

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. No changes in the objectives, policies or processes for managing capital were made during the years ended 31 December 2012 and 31 December 2011.

The Group monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. Net debt is calculated as the total of interest-bearing bank borrowings, trade and bills payables and other payables and accruals, less cash and cash equivalents. Capital includes equity attributable to owners of the Company.

	2012 HK\$	2011 HK\$
Interest-bearing bank borrowings	21,998,516,448	17,057,069,336
Trade and bills payables	51,392,475	91,231,115
Other payables and accruals	766,096,115	526,307,194
Less: Cash and cash equivalents	(6,249,850,086)	(3,724,986,705)
Net debt	16,566,154,952	13,949,620,940
Equity	<u>24,998,492,553</u>	<u>12,315,429,256</u>
Net debt and equity	<u>41,564,647,505</u>	<u>26,265,050,196</u>
Gearing ratio	40%	53%

33. RELATED PARTY TRANSACTIONS

The Group has the following transactions with related parties during the year :

	2012 HK\$	2011 HK\$
Fellow subsidiaries:		
Service fee	( 2,140,274 )	1,470,967
Loan	( 70,396,377 )	(4,025,641)
Counter guarantee	(271,332,419)	-
	(343,869,070)	(2,554,674)

34. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts and fair values of the Group's financial instruments are as follows:

	Carrying amounts		Fair values	
	2012 HK\$	2011 HK\$	2012 HK\$	2011 HK\$
<b>Financial assets</b>				
Cash and cash equivalents	6,249,850,086	3,724,986,705	6,249,850,086	3,724,986,705
Trade receivables	351,188,985	264,308,751	351,188,985	264,308,751
Financial assets included in prepayments, deposits and other receivables	358,454,415	386,505,736	358,454,415	386,505,736
Available-for-sale investments	8,946,526,521	7,894,414,637	8,946,526,521	7,894,414,637
Financial assets- Concession	18,524,327,211	12,712,391,381	18,524,327,211	12,712,391,381
Financial assets included in other non current assets	770,941,529	-	770,941,529	-
<b>Financial liabilities</b>				
Trade and bills payables	51,392,475	91,231,115	51,392,475	91,231,115
Financial liabilities included in other payables and accruals	698,891,908	453,062,660	698,891,908	453,062,660
Interest-bearing bank borrowings	21,998,516,448	17,057,069,336	21,998,516,448	17,057,069,336
Due to related parties	67,204,207	73,244,534	67,204,207	73,244,534

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

34. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, trade receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due to fellow subsidiaries, accounts receivable-financial assets and interest-bearing bank borrowings all approximate to their carrying amounts.

The fair values of listed available-for-sale investments are based on quoted market prices.

35. EVENTS AFTER THE REPORTING PERIOD

Significant events after the reporting period comprise the following:

On 8 March 2013, 1,874,137,845 ordinary shares of HK\$1.00 each were issued at par to the existing shareholders of the Company, which resulted in proceeds of HK\$1,874,137,845. On 28 May 2013, 15,267,778,333 preference shares of HK\$1.00 each were issued at par for cash to State Grid Oversea International Limited, a fellow subsidiary of the Company, which resulted in proceeds of HK\$15,267,778,333. On 16 May 2014, 26,723,988,145 preference shares of HK\$1.00 each were issued at par for cash to State Grid Oversea International Limited, which resulted in proceeds of HK\$26,723,988,145.

On 16 May 2013, the Company entered into a sale and purchase agreement with SPI (Australia) Assets Pty Limited to purchase 60% equity of SPI (Australia) Assets Pty Limited and 19.9% equity interest in Singapore Power Australia Networks. On 3 January 2014, the Company completed the acquisition of 60% equity interest in SPI (Australia) Assets Pty Limited with consideration of AU\$ 2.27 billion (equivalent to HK\$7,382,040,000) and 19.9% equity interest in Singapore Power Australia Networks with consideration of AU\$ 824 million (equivalent to HK\$2,679,648,000).

On 14 January 2014, the Company signed a cornerstone investment agreement with HK Electric Investments Managers Limited and HK Electric Investments Limited to subscribe 18% of the Share Stapled Units that were jointly issued by HK Electric Investments and HK Electric Investments Limited with consideration of HK\$8.756 billion. After that the Company purchased another 2% of the share stapled units from public market. As at 30 June 2014, the Company acquired 20% of the share stapled units with total cash consideration of HK\$9,687 million and HK Electric Investments Limited becomes an associate of the Company.

On 27 November 2014, the Company completed the acquisition of 35 per cent of equity interest in Cassa Depositi e Prestiti Reti S.p.a. from Cassa depositi e prestiti S.p.a. with cash consideration amounted to EUR2.11 billion (equivalent to HK\$20,328,877,286).

The interim preference shares dividend for 2013 amounted to HK\$239,873,908 has been approved at the special general meeting on 4 November 2013 and paid on 13 November 2013. The interim preference shares dividend for the six months period ended 30 June 2014 amounted to HK\$239,870,810 has been approved at the special general meeting on 14 May 2014 and paid on 15 May 2014.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were authorised for issue by the board of directors on 6 January 2015.

## **Independent auditors' report**

### **To the directors of State Grid International Development Limited**

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of State Grid International Development Limited (the "Company") and its subsidiaries (together, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Directors' responsibility for the consolidated financial statements**

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

### **Auditors' responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

**Independent auditors' report (continued)**

**To the directors of State Grid International Development Limited**  
(Incorporated in Hong Kong with limited liability)

**Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

S/S Ernst & Young  
Certified Public Accountants  
Hong Kong  
6 January 2015

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
CONSOLIDATED STATEMENT OF PROFIT OR LOSS  
Year ended 31 December 2013

	Notes	2013 HK\$	2012 HK\$
REVENUE	5	2,811,251,162	2,164,769,529
Cost of sales		( 397,199,264)	( 285,423,232)
<b>Gross profit</b>		<b>2,414,051,898</b>	<b>1,879,346,297</b>
Other income and gains	6	925,625,330	614,002,258
Administrative expenses		( 352,878,940)	( 311,627,477)
Finance costs	7	( 612,281,676)	( 506,039,919)
Foreign exchange differences, net		( 473,745,066)	25,005,724
Share of profit of associates and joint ventures		2,140,728,512	1,695,603,525
Other expenses		<u>1,185,513</u>	<u>( 244,932,951)</u>
<b>Profit before tax</b>	8	<b>4,042,685,571</b>	<b>3,151,357,457</b>
Income tax expense	10	(1,043,052,745)	( 898,588,817)
<b>Profit for the year</b>		<b><u>2,999,632,826</u></b>	<b><u>2,252,768,640</u></b>
Attributable to:			
Owners of the parent		2,999,632,826	2,252,768,640
Non-controlling interests		<u>-</u>	<u>-</u>
		<u>2,999,632,826</u>	<u>2,252,768,640</u>

Details of dividends payable and proposed for the year are disclosed in note 11 to the financial statements.



STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
Year ended 31 December 2013

	2013 HK\$	2012 HK\$
<b>Profit for the year</b>	<b><u>2,999,632,826</u></b>	<b><u>2,252,768,640</u></b>
<b>Other comprehensive income</b>		
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>		
Net gain on hedge of a net investment, net of tax	70,810,000	( 84,261,000)
Exchange differences on translation of foreign operations, net of tax	(3,063,438,933)	( 784,772,305)
Changes in fair value of available-for-sale financial assets, net of tax	54,150,906	816,990,108
Amount transferred to profit from other comprehensive income	<u>-</u>	<u>227,147,854</u>
<b>Other comprehensive income for the year, net of tax</b>	<b><u>(2,938,478,027)</u></b>	<b><u>175,104,657</u></b>
<b>Total comprehensive income for the year, net of tax</b>	<b><u>61,154,799</u></b>	<b><u>2,427,873,297</u></b>
Attributable to:		
Owners of the parent	61,154,799	2,427,873,297
Non-controlling interests	<u>-</u>	<u>-</u>
	<u>61,154,799</u>	<u>2,427,873,297</u>

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
31 December 2013

	Notes	31 December 2013 HK\$	31 December 2012 HK\$
<b>Non-current assets</b>			
Property, plant and equipment	12	669,971,941	835,601,447
Investment properties		93,757,440	15,728,144
Other intangible assets	13	128,358,175	147,232,553
Investment in associates	14	8,599,579,817	12,500,655,215
Investment in joint ventures	15	4,516,249,538	70,252,252
Available-for-sale investments	16	8,705,494,691	8,946,526,521
Goodwill	17	579,767,729	668,056,427
Financial assets- Concession	18	14,301,120,203	16,045,151,282
Other non-current assets	19	<u>850,660,879</u>	<u>963,990,495</u>
Total non-current assets		<u>38,444,960,413</u>	<u>40,193,194,336</u>
<b>Current assets</b>			
Inventories	20	33,689,696	40,473,866
Trade receivables	21	331,503,848	351,188,985
Prepayments, deposits and other receivables	22	338,378,516	361,588,873
Financial assets- Concession	18	2,322,407,644	2,479,175,929
Cash and cash equivalents	23	<u>25,869,449,731</u>	<u>6,249,850,086</u>
Total current assets		<u>28,895,429,435</u>	<u>9,482,277,739</u>
<b>Current liabilities</b>			
Trade payables	25	31,523,124	51,392,475
Other payables and accruals	24	345,315,399	766,096,115
Tax payable		495,886,453	195,147,398
Interest-bearing bank borrowings	27	<u>15,281,804,637</u>	<u>5,635,679,432</u>
Total current liabilities		<u>16,154,529,613</u>	<u>6,648,315,420</u>
NET CURRENT ASSETS		<u>12,740,899,822</u>	<u>2,833,962,319</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>51,185,860,235</u>	<u>43,027,156,655</u>

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)  
31 December 2013

	Notes	2013 HK\$	2012 HK\$
<b>Non-current liabilities</b>			
Interest-bearing bank borrowings	27	7,573,285,262	16,362,837,016
Deferred tax liabilities	28	1,298,700,598	1,244,252,843
Provisions	29	352,178,535	408,386,666
Other non-current liabilities		<u>6,218</u>	<u>13,187,577</u>
Total non-current liabilities		<u>9,224,170,613</u>	<u>18,028,664,102</u>
Net assets		<u>41,961,689,622</u>	<u>24,998,492,553</u>
<b>EQUITY</b>			
Issued capital	30	36,697,106,178	19,555,190,000
Reserves		9,942,134,372	7,057,414,548
Exchange fluctuation reserve		( 4,677,550,928)	( 1,614,111,995)
Total equity		<u>41,961,689,622</u>	<u>24,998,492,553</u>

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Zhu Guangchao  
Director

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
Year ended 31 December 2013

	Issued capital HK\$	Capital reserve HK\$	Available-for- sale investments reserve HK\$	Retained earnings HK\$	Hedging reserve	Exchange fluctuation reserve HK\$	Total HK\$
At 1 January 2012	9,300,000,000	523,422,572	(1,294,087,495)	4,615,433,869	-	(829,339,690)	12,315,429,256
Profit for the year	-	-	-	2,252,768,640	-	-	2,252,768,640
Other comprehensive loss for the year:							
Changes in fair value of available-for-sale investments, net of tax	-	-	816,990,108	-	-	-	816,990,108
Impairment losses of available-for-sale assets	-	-	227,147,854	-	-	-	227,147,854
Exchange differences on translation of foreign operations	-	-	-	-	-	(784,772,305)	(784,772,305)
Effective portion of net changes in fair value of net investment hedging instruments	-	-	-	-	(84,261,000)	-	(84,261,000)
Total comprehensive loss for the year	-	-	1,044,137,962	2,252,768,640	(84,261,000)	(784,772,305)	2,427,873,297
Increase in capital	10,255,190,000	-	-	-	-	-	10,255,190,000
At 31 December 2012	19,555,190,000	523,422,572*	(249,949,533)*	6,868,202,509*	(84,261,000)*	(1,614,111,995)	24,998,492,553
			Available-for- sale investments reserve	Retained earnings	Hedging reserve	Exchange fluctuation reserve	Total
At 1 January 2013	19,555,190,000	523,422,572	(249,949,533)	6,868,202,509	(84,261,000)	(1,614,111,995)	24,998,492,553
Profit for the year	-	-	-	2,999,632,826	-	-	2,999,632,826
Other comprehensive loss for the year:							
Changes in fair value of available-for-sale investments, net of tax	-	-	54,150,906	-	-	-	54,150,906
Exchange differences on translation of foreign operations	-	-	-	-	-	(3,063,438,933)	(3,063,438,933)
Effective portion of net changes in fair value of net investment hedging instruments	-	-	-	-	70,810,000	-	70,810,000
Total comprehensive loss for the year	-	-	54,150,906	2,999,632,826	70,810,000	(3,063,438,933)	61,154,799
Increase in capital	17,141,916,178	-	-	-	-	-	17,141,916,178
Declared and paid 2013 interim dividend (note 11)	-	-	-	(239,873,908)	-	-	(239,873,908)
At 31 December 2013	36,697,106,178	523,422,572*	(195,798,627)*	9,627,961,427*	(13,451,000)*	(4,677,550,928)	41,961,689,622

\*These reserve accounts comprise the consolidated reserves of HK\$9,942,134,372 (2012: HK\$7,057,414,548) in the consolidated statement of financial position.

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
CONSOLIDATED STATEMENT OF CASH FLOWS  
Year Ended 31 December 2013

	Notes	2013 HK\$	2012 HK\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		4,042,685,571	3,151,357,457
Adjustments for:			
Finance costs	7	612,281,676	506,039,919
Interest income		( 377,368,077 )	( 262,912,774 )
Foreign exchange differences, net	8	473,745,066	( 25,005,724 )
Dividend income from available-for-sale investments		( 542,340,420 )	( 351,089,484 )
Share of profit of associates		( 2,140,728,512 )	( 1,695,603,525 )
Provision /(reversal) of Impairment of trade receivables	21	( 16,376,881 )	12,312,046
Impairment of available-for-sale assets		-	227,147,854
Depreciation of property, plant and equipment	12	10,468,049	6,964,770
Amortisation of intangible assets and non-current assets	8	175,130	460,630
Decrease/(increase) in inventories		6,784,170	( 15,439,125 )
Decrease in trade receivables		33,620,047	11,478,323
Decrease /(increase) in prepayments, deposits and other receivables		( 25,207,327 )	224,325,942
Increase in long-term receivables		( 296,216,414 )	( 2,959,131 )
Increase /(decrease) in trade payables		200,864,869	( 6,416,017 )
Decrease in other payables and accruals		( 92,256,694 )	( 14,284,648 )
Decrease in amount due to fellow subsidiaries	26	( 67,204,207 )	( 6,040,327 )
Others		<u>2,441,971</u>	<u>-</u>
Cash generated from operations		<u>1,825,368,017</u>	<u>1,760,336,186</u>
Overseas income taxes paid		( <u>663,773,845</u> )	( <u>471,842,940</u> )
Net cash flow from operating activities		<u>1,161,594,172</u>	<u>1,288,493,246</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		( 23,347,717 )	( 94,731,038 )
Proceeds from disposals of items of available-for-sale investments		295,182,736	-
Investment in available-for-sale investments		-	( 235,121,776 )
Acquisition of subsidiaries		-	( 3,106,521,908 )
Guarantee received from acquisition of subsidiaries		-	264,726,075
Investment in joint ventures		( 1,644,174,516 )	( 8,386,500,993 )
Interest received		373,892,204	244,321,828
Dividend received from available-for-sale investments		407,329,755	351,089,484
Dividend received from an associate		1,929,571,979	1,126,952,555
Others		( <u>56,386,702</u> )	<u>-</u>
Net cash flows (used in) /from investing activities		<u>1,282,067,739</u>	( <u>9,835,785,773</u> )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Increase in capital from parent		17,141,916,178	10,255,190,000
Proceeds from bank loans		17,682,608,728	15,730,523,668
Repayment of bank loans		(16,128,812,496)	(14,092,086,894)
Interest paid		( <u>788,478,443</u> )	( <u>547,199,214</u> )
Net cash flows from/(used in) financing activities		<u>17,907,233,967</u>	<u>11,346,427,560</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		20,350,895,878	2,799,135,033
Cash and cash equivalents at beginning of year		6,249,850,086	3,724,986,705
Effect of foreign exchange rate changes, net		( <u>731,296,233</u> )	( <u>274,271,652</u> )
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	<u>25,869,449,731</u>	<u>6,249,850,086</u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	23	25,869,449,731	6,249,850,086
Time deposits with original maturity of less than three months when acquired, pledged as security for bank overdraft facilities		-	-
Bank overdrafts, secured		<u>-</u>	<u>-</u>
		<u>25,869,449,731</u>	<u>6,249,850,086</u>

1. CORPORATE INFORMATION

State Grid International Development Limited (the “Company”) is a limited liability company incorporated in Hong Kong. In August 2012, the shareholder of the Company changed from State Grid Corporation of China to State Grid International Development Co., Ltd.. The registered office is located at Suite 1304, 13F, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong.

The Company commenced its operations as an investment holding company in June 2008. The principal activities include providing resources and logistics services; acting as agent for tenders and purchase; manufacturing electricity devices; research and development of electricity technology products; investment, exploitation and management of electricity; operation and maintenance of electricity networks; other business include the provision of work design, construction, management, consultancy and technical services.

On 16 May 2013, State Grid Corporation of China made a further investment through State Grid Oversea Investment Limited (the “SGOIL”) to the Company by purchasing preference shares with a consideration of US\$1,969,000,000. The SGOIL is a minority shareholder with no voting rights. After the injection from the SGOIL, the issued capital of the Company is HK\$36,697,106,178 and the paid-in capital is HK\$36,697,106,178.

In the opinion of directors, the ultimate holding company is State Grid Corporation of China. Its registered office is located at 86 West Chang An Avenue, Xicheng District, Beijing, China.

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
NOTES TO FINANCIAL STATEMENTS  
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1. CORPORATE INFORMATION (continued)

Particulars of the subsidiaries as at the end of the year are as follows:

	Place of incorporation	Principal activities	Nominal value of issued and fully paid-up capital	Percentage of equity interest attributable to the Company
Expansion Transmissora Itumbiara Marimbondo S.A.	Brazil Rio de Janeiro	Grid operating	BRL 58,500,000	100%
Expansion Transmissora de Energia Eletrica S.A.	Brazil Rio de Janeiro	Grid operating	BRL 82,518,088	100%
Itumbiara Transmissora de Energia S.A.	Brazil Rio de Janeiro	Grid operating	BRL 373,710,000	100%
Pocosde Caldas Transmissora de Energia Eletrica S.A.	Brazil Rio de Janeiro	Grid operating	BRL 208,350,900	100%
Ribeirao Preto Transmissora de Energia Eletrica S.A.	Brazil Rio de Janeiro	Grid operating	BRL 170,886,000	100%
Serra Paracatu Transmissora de Energia S.A.	Brazil Rio de Janeiro	Grid operating	BRL 165,300,000	100%
Serra da Mesa Transmissora de Energia Eletrica S.A.	Brazil Rio de Janeiro	Grid operating	BRL 274,500,000	100%
Araraquara Transmissora De Energia S.A.	Brazil Rio de Janeiro	Grid operating	BRL 155,701,128	100%
Catxere Transmissora De Energia S.A.	Brazil Rio de Janeiro	Grid operating	BRL 313,298,233	100%
Iracema Transmissora De Energia S.A.	Brazil Rio de Janeiro	Grid operating	BRL 209,462,000	100%
Linhas De Transmissao Do Itatim S.A.	Brazil Rio de Janeiro	Grid operating	BRL 236,160,000	100%
Porto Primavera Transmissora De Energia S.A.	Brazil Rio de Janeiro	Grid operating	BRL 194,035,000	100%
SGBH Expansao Participacoes Ltda.	Brazil Rio de Janeiro	Project investment and financing	BRL 621,000,000	100%
SGBH Transmissao Participacoes Ltda.	Brazil Rio de Janeiro	Project investment and financing	BRL 251,000,000	100%
International Grid Holdings Limited	British Virgin Islands	Project investment and financing	USD1	100%
Top View Grid Investment Limited	British Virgin Islands	Project investment and financing	USD1	100%



STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
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1. CORPORATE INFORMATION (continued)

	Place of incorporation	Principal activities	Nominal value of issued and fully paid-up capital	Percentage of equity interest attributable to the Company
State Grid Brazil Holding S.A.	Brazil Rio de Janeiro	Project investment and financing	BRL 2,494,172,500	100%
State Grid Europe Limited	Britain	Project investment and financing	GBP50,000	100%
State Grid International Asia- Australia Holdings Limited	Hong Kong	Project investment and financing	AUD 666,000,000	100%
State Grid International Australia Investment Limited	Hong Kong	Project investment and financing	HKD 10,000	100%
State Grid International Australia Development Limited	Hong Kong	Project investment and financing	HKD 10,000	100%

2.1 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong.

2.2 BASIS OF PREPARATION

The directors considered these financial statements are neither for statutory purpose nor prepared in accordance with Hong Kong Companies Ordinance. Thus a report from the directors containing disclosures as required by Hong Kong Companies Ordinance is not presented.

These financial statements have been prepared under the historical cost convention, except for available-for-sale investments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest dollar except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2013. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

## 2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

HKFRS 7 Amendments	<i>Amendments to HKFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets</i>
HKFRS 10	<i>Consolidated Financial Statements</i>
HKFRS 12	<i>Disclosure of Interests in Other Entities</i>
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	<i>Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – Transition</i>
HKFRS 13	<i>Amendments Guidance</i>
HKFRS 13	<i>Fair Value Measurement</i>
HKAS 1 Amendments	<i>Amendments to HKAS 1 Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income</i>
HKAS 28 (2011)	<i>Investments in Associates and Joint Ventures</i>
Annual Improvements 2009-2011 Cycle	<i>Amendments to a number of HKFRSs issued in June 2012</i>

Other than as further explained below regarding the impact of HKFRS 10, HKFRS 12, HKFRS 13, amendments to HKFRS 10, HKFRS 11, HKFRS 12, HKAS 1, and certain amendments included in Annual Improvements 2009-2011 Cycle, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

## 2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

The principal effects of adopting these new and revised HKFRSs are as follows:

- (a) HKFRS 10 replaces the portion of HKAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements and addresses the issues in HK(SIC)-Int 12 Consolidation – Special Purpose Entities. It establishes a single control model used for determining which entities are consolidated. To meet the definition of control in HKFRS 10, an investor must have (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled.

As a result of the application of HKFRS 10, the Group has changed the accounting policy with respect to determining which investees are controlled by the Group.

The application of HKFRS 10 does not change any of the consolidation conclusions of the Group in respect of its involvement with investees as at 1 January 2013. The adoption of HKFRS 10 did not have any impact on the earnings per share attributable to owners of the parent and other comprehensive income for the year ended 31 December 2012.

- (b) HKFRS 12 sets out the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in HKAS 27 Consolidated and Separate Financial Statements, HKAS 31 Interests in Joint Ventures and HKAS 28 Investments in Associates. It also introduces a number of new disclosure requirements for these entities. Details of the disclosures for associates and joint ventures are included in notes 14 and 15 to the financial statements, respectively.
- (c) The HKFRS 10, HKFRS 11 and HKFRS 12 Amendments clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time.
- (d) HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but rather provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. HKFRS 13 is applied prospectively and the adoption has had no material impact on the Group's fair value measurements. As a result of the guidance in HKFRS 13, the policies for measuring fair value have been amended. Additional disclosures required by HKFRS 13 for the fair value measurements of financial instruments are included in respective notes to financial statements.

2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

- (e) The HKAS 1 Amendments change the grouping of items presented in other comprehensive income (“OCI”). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations and net loss or gain on available-for-sale financial assets) are presented separately from items which will never be reclassified (for example, the revaluation of land and buildings). The amendments have affected the presentation only and have had no impact on the financial position or performance of the Group. The consolidated statement of profit or loss and other comprehensive income has been restated to reflect the changes. In addition, the Group has chosen to use the new title “statement of profit or loss and other comprehensive income” as introduced by the amendments in these financial statements.
- (f) Annual Improvements 2009-2011 Cycle issued in June 2012 sets out amendments to a number of standards. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments have had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- HKAS 1 Presentation of Financial Statements: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

- HKAS 32 Financial Instruments: Presentation: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 Income Taxes. The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distributions to equity holders.

## 2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not early applied any of the new and revised HKFRSs that have been issued but are not yet effective for the accounting year ended 31 December 2013, in these financial statements. Among the new and revised HKFRSs, the following are expected to be relevant to the Group's financial statements upon becoming effective:

HKFRS 9	<i>Financial Instruments</i> <sup>4</sup>
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	<i>Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39</i> <sup>4</sup>
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – <i>Investment Entities</i> <sup>1</sup>
HKFRS 14	<i>Regulatory Deferral Accounts</i> <sup>3</sup>
HKAS 19 Amendments	Amendments to HKAS 19 <i>Employee Benefits – Defined Benefit Plans: Employee Contributions</i> <sup>2</sup>
HKAS 32 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities</i> <sup>1</sup>
HKAS 36 Amendments	Amendments to HKAS 36 <i>Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets</i> <sup>1</sup>
HKAS 39 Amendments	Amendments to HKAS 39 <i>Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting</i> <sup>1</sup>
HK(IFRIC)-Int 21	<i>Levies</i> <sup>1</sup>
Annual Improvements 2010-2012 Cycle	Amendments to a number of HKFRSs issued in December 2013 <sup>2</sup>
Annual Improvements 2011-2013 Cycle	Amendments to a number of HKFRSs issued in December 2013 <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2014

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2014

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2016

<sup>4</sup> No mandatory effective date yet determined but is available for adoption

The following issued but not yet effective accounting standards also include: HKFRS 9 (2014); HKFRS 10 and HKAS 28 Amendments- Contribution of Assets between an Investor and its Associate or Joint Venture; HKFRS 11 Amendments- Accounting for Acquisitions of Interests in Joint Operations; HKFRS 15- Revenue from Contracts with Customers; HKAS 16 and HKAS 38 Amendments- Clarification of Acceptable Methods of Depreciation and Amortisation; HKAS 16 and HKAS 41 Amendments- Bearers Plants; HKAS 27 (2011) Amendments- Equity Method in Separate Financial Statements; Annual Improvements 2010–2012 Cycle and 2011–2013 Cycle- Amendments to a number of HKFRSs issued in January 2014; 2012–2014 Cycle- Amendments to a number of HKFRSs issued in October 2014.

The Group has already commenced an assessment of the impact of these new or revised standards, amendments to standards and interpretations, certain of which may be relevant to the Group's operations and may give rise to changes in accounting policies, changes in disclosures and remeasurement of certain items in the financial statements. The Group is not yet in a position to ascertain their impact on its results of operations and financial position.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Company the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Company's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

### Investments in associate and joint venture

An associate is an entity in which the Company has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement

The Group measures its available-for-sale investments and certain equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.



2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed in these circumstances is measured based on the relative value of the disposed operation and the portion of the cash-generating unit retained.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of a parent of the Group;
- or
- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Group are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) 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).

Property, plant and equipment and depreciation

Items of plant and equipment are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Land and buildings are measured at cost less any subsequent accumulated depreciation and impairment loss.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any revaluation surplus or deficit is dealt with as a movement in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to profit or loss. Any subsequent revaluation surplus is credited to profit or loss to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on a straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Land and buildings	4.75%
Office equipment	13.57%
Transport equipment	33.33%

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

The assets' residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation(continued)

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are land and buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land and buildings held for a currently undetermined future use. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at historical cost less accumulated depreciation and impairment loss, if any.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

Intangible assets (other than goodwill)

Intangible assets include purchased patents and capitalised development costs. Purchased patents are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 to 15 years.

Expenditure on internally developed products is capitalised and deferred only if it can be demonstrated that the product or process is technically and commercially feasible and the Company has sufficient resources to complete the project. Expenditure that does not meet the recognition criteria is expensed in the statement of profit or loss when it is incurred. Capitalised development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five to seven years, commencing from the date when the products are put into commercial production.

Impairment of non-financial assets

The Group assesses at the end of each reporting period whether there is an indication that an asset may be impaired. If such an indication exists, the Group makes an estimate of the asset's recoverable amount.

The recoverable amount of an asset is the higher of its fair value less costs of disposal and its 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).

An impairment loss is recognised in the statement of profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of the impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. The reversal of the impairment loss is credited to the statement of profit or loss in the year in which it arises.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Investments and other financial assets

*Initial recognition and measurement*

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

*Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

- (a) **Loans and receivables**  
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other expenses for receivables.
- (b) **Available-for-sale financial investments**  
Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss in other expenses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

(b) Available-for-sale financial investments (continued)

and dividend income, respectively and are recognised in profit or loss as other income in accordance with the policies set out for “Revenue recognition” below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management’s intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Available-for-sale financial investments*

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through profit or loss if the increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

*Initial recognition and measurement*

Financial liabilities within the scope of HKAS 39 are classified as loans and borrowings, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, an amount due to the ultimate holding company and interest-bearing bank and other borrowings.

*Subsequent measurement*

The subsequent measurement of financial liabilities depends on their classification as follows:

*Loans and borrowings*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

*Financial guarantee contracts*

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.



## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

### Derivative financial instruments and hedge accounting

#### *Initial recognition and subsequent measurement*

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or
- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness of changes in the hedging

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting(continued)

instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated. Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

*Hedges of a net investment*

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a similar way to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to profit or loss.

*Current versus non-current classification*

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Transmission Concessions

The Group's subsidiaries in Brazil entered into electricity transmission concession agreements with the local government. These concession contracts regulate the activities of electricity transmission by the these subsidiaries, where:

- a) The contract establishes which services the operator shall render;
- b) The contract establishes performance standards related to maintaining and improving service quality to the consumers.
- c) Assets are revertible at the end of the concession and are entitled to indemnification (cash) from the Federal Government on investments not yet amortised, determined by the new replacement value.
- d) The price (tariff) is regulated and denominated Annual Allowed Revenue (RAP).

Adoption of HKFRIC 12 - Services Concession Agreements("HKFRIC 12"), applicable to public-private concession contracts in which the public entity:

- a) Controls or regulates the type of services that may be rendered, with resources to the underlying infrastructure;
- b) Controls or regulates the price for the services rendered;
- c) Controls/holds significant interest in the infrastructure at the end of the concession.

A public-private concession typically presents the following characteristics:

- a) An infrastructure underlying to the concession, which is used to render services;
- b) An agreement/contract between the Federal Government and operator;
- c) The operator renders a set of services during the concession;
- d) The operator receives compensation throughout the term of the concession agreement, either directly from the Federal Government, or from users of the infrastructure, or from both;
- e) Infrastructures are transferred to the Federal Government at the end of the concession, usually free of charge or also by means of payment.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Transmission Concessions (continued)

According to HKFRIC 12, concession infrastructures qualifying in the rule are not recognised by the concessionaire as fixed assets, once the operator is not deemed to be in control of such assets. These are, therefore, accounted for using one of the following accounting models, depending on the type of compensation commitment assumed by the Federal Government within the scope of the contract:

1) Financial asset model

This model is applicable when the concessionaire has an unconditional right to receive certain monetary amounts regardless of the level of usage of the infrastructures under the concession and it results in registering a financial asset, which was classified as loans and receivables.

2) Intangible asset model

This model is applicable when the concessionaire, within the scope of the concession, is compensated based on the degree of infrastructures usage (credit risk and demand) related to the concession, and it results in registering an intangible asset.

Based on the characteristics established in the electric power transmission service concession arrangement, the Group considers the concession arrangement falls in the scope of HKFRIC 12 and financial assets model was adopted. Accordingly, the following accounting treatments are adopted:

- Estimated portion of investments made and not amortised or depreciated through the end of the concession, classified as a financial asset since it is an unconditional right to receive cash or other financial assets directly from the granting authority;
- Receivable from the granting authority is measured by the estimated future cash flows method of the portion specified in the RAP for the construction and improvement of the transmission net work, discounted by the internal rate of return of the project;
- Revenue from operating and maintenance in an amount sufficient to cover the costs to satisfy the operation and maintenance obligations provided for in the service concession agreement; and
- Financial revenue is recognized on the rights of receivables due from the granting authority's payment to achieve the internal rate of return of the project.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

*Concession revenue*

- a) Operation and maintenance revenue  
The operation and maintenance revenue is recognised at the amount intended by the granting authority to meet the costs of operation and maintenance of transmission assets.
- b) Construction revenue  
The Company recognises revenues and costs from services of construction or improvement of the infrastructure used in the rendering of electric energy transmission services. The margin of construction adopted is established as equal to zero, considering that: (i) the Company's primary activity is the transmission of electricity; (ii) every construction revenue is related to the construction of infrastructure for the Company to perform its primary activity and (iii) the Company outsources the construction of infrastructure to unrelated parties.
- c) Financial revenue from concession  
Financial revenue accounted for by remuneration for granting the discounted rate, which represents the internal rate of return of the project, the unconditional flow of funds established by the granting authority through annual revenue allowed.

*Interest income*

On an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

*Dividend income*

Recognized when the shareholders' right to receive payment has been established.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries, joint ventures and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.



2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

Interim dividends are recognised directly as a liability when they are proposed and declared by the directors.

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position. Final dividends are recognised as a liability when they are approved by the shareholders.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements apart from those involving estimations which have the most significant effect on the amounts recognised in the financial statements.

(a) Impairment of available-for-sale financial investments

For available-for-sale financial investments, a significant or prolonged decline in fair value below cost is considered to be an objective evidence of impairment. Significant judgement is required when determining whether a decline in fair value has been significant or prolonged. In making this judgement, the historical data on market volatility as well as the price of the specific investment are taken into account. The Group also considers other factors, such as industry and sector performance and financial information regarding the investee.

(b) Income taxes

Significant management judgements on the future tax treatment of certain transactions are required in determining income tax provisions. The Group carefully evaluates tax implications of transactions and tax provisions are recorded accordingly. The tax treatment of such transactions is reconsidered annually to take into account all changes in tax legislation.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

(c) Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below:

(a) Impairment of property, plant and equipment and investment in associates and joint ventures

Items of property, plant and equipment are tested for impairment if there is any indication that the carrying value of these assets may not be recoverable and the assets are subject to an impairment loss. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the relevant cash-generating unit and a suitable discount rate is used in order to calculate the present value.

(b) Impairment of trade receivables

The Group maintains an allowance for estimated loss arising from the inability of its customers to make the required payments. The Group makes its estimates based on the ageing of its trade receivable balances, customers' creditworthiness, and historical write-off experience. If the financial condition of its customers was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their geographical areas and has two reportable operating segments as follows:

- (a) the Brazil segment is engaged in the operation and maintenance of electricity networks;
- (a) the “Corporate” segment comprises, principally, the Group's investments in majority associates and joint-ventures outside of Brazil.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of profit/(loss) before tax from continuing operations.

Segment assets and liabilities are also reviewed by the management for decision making.

Year ended 31 December 2013	Brazil HK\$	Corporate HK\$	Consolidated HK\$
<b>Segment revenue:</b>			
Operating revenue	<u>2,811,251,162</u>	<u>-</u>	<u>2,811,251,162</u>
<b>Segment results</b>	707,120,278	2,889,708,294	3,596,828,572
<i>Reconciliation</i>			
Elimination of other income			( 92,804,131 )
Elimination of finance costs			92,804,131
Administrative and other expenses			-
Exchange losses			<u>445,856,999</u>
Profit before tax from continuing operations			<u>4,042,685,571</u>
<b>Segment assets</b>	22,983,546,927	100,373,819,343	123,357,366,270
<i>Reconciliation</i>			
Elimination of other receivable			(39,741,477,663 )
Long term equity investment			<u>(16,275,498,759 )</u>
Total assets			<u>67,340,389,847</u>
<b>Segment liabilities</b>	14,627,456,972	50,626,621,199	65,254,078,171
<i>Reconciliation</i>			
Elimination of short-term loans			( 379,980,300 )
Elimination of other payables			( 35,773,141,645 )
Elimination of long-term loans			<u>( 3,722,256,000 )</u>
Total liabilities			<u>25,378,700,226</u>
<b>Other segment information:</b>			
Share of profits and losses of:			
Joint ventures	18,150,704	314,174,729	332,325,433
associates	-	1,808,403,079	1,808,403,079
Depreciation and amortisation	10,520,043	123,136	10,643,179
Capital expenditure*	23,347,717	-	23,347,717

\* Capital expenditure consists of additions to property, plant and equipment, other intangible assets and investment properties.

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4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2012	Brazil HK\$	Corporate HK\$	Consolidated HK\$
<b>Segment revenue:</b>			
Operating revenue	2,164,769,529	-	2,164,769,529
<b>Segment results</b>	744,596,696	1,671,595,311	2,416,192,007
<i>Reconciliation</i>			
Elimination of other income			( 208,829,685 )
Elimination of finance costs			208,829,685
Exchange losses			735,165,448
Profit[(loss)] before tax from continuing operations			3,151,357,457
<b>Segment assets</b>	25,630,129,141	56,221,721,796	81,851,850,937
<i>Reconciliation</i>			
Elimination of other receivables			(17,017,985,378 )
Long term equity investment			(15,158,393,484 )
Total assets			49,675,472,075
<b>Segment liabilities</b>	15,819,014,333	26,027,441,111	41,846,455,444
<i>Reconciliation</i>			
Elimination of other payables			( 14,146,390,922 )
Elimination of long-term loans			( 3,023,085,000 )
Total liabilities	41,449,143,474		24,676,979,522
<b>Other segment information:</b>			
Share of profits and losses of:			
Joint ventures	( 1,194,638 )	-	( 1,194,638 )
Associates	-	1,696,798,163	1,696,798,163
Impairment losses recognised in the statement of profit	12,312,046	-	12,312,046
Depreciation and amortisation	7,310,520	114,880	7,425,400
Capital expenditure*	27,361,887	-	27,361,887

\* Capital expenditure consists of additions to property, plant and equipment, other intangible assets and investment properties.

The Group's operation revenue from external customers is solely derived from its Brazil subsidiaries, which are engaged in the exploitation of public service concessions for transmission of electricity.

During the years ended 31 December 2013 and 2012, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue for these years.

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5. REVENUE

	2013 HK\$	2012 HK\$
Concession revenues	2,805,289,235	2,164,769,529
Leasing income	<u>5,961,927</u>	<u>-</u>
	<u>2,811,251,162</u>	<u>2,164,769,529</u>

6. OTHER INCOME

Other income includes the following:

	2013 HK\$	2012 HK\$
Bank interest income	377,368,077	262,912,774
Dividend income from available-for-sale investments	452,588,616	351,089,484
Gain on disposal of available-for-sale investments	89,751,804	-
Others	<u>5,916,833</u>	<u>-</u>
	<u>925,625,330</u>	<u>614,002,258</u>

7. FINANCE COSTS

	2013 HK\$	2012 HK\$
Interest on bank loans, wholly repayable within five years	594,961,312	408,053,839
Others	<u>17,320,364</u>	<u>97,986,080</u>
	<u>612,281,676</u>	<u>506,039,919</u>

8. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	2013 HK\$	2012 HK\$
Depreciation	10,468,049	6,964,770
Amortisation of intangible assets and non-current assets	175,130	460,630
Professional fees	222,724,404	202,726,388
Minimum lease payments under operating leases of land and buildings	3,102,124	1,896,055
(Reversal)/provision for impairment losses	( 16,376,881)	12,312,046
Foreign exchange differences, net	473,745,066	(25,005,724)
Auditors' remuneration	885,301	367,035
Staff costs (excluding directors' remuneration (note 8):		
Wages and salaries	233,582,531	163,701,738

9. DIRECTORS' REMUNERATION

No director received any fees or emoluments in respect of their services rendered to the Group during the year (2012: Nil).

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. The Philippines profits tax has been provided at the rate of 15% (2012: 15%) on the estimated assessable profits arising in Philippines during the year. Brazil profits tax has been provided at the rate of 34% (2012: 34%) on the estimated assessable profits arising in Brazil during the year.

	2013 HK\$	2012 HK\$
Current - Elsewhere:		
Withholding tax on the dividend income from an associate – Philippines	260,099,245	198,873,980
Income tax – Brazil	485,027,837	516,529,832
Others	79,643,440	-
Deferred:		
Deferred tax expenses (note 28)	<u>218,282,223</u>	<u>183,185,005</u>
Tax charge for the year	<u>1,043,052,745</u>	<u>898,588,817</u>

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10. INCOME TAX (continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the countries in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	2013		2012	
	HK\$	%	HK\$	%
Profit before tax	<u>4,042,685,571</u>		<u>3,151,357,457</u>	
Tax at the statutory tax rate	819,694,225	20.3	667,394,570	21.2
Non-deductible expenses	511,543,339	12.7	425,667,871	13.5
Income not subject to tax	( 522,748,955)	(12.9)	( 426,438,938)	(13.5)
Withholding tax for profits attributable to the Group's associate in Philippine	225,557,769	5.6	229,774,369	7.3
Withholding tax for profits attributable to the Group's associate in Australia	<u>9,006,367</u>	<u>0.2</u>	<u>2,190,945</u>	<u>0.1</u>
Tax charge at the Group's effective rate	<u>1,043,052,745</u>	<u>25.9</u>	<u>898,588,817</u>	<u>28.6</u>

11. DIVIDENDS

	2013	2012
	HK\$	HK\$
Interim dividend – preference share	<u>239,873,908</u>	<u>-</u>
	<u>239,873,908</u>	<u>-</u>

The interim dividend for the year has been approved at the special general meeting on 4 November 2013 and paid on 13 November 2013.



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12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$	Office equipment HK\$	Transport equipment HK\$	Office renovation HK\$	Construction in progress HK\$	Total HK\$
<b>31 December 2013</b>						
At 1 January 2013:						
Cost	397,151,432	27,460,078	1,848,892	505,189	416,887,058	843,852,649
Accumulated depreciation	( 3,233,463)	( 3,776,855)	( 735,695)	(505,189)	-	( 8,251,202)
Net carrying amount	<u>393,917,969</u>	<u>23,683,223</u>	<u>1,113,197</u>	<u>-</u>	<u>416,887,058</u>	<u>835,601,447</u>
At 1 January 2013, net of						
Accumulated depreciation	393,917,969	23,683,223	1,113,197	-	416,887,058	835,601,447
Additions	-	23,347,717	-	-	-	23,347,717
Reclassification	-	1,538,171	(1,538,171)	-	-	-
Transfer to investment properties	( 80,107,889)	-	-	-	-	( 80,107,889)
Depreciation provided during the year	( 6,343,875)	( 4,124,174)	-	-	-	( 10,468,049)
Exchange realignment	( 64,169,663)	370,790	424,974	-	( 35,027,386)	( 98,401,285)
At 31 December 2013, net of						
Accumulated depreciation	<u>243,296,542</u>	<u>44,815,727</u>	<u>-</u>	<u>-</u>	<u>381,859,672</u>	<u>669,971,941</u>
At 31 December 2013						
Cost	252,873,880	52,716,756	735,695	505,189	381,859,672	688,691,192
Accumulated depreciation	( 9,577,338)	(7,901,029)	( 735,695)	(505,189)	-	( 18,719,251)
Net carrying amount	<u>243,296,542</u>	<u>44,815,727</u>	<u>-</u>	<u>-</u>	<u>381,859,672</u>	<u>669,971,941</u>
	Land and Buildings HK\$	Office equipment HK\$	Transport equipment HK\$	Office renovation HK\$	Construction in progress HK\$	Total HK\$
<b>31 December 2012</b>						
At 1 January 2012:						
Cost	467,645	4,244,597	1,848,892	505,189	867,006,975	874,073,298
Accumulated depreciation	-	( 526,184)	( 255,059)	(505,189)	-	( 1,286,432)
Net carrying amount	<u>467,645</u>	<u>3,718,413</u>	<u>1,593,833</u>	<u>-</u>	<u>867,006,975</u>	<u>872,786,866</u>
At 1 January 2012, net of						
Accumulated depreciation	467,645	3,718,413	1,593,833	-	867,006,975	872,786,866
Additions	396,683,787	23,215,481	-	-	(396,683,787)	23,215,481
Depreciation provided during the year	( 3,233,463)	( 3,250,671)	( 480,636)	-	-	( 6,964,770)
Exchange realignment	-	-	-	-	( 53,436,130)	( 53,436,130)
At 31 December 2012, net of						
Accumulated depreciation	<u>393,917,969</u>	<u>23,683,223</u>	<u>1,113,197</u>	<u>-</u>	<u>416,887,058</u>	<u>835,601,447</u>
At 31 December 2012						
Cost	397,151,432	27,460,078	1,848,892	505,189	416,887,058	843,852,649
Accumulated depreciation	( 3,233,463)	( 3,776,855)	( 735,695)	(505,189)	-	( 8,251,202)
Net carrying amount	<u>393,917,969</u>	<u>23,683,223</u>	<u>1,113,197</u>	<u>-</u>	<u>416,887,058</u>	<u>835,601,447</u>

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13. OTHER INTANGIBLE ASSETS

	Usage right of transmission lines HK\$	Software HK\$	Total HK\$
<b>31 December 2013</b>			
At 1 January 2013:			
Cost	147,511,510	-	147,511,510
Accumulated amortisation	( 278,957)	-	( 278,957)
Net carrying amount	<u>147,232,553</u>	-	<u>147,232,553</u>
Cost at 1 January 2013, net of accumulated amortisation	147,232,553	-	147,232,553
Additions	-	795,921	795,921
Exchange realignment	( 19,335,985)	( 159,184)	( 19,495,169)
Amortisation for the year	( 18,272)	( 156,858)	( 175,130)
At 31 December 2013	<u>127,878,296</u>	<u>479,879</u>	<u>128,358,175</u>
At 31 December 2013:			
Cost	128,175,525	636,737	128,812,262
Accumulated amortisation	( 297,229)	( 156,858)	( 454,087)
Net carrying amount	<u>127,878,296</u>	<u>479,879</u>	<u>128,358,175</u>
			Usage right of transmission lines HK\$
<b>31 December 2012</b>			
At 1 January 2012:			
Cost			160,675,641
Accumulated amortisation			( 11,797)
Net carrying amount			<u>160,663,844</u>
Cost at 1 January 2012, net of accumulated amortisation			160,663,844
Exchange realignment			( 13,164,131)
Amortisation for the year			( 267,160)
At 31 December 2012			<u>147,232,553</u>
At 31 December 2012:			
Cost			147,511,510
Accumulated amortisation			( 278,957)
Net carrying amount			<u>147,232,553</u>

14. INVESTMENT IN ASSOCIATES

	2013	2012
	HK\$	HK\$
Unlisted shares	4,442,015,128	8,572,269,159
Listed shares	<u>4,157,564,689</u>	<u>3,928,386,056</u>
	<u>8,599,579,817</u>	<u>12,500,655,215</u>

Particulars of the associates as at the end of the year are as follows:

Name	Particulars of issued shares held	Place of incorporation	Percentage of ownership interest attributable to the Company	Principal activities
National Grid Corporation of the Philippines ("NGCP")	PHP800,000,000	Manila The Philippines	40%	Operate electric transmission grid
REN-Redes Energeticas Nacionais, SGPS, S.A. ("REN")	EURO534,000,000	Lisbon Portugal	25%	Operate electric transmission grid

All of the above investments in associates are directly held by the Company, except for REN.

NGCP and REN are both considered individually material associates of the Group, and are accounted for using the equity method.

14. INVESTMENT IN ASSOCIATES (continued)

The following table illustrates the summarised financial information of NGCP and REN, adjusted for any differences in accounting policies, and reconciled to the carrying amount in the consolidated financial statements:

	NGCP		REN	
	2013	2012	2013	2012
	HK\$	HK\$	HK\$	HK\$
Current assets	3,156,628,189	5,017,547,546	8,099,000,093	4,087,524,972
Non-current assets	31,312,656,152	31,647,706,771	45,943,063,780	44,249,177,195
Current liabilities	4,881,609,438	3,328,520,878	10,059,488,185	15,803,380,869
Non-current liabilities	<u>18,482,637,083</u>	<u>21,656,004,355</u>	<u>32,455,612,297</u>	<u>21,722,236,586</u>
Net assets	<u>11,105,037,820</u>	<u>11,680,729,084</u>	<u>11,526,963,391</u>	<u>10,811,084,712</u>
Reconciliation to the Group's interest in the associates:				
Proportion of the Group's interest	40%	40%	25%	25%
Group's share of net assets of the associates, excluding goodwill	4,442,015,128	4,672,291,634	2,881,740,848	2,702,771,178
Goodwill on acquisition	<u>-</u>	<u>-</u>	<u>1,275,823,841</u>	<u>1,225,614,878</u>
Carrying amount of the investment	<u>4,442,015,128</u>	<u>4,672,291,634</u>	<u>4,157,564,689</u>	<u>3,928,386,056</u>
Revenue	8,160,970,365	8,196,646,738	8,124,945,731	8,091,938,795
Profit for the year	3,759,296,150	3,829,572,825	1,218,738,476	1,235,813,239
Other comprehensive income	( 791,319,819 )	( 1,820,622,248 )	116,836,057	291,148,708
Total comprehensive income for the year	2,967,976,331	2,008,950,577	1,335,574,533	1,526,961,947

As of 1 May 2013, the Company further acquired additional 5.45% equity interest in ElectraNet Pty Ltd., pursuant to which the Company's shares in ElectraNet increased to 46.56%. According to the revised articles of the ElectraNet, the Company has joint control over ElectraNet with the other shareholders of ElectraNet. As such, the investment in ElectraNet is reclassified from investment in associates to investment in joint ventures. For the year of 2012, ElectraNet was also a material associate to the Group.

15. INVESTMENT IN JOINT VENTURES

	2013	2012
	HK\$	HK\$
Unlisted shares, using equity method:		
Joint ventures	<u>4,516,249,538</u>	<u>70,252,252</u>
	<u>4,516,249,538</u>	<u>70,252,252</u>

Particulars of the joint ventures as at the end of the year are as follows:

Name		Particulars of issued shares held	Place of incorporation	Percentage of ownership interest attributable to the Company	Principal activities
ElectraNet Pty Ltd. ("ElectraNet")	(1)	AUD4,656	Canberra, Australia	46.56%	Operate electric transmission grid
Matrincha Transmissora de Energia ( "TP North" ) S.A.	(2)	BRL10,455,510	Rio de Janeiro, Brazil	51%	Operate electric transmission grid
Guaraciaba Transmissora de Energia ( "TP Sul" ) S.A.	(2)	BRL7,395,510	Rio de Janeiro, Brazil	51%	Operate electric transmission grid
Luziania-Niquelandia Transmissora S.A. ( "LNT" )	(2)	BRL969,000	Rio de Janeiro, Brazil	51%	Operate electric transmission grid
Paranaíba Transmissora de Energia S.A. ( "PTE" )	(2)	BRL36,720,510	Rio de Janeiro, Brazil	51%	Operate electric transmission grid

- (1) The Company acquired additional 5.45% equity interests of ElectraNet in May 2013 with cash consideration amounted to AUD71,229,134. All the considerations were paid in 2013. ElectraNet is considered a material joint venture of the Group, and are accounted for using the equity method.
- (2) The Company's subsidiary SGBH holds 51% interests of TP North, TP Sul, LNT and PTE in Brazil which are considered as joint ventures of the Group. The management considered SGBH only hold joint control with other joint venture partners over these four entities.

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15. INVESTMENT IN JOINT VENTURES (continued)

The following table illustrates the summarised financial information of ElectraNet, adjusted for any differences in accounting policies, and reconciled to the carrying amount in the consolidated financial statements:

	2013 HK\$	2012 HK\$
Cash and cash equivalents	38,135,056	84,974,845
Other current assets	<u>220,167,676</u>	<u>231,418,133</u>
Current assets	<u>258,302,732</u>	<u>316,392,978</u>
Non-current assets	16,949,645,529	17,848,739,732
Financial liabilities, excluding trade and other payables	1,989,264,080	3,325,956,711
Other current liabilities	<u>240,838,500</u>	<u>489,947,450</u>
Total current liabilities	<u>2,230,102,580</u>	<u>3,815,904,161</u>
Financial liabilities, excluding trade and other payables	10,288,758,342	7,056,372,678
Other non-current liabilities	<u>1,891,600,628</u>	<u>4,787,762,643</u>
Total non-current liabilities	<u>12,180,358,970</u>	<u>11,844,135,321</u>
Net assets	<u>2,797,486,711</u>	<u>2,505,093,228</u>
Reconciliation to the Group's interest in the joint ventures:		
Proportion of the Group's interest	46.56%	41.11%
Group's share of net assets of the joint ventures, excluding goodwill	1,302,509,813	1,029,843,826
Goodwill on acquisition	<u>2,706,961,747</u>	<u>2,870,133,699</u>
Carrying amount of the investment	<u>4,009,471,560</u>	<u>3,899,977,525</u>
Revenue	2,546,817,538	2,911,922,925
Depreciation and amortisation	632,932,457	644,599,997
Interest expenses	515,529,332	1,088,263,590
Income tax expenses	358,641,188	172,095,779
Profit for the year	479,853,809	393,967,744
Other comprehensive income	(124,414,117)	111,740,394
Total comprehensive income	355,439,692	505,708,138

15. INVESTMENT IN JOINT VENTURES (continued)

The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material:

	2013 HK\$	2012 HK\$
Share of the joint-ventures' profit for the year	18,150,704	(1,194,638)
Aggregate carrying amount of the Group's investments in the joint-ventures	506,777,978	70,252,252

16. AVAILABLE-FOR-SALE INVESTMENTS

	2013 HK\$	2012 HK\$
Listed equity investments, at fair value:		
China Construction Bank	7,694,403,971	8,181,058,581
China Datang Corporation Renewable Power Co., Ltd.	273,591,360	165,155,760
Guodian Technology & Environment Group Corporation Ltd	158,883,120	178,282,500
Huaneng Renewables Corporation Ltd.	578,616,240	214,647,960
Huadianfuxin Energy Corporation Ltd.	<u>-</u>	<u>207,381,720</u>
	<u>8,705,494,691</u>	<u>8,946,526,521</u>

During the year, the fair value gains in respect of the Group's available-for-sale investments was recognised in other comprehensive income amounted to HK\$54,150,906 (2012: HK\$816,990,108). The fair value of the AFS falls into the level 1 fair value hierarchy in HKFRS 13.

The fair value of listed equity investments are based on market prices at the end of the shares quoted in Hong Kong Stock Exchange at the end of reporting period.

17. GOODWILL

The goodwill breakdown and additions and write-offs in the year ended on 31 December 2013 are as follows:

	2013 HK\$	2012 HK\$
Cost at 1 January , net of accumulated impairment	668,056,427	407,971,095
Acquisition of subsidiaries	<u>-</u>	<u>294,654,666</u>
Cost and net carrying amount at 31 December	<u>668,056,427</u>	<u>702,625,761</u>
At 31 December :		
Cost	668,056,427	702,625,761
Exchange realignment	( <u>88,288,698</u> )	( <u>34,569,334</u> )
Net carrying amount	<u>579,767,729</u>	<u>668,056,427</u>

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing:

- Cash-generating unit related to the transmission lines.

The recoverable amount of the cash-generating unit related to the transmission lines has been determined based on a value in use calculation using cash flow projections based on the concession period agreed with the Brazilian government. The discount rate applied to the cash flow projections is 10.5% with regard to the operating subsidiaries. The growth rate used to extrapolate the cash flows of the transmission lines beyond the concession period is 3% - 5% with regard to the operating subsidiaries.



18. FINANCIAL ASSETS - CONCESSION

	2013 HK\$	2012 HK\$
Concession revenue receivables	<u>14,301,120,203</u>	<u>16,045,151,282</u>
	<u>14,301,120,203</u>	<u>16,045,151,282</u>

The concession revenue receivables are derived from these operational subsidiaries in Brazil, which have entered into the electric power transmission service concession arrangement with the federal government of Brazil. As of 31 December 2013, the aggregated receivable amount was HK\$16,623,527,847 (HK\$2,322,407,644 in current assets and HK\$14,301,120,203 in non-current assets, as at 31 December 2013).

The concession revenue receivables balance (both current assets and noncurrent assets) is updated based on changes in inflation rates so that it is amended every year by the deadline of the concession. The current assets primarily represents the balance of the permitted annual revenue expected to be received next year. The realisation of the amounts classified as non-current assets is projected by the end of the concession. The fair value of the financial assets- concession fall into the level 3 of the fair value hierarchy.

19. OTHER NON-CURRENT ASSETS

	2013 HK\$	2012 HK\$
Loan notes to associate	753,416,029	664,176,895
Non-current tax recoverables	87,416,322	90,976,067
Court deposits	-	7,486,844
Others	<u>9,828,528</u>	<u>201,350,689</u>
	<u>850,660,879</u>	<u>963,990,495</u>

In accordance with the Brazilian laws, the Group's subsidiaries in Brazil are subject to Social Contribution Tax on Gross Revenue for Social Security Funding ("COFINS") and Social Contribution Tax on Gross Revenue for Social Integration Program ("PIS"). PIS and COFINS credits derive from purchases of plant, property and equipment during the construction period of the subsidiaries transmission lines, as permitted by laws in Brazil. Such credits are available to be offset against the payment of PIS and COFINS on the monthly invoice at a rate of 1/48. As of 31 December 2013, the Group estimates tax recoverables as follows:

	2013 HK\$	2012 HK\$
Tax recoverables	<u>347,408,460</u>	<u>384,299,412</u>
Analysed into:		
Current (note 22)	259,992,138	293,323,345
Non-current	<u>87,416,322</u>	<u>90,976,067</u>
	<u>347,408,460</u>	<u>384,299,412</u>

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20. INVENTORIES

	2013 HK\$	2012 HK\$
Materials	<u>33,689,696</u>	<u>40,473,866</u>

21. TRADE RECEIVABLES

	2013 HK\$	2012 HK\$
Trade debtors	334,670,939	369,815,191
Less: Impairment provision	( 2,320,657 )	( 18,697,538 )
Exchange realignment	<u>( 846,434 )</u>	<u>71,332</u>
	<u>331,503,848</u>	<u>351,188,985</u>

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of three months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise the credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing. They are stated net of provisions.

At 31 December 2013, trade debtors of HK\$2,320,657 (2012: HK\$18,697,538) were determined to be impaired. Movements in the provision for impairment losses are as follows:

	2013 HK\$	2012 HK\$
At 1 January 2013	18,697,538	6,385,492
(Reversal)/Provision for impairment losses	<u>(16,376,881)</u>	<u>12,312,046</u>
At 31 December 2013	<u>2,320,657</u>	<u>18,697,538</u>

21. TRADE RECEIVABLES (continued)

The aged analysis of trade receivables based on invoice date, net of impairment provision is as follows:

	2013 HK\$	2012 HK\$
Neither past due nor impaired	286,451,373	328,763,370
Past due but not impaired:		
Less than 30 days	2,095,284	362,800
31 to 60 days	2,510,870	278,971
61 to 90 days	856,200	265,439
Over 90 days	<u>39,590,121</u>	<u>21,518,405</u>
	<u>331,503,848</u>	<u>351,188,985</u>

Trade receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The carrying values of trade receivables approximated to their fair values due to the short-term maturities.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2013 HK\$	2012 HK\$
Prepayments	2,376,000	3,134,458
Tax recoverable-current	259,992,138	293,323,345
Other receivables	<u>76,010,378</u>	<u>65,131,070</u>
	<u>338,378,516</u>	<u>361,588,873</u>

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

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23. CASH AND CASH EQUIVALENTS

	2013 HK\$	2012 HK\$
Cash and cash equivalents	<u>25,869,449,731</u>	<u>6,249,850,086</u>
Denominated in:		
HK\$	38,387,752	126,497,309
US\$	16,563,689,150	1,751,099,114
Brazilian Real ("BRL")	3,678,701,498	4,341,942,162
AU\$	5,367,223,313	7,108,277
Others	<u>221,448,018</u>	<u>23,203,224</u>
	<u>25,869,449,731</u>	<u>6,249,850,086</u>

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their values.

At the end of the reporting period, the cash and bank balances of the Group denominated in Brazilian Real ("BRL") amounted to HK\$3,678,701,498 (2012: HK\$4,341,942,162). The BRL is not freely convertible into other currencies, however, according to the Brazilian regulation, the Group is permitted to exchange BRL for other currencies through financial institutions authorised to conduct foreign exchange business on certain conditions.

24. OTHER PAYABLES AND ACCRUALS

	Note	2013 HK\$	2012 HK\$
Amount due to related parties	26	73,033,022	67,204,207
Payables to professionals		165,319,451	88,103,108
Other payables		<u>106,962,926</u>	<u>610,788,800</u>
		<u>345,315,399</u>	<u>766,096,115</u>

The amounts due are unsecured, non-interest bearing and repayable on demand.

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25. TRADE PAYABLES

	2013	2012
	HK\$	HK\$
Trade payables	<u>31,523,124</u>	<u>51,392,475</u>
	<u>31,523,124</u>	<u>51,392,475</u>

Included in trade payables are trade payables of HK\$31,523,124 (2012: HK\$ 51,392,475) due to the Group's suppliers, which are unsecured, interest-free and are settled quarterly.

As of December 31, 2012 and 2013, the carrying values of trade payables approximated to their fair values due to the short-term maturities of these instruments.

26. AMOUNT DUE TO RELATED PARTIES

Name	2013	2012
	HK\$	HK\$
State Grid International Development Co., Ltd.	73,033,022	67,158,626
CLP International Travel Agency	<u>-</u>	<u>45,581</u>
	<u>73,033,022</u>	<u>67,204,207</u>

State Grid International Development Co., Ltd. is the Company's parent company. The balance is unsecured, interest-free and have no fixed terms of repayment.

27. INTEREST-BEARING BANK BORROWINGS

	2013 HK\$	2012 HK\$
Bank borrowings		
Guaranteed:	5,577,675,456	5,064,319,629
Unsecured:	<u>17,277,414,443</u>	<u>16,934,196,819</u>
	<u>22,855,089,899</u>	<u>21,998,516,448</u>
Analysed into bank loans repayable:		
Within one year	15,281,804,637	5,635,679,432
In the second to fifth years, inclusive	7,573,285,262	16,362,837,016

(a) The average effective interest rate (per annum) of the Group's borrowings in 2013 was 2.30% over LIBOR (2012:1.56% over LIBOR).

(b) The bank loans denominated in HK dollars, US dollars and Brazilian Real are as follows:

	2013 HK\$	2012 HK\$
US\$	14,395,362,901	12,420,507,309
BRL	2,608,253,998	3,983,334,139
EUR	3,091,313,000	3,182,615,000
AUD	<u>2,760,160,000</u>	<u>2,412,060,000</u>
	<u>22,855,089,899</u>	<u>21,998,516,448</u>

(c) Bank loans of Euro290 million are designated as the hedging instruments to hedge the net investments in REN.

The carrying amount of interest-bearing bank borrowings approximates their fair value due to that approximately all of the bank borrowings are bearing floating interest rate. The fair value of the interest-bearing bank borrowings fall into the level 2 of the fair value hierarchy.

Certain of the bank borrowings borrowed by certain of the Company's subsidiaries are guaranteed by the Company.

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28. DEFERRED TAX LIABILITIES

	Fair value adjustments arising from acquisition of subsidiaries and accounts receivable – financial assets HK\$	Withholding taxes - Philippines HK\$	Total HK\$
At 1 January 2013	<u>1,072,369,286</u>	<u>171,883,557</u>	<u>1,244,252,843</u>
Deferred tax charged to profit or loss during the year (note 10)	252,823,699	( 34,541,476)	218,282,223
Exchange realignment	( <u>163,561,760</u> )	( <u>272,708</u> )	( <u>163,834,468</u> )
At 31 December 2013	<u>1,161,631,225</u>	<u>137,069,373</u>	<u>1,298,700,598</u>
	Fair value adjustments arising from acquisition of subsidiaries and accounts receivable – financial assets HK\$	Withholding taxes HK\$	Total HK\$
At 1 January 2012	<u>612,226,810</u>	<u>129,009,023</u>	<u>741,235,833</u>
Deferred tax charged to profit or loss during the year (note 10)	152,284,616	30,900,389	183,185,005
Deferred tax from acquisition of subsidiaries recognised	359,727,675	-	359,727,675
Exchange realignment	( <u>51,869,815</u> )	<u>11,974,145</u>	( <u>39,895,670</u> )
At 31 December 2012	<u>1,072,369,286</u>	<u>171,883,557</u>	<u>1,244,252,843</u>

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29. PROVISIONS

	2013 HK\$	2012 HK\$
Provision for contingencies (a):		
Tax proceedings	72,554,927	98,356,623
Civil proceedings	29,181,653	23,131,357
Rights proceedings	48,047,958	54,800,895
Labor proceedings	6,752,023	720,811
Environment proceedings	<u>63,331,810</u>	<u>84,289,348</u>
	219,868,371	261,299,034
Other provision –compensatory measures (b):	<u>132,310,164</u>	<u>147,087,632</u>
	<u>352,178,535</u>	<u>408,386,666</u>

- (a) The Group's subsidiaries in Brazil are involved in tax, civil, labor and others proceedings, arising in the normal course of its business and are discussing these issues, both in the administrative and judicial sphere. Provision for possible losses arising from such proceedings are estimated and updated by the Group's management, supported by the opinion of its independent legal advisors.
- (b) The Group has an electric transmission concession contract in Brazil that provides for that Concessionaire shall endeavor to minimize damage to flora and fauna existing along the usage right of transmission lines on the implementation and concession period, taking into account the compliance with commitments and responsibilities defined in the environmental licensing documents.

The Group's subsidiaries in Brazil are operating in accordance with the Brazilian laws, meeting the environment and health, hygiene, safety and occupational health requirements. In the operation phase of the Group's business, environmental programs are developed in order to mitigate and offset the impacts.

As of 31 December 2013, the balance of the environmental provision is HK\$132,310,164 (HK\$147,087,632 at 31 December 2012). Management of the Group, based on the opinion of legal advisors, believes that no adjustment for inflation is expected for this provision. Besides, provision is held under non-current liabilities because disbursement in the next year is not expected.



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30. SHARE CAPITAL

	2013 HK\$	2012 HK\$
Authorised:		
22,779,327,845 (2012: 20,888,327,845) ordinary shares of HK\$1.00 each	<u>22,779,327,845</u>	<u>20,888,327,845</u>
Issued and fully paid		
21,429,327,845 (2012: 19,555,190,000) ordinary shares of HK\$1.00 each	<u>21,429,327,845</u>	<u>19,555,190,000</u>
Authorised:		
15,267,778,333 (2012: Nil) preference shares of HK\$1.00 each	<u>15,267,778,333</u>	<u>-</u>
Issued and fully paid		
15,267,778,333 (2012: Nil) preference shares of HK\$1.00 each (note)	<u>15,267,778,333</u>	<u>-</u>

A summary of the transactions during the year with reference to the above movements in the Group's issued ordinary share capital is as follows:

	2013 HK\$	2012 HK\$
At 1 January	19,555,190,000	9,300,000,000
New issues (a)	<u>1,874,137,845</u>	<u>10,255,190,000</u>
At 31 December	<u>21,429,327,845</u>	<u>19,555,190,000</u>

30. SHARE CAPITAL (continued)

A summary of the transactions during the year with reference to the above movements in the Group's issued preference share capital is as follows:

	2013 HK\$	2012 HK\$
At 1 January	-	-
New issues (b)	<u>15,267,778,333</u>	<u>-</u>
At 31 December	<u>15,267,778,333</u>	<u>-</u>

During the year, the movements in share capital were as follows:

- (a) On 8 March 2013, 1,874,137,845 ordinary shares of HK\$1.00 each were issued at par to the existing shareholders of the Company, which resulted in proceeds of HK\$1,874,137,845. The purpose of the issue was to provide additional working capital.
- (b) On 28 May 2013, 15,267,778,333 preference shares of HK\$1.00 each were issued at par for cash to SGOIL, a fellow subsidiary of the Company, which resulted in proceeds of HK\$15,267,778,333. The purpose of the issue was to provide additional working capital.

31. CONTINGENT LIABILITIES

- (a) At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	2013	2012
Guarantees given to banks in connection with facilities granted to associates (note 33)	<u>1,065,965,207</u>	<u>-</u>
Counter-guarantees given to banks in connection with facilities granted to joint ventures (note 33)	<u>1,291,469,975</u>	<u>271,332,419</u>
	<u>2,357,435,182</u>	<u>271,332,419</u>

As at 31 December 2013, the Group provided guarantees to associates for bank loans to the extent of approximately HK\$1,065,965,207 (2012:nil), the Group provided counter-guarantees to joint ventures were utilised to the extent of approximately HK\$1,291,469,975 (2012: HK\$271,332,419).

- (b) The Group's subsidiaries in Brazil are involved in tax, civil, labour and others proceedings, arising in the normal course of its business. Provision for possible losses arising from such proceedings are estimated and updated by the Group's management, supported by the opinion of its independent legal advisors. Details of probable loss expected can be found in Note 29.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's exposure to market risk (including interest rate risk and foreign currency risk), credit risk, equity price risk and liquidity risk arises in the normal course of its business. These risks are managed by the Group's financial management policies and practices described below:

*Interest rate risk*

The Group's exposure to interest rate risk relates principally to the Group's short term and long term bank loans which are based on the London Interbank Offered Rate ("LIBOR"). The Group mitigates the risk by monitoring closely the movements in interest rates and reviewing its banking facilities regularly. The Group has not used any interest rate swap to hedge its exposure to interest rate risk.

As at 31 December 2013, if the interest rates on borrowings had been 100 basis points higher, with all other variables held constant, the profit after tax for the year would have been HK\$ 169,582,513 (2012: HK\$ 161,475,205) lower as a result of higher interest expenses on bank borrowings.

*Foreign currency risk*

The Group has its 64% of cash at bank at US\$ and 14% at BRL, and its 63% of interest-bearing bank borrowings at US\$ and 11% at BRL at 31 December 2013. The exchange rate fluctuation of US\$ and BRL against HK\$ would affect the Group's operation. The Group tries to minimize the foreign currency risk by monitoring and analyzing the fluctuation of exchange rate on a daily basis.

Besides, the Group has net investments in foreign operation. The functional currency of NGCP, REN and ElectraNet, the Group's associates, is Philippines Peso ("P\$"), Euro and AUD respectively, while the functional currency of the Group's subsidiaries in Brazil, is Brazilian Real ("BRL"). The exchange rate fluctuation of those foreign currencies against HK\$ would significantly affect the Group's other comprehensive income. The Group tries to minimize the foreign currency risk by monitoring and analyzing the fluctuation on a quarterly basis based on the management accounts reported. In addition, the Group designated loans of Euro290 million as the hedging instruments to hedge the net investments in REN in order to hedge the foreign currency risk.

*Credit risk*

The carrying amounts of cash and cash equivalents, trade receivables, investments and other current assets except for prepayments, represent the Group's maximum exposure to credit risk in relation to financial assets. All the Group's cash and cash equivalents are held in major financial institutions located in Hong Kong and Brazil, which management believes are of high credit quality. The Group has policies in place to evaluate credit risk when accepting new business and to limit its credit exposure to individual customers. The maximum exposure is the carrying amounts as disclosed in note 21 to the financial statements. The directors consider that the Group does not have a significant concentration of credit risk.

The Group also exposes to credit risk arises from trade receivables. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, trade receivables balance is monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

*Equity price risk*

The Group's exposure to equity price risk relates principally to the Group's investments in listed equity securities. Management manages this exposure by maintaining a portfolio of investments with different risks.

If the prices of the respective equity investments had been 1% higher/lower, with all other variables held constant, the Group's available-for-sale investment revaluation reserve would have increased/decreased by approximately HK\$87,054,947 at 31 December 2013 (2012: HK\$89,465,265) as a result of the changes in the fair value of available-for-sale investments

*Liquidity risk*

The Group aims to maintain sufficient cash and credit lines to meet its liquidity requirements. The Group finances its working capital requirements through a combination of funds generated from operations and bank and other borrowings.

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32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

2013	On demand HK\$	Less than 3 months HK\$	3 to less than 12 months HK\$	1 to 5 years HK\$	Over 5 years HK\$	Total HK\$
Interest-bearing bank borrowings	-	-	15,631,837,081	2,448,407,602	8,125,609,906	26,205,854,589
Trade and bill payables	-	31,523,124	-	-	-	31,523,124
Other payables and accruals	345,315,399	-	-	-	-	345,315,399
Guarantees given to financial institutions in connection with facilities granted to an associate	1,065,965,207	-	-	-	-	1,065,965,207
Counter guarantees given to financial institutions in connection with facilities granted to an associate	<u>1,291,469,975</u>	-	-	-	-	<u>1,291,469,975</u>
	<u>2,702,750,581</u>	<u>31,523,124</u>	<u>15,631,837,081</u>	<u>2,448,407,602</u>	<u>8,125,609,906</u>	<u>28,940,128,294</u>
2012	On demand HK\$	Less than 3 months HK\$	3 to less than 12 months HK\$	1 to 5 years HK\$	Over 5 years HK\$	Total HK\$
Interest-bearing bank borrowings	-	5,333,260,264	307,279,769	13,522,192,378	9,239,172,514	28,401,904,925
Trade and bill payables	-	51,392,475	-	-	-	51,392,475
Other payables and accruals	766,096,115	-	-	-	-	766,096,115
Counter guarantees given to financial institutions in connection with facilities granted to an associate	<u>271,332,419</u>	-	-	-	-	<u>271,332,419</u>
	<u>1,037,428,534</u>	<u>5,384,652,739</u>	<u>307,279,769</u>	<u>13,522,192,378</u>	<u>9,239,172,514</u>	<u>29,490,725,934</u>

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

*Capital management*

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. No changes in the objectives, policies or processes for managing capital were made during the years ended 31 December 2013 and 31 December 2012.

The Group monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. Net debt is calculated as the total of interest-bearing bank borrowings, trade payables and other payables and accruals, less cash and cash equivalents. Capital includes equity attributable to owners of the Company.

	2013 HK\$	2012 HK\$
Interest-bearing bank borrowings	22,855,089,899	21,998,516,448
Trade payables	31,523,124	51,392,475
Other payables and accruals	345,315,399	766,096,115
Less: Cash and cash equivalents	(25,869,449,731)	(6,249,850,086)
Net debt	( 2,637,521,309)	16,566,154,952
Equity	41,961,689,622	24,998,492,553
Net debt and equity	39,324,168,313	41,564,647,505
Gearing ratio	-7%	40%

33. RELATED PARTY TRANSACTIONS

In addition to the transaction disclosed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

		2013 HK\$	2012 HK\$
Service fee		( 1,162,416)	( 2,140,274)
Advances from parent	(a)	( 73,019,649)	( 70,396,377)
Guarantee	(b)	(1,065,965,207)	-
Counter guarantee	(c)	( <u>1,291,469,975</u> )	( <u>271,332,419</u> )
		( <u>2,431,617,247</u> )	( <u>343,869,070</u> )

Notes:

- (a) The amount represented the advances from parent for the settlement of various office operating expense.
- (b) The amount represented the guarantees provided by the Company to certain associates for their bank loans.
- (c) The amount represented the counter-guarantees provided by the Company to certain joint ventures for their bank loans and performance guarantee.

34. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts and fair values of the Group's financial instruments are as follows:

	Carrying amounts		Fair values	
	2013	2012	2013	2012
	HK\$	HK\$	HK\$	HK\$
<b>Financial assets</b>				
Cash and cash equivalents	25,869,449,731	6,249,850,086	25,869,449,731	6,249,850,086
Trade receivables	331,503,848	351,188,985	331,503,848	351,188,985
Financial assets included in prepayments, deposits and other receivables	336,002,516	358,454,415	336,002,516	358,454,415
Available-for-sale investments	8,705,494,691	8,946,526,521	8,705,494,691	8,946,526,521
Financial assets – Concession	16,623,527,847	18,524,327,211	16,623,527,847	18,524,327,211
Financial assets included in other non current assets	763,244,557	770,941,529	763,244,557	770,941,529
<b>Financial liabilities</b>				
Trade payables	31,523,124	51,392,475	31,523,124	51,392,475
Financial liabilities included in other payables and accruals	231,392,136	698,891,908	231,392,136	698,891,908
Interest-bearing bank borrowings	22,855,089,899	21,998,516,448	22,855,089,899	21,998,516,448
Due to related parties	73,033,022	67,204,207	73,033,022	67,204,207

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, trade receivables, trade payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due to fellow subsidiaries, accounts receivable-financial assets and interest-bearing bank borrowings all approximate to their carrying amounts.

The fair values of listed available-for-sale investments are based on quoted market prices.

The fair value hierarchy of the financial assets and liabilities are disclosed in respective notes to financial statements.



35. COMMITMENTS

On 16 May 2013, the Company entered into an agreement with Singapore Power International Pte Limited to acquire 60% of its equity interest in Singapore Power International Assets (Australia) Assets Pty Limited ("SPIAA") at a consideration of AU\$ 2.27 billion and its 19.9% equity interest in Singapore Power Australia Networks at a consideration of AU\$ 824 million.

36. EVENTS AFTER THE REPORTING PERIOD

Significant events after the reporting period comprise the following:

On 16 May 2014, 26,723,988,145 preference shares of HK\$1.00 each were issued at par for cash to State Grid Oversea International Limited, which resulted in proceeds of HK\$26,723,988,145.

On 3 January 2014, the Company completed the acquisition of 60% equity interest in SPI (Australia) Assets Pty Limited with consideration of AU\$ 2.27 billion (equivalent to HK\$7,382,040,000) and 19.9% equity interest in Singapore Power Australia Networks with consideration of AU\$ 824 million (equivalent to HK\$2,679,648,000).

On 14 January 2014, the Company signed a cornerstone investment agreement with HK Electric Investments Managers Limited and HK Electric Investments Limited to subscribe 18% of the Share Stapled Units that were jointly issued by HK Electric Investments and HK Electric Investments Limited with consideration of HK\$8.756 billion. After that the Company purchased another 2% of the share stapled units from public market. As at 30 June 2014, the Company acquired 20% of the share stapled units with total cash consideration of HK\$9,687 million and HK Electric Investments Limited becomes an associate of the Company.

On 27 November 2014, the Company completed the acquisition of 35 per cent of equity interest in Cassa Depositi e Prestiti Reti S.p.a. from Cassa depositi e prestiti S.p.a. with cash consideration amounted to EUR2.11 billion (equivalent to HK\$20,328,877,286).

The interim preference shares dividend for the six months period ended 30 June 2014 amounted to HK\$239,870,810 has been approved at the special general meeting on 14 May 2014 and paid on 15 May 2014.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were authorised for issue by the board of directors on 6 January 2015.

## **Report on review of interim condensed consolidated financial statements**

### **To the board of directors of State Grid International Development Limited**

(Incorporated in Hong Kong with limited liability)

We have reviewed the interim condensed consolidated financial statements, which comprise the condensed consolidated statement of financial position of State Grid International Development Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2014 and the related condensed consolidated statements of profit or loss, consolidated statements of comprehensive income, changes in equity and cash flows for the six-month then ended and explanatory notes.

The directors of the Company are responsible for the preparation and presentation of these interim financial statements in accordance with Hong Kong Accounting Standard 34 “*Interim Financial Reporting*” ( “HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on these interim financial statements based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagements, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

#### ***Scope of review***

We conducted our review in accordance with Hong Kong Standards on Review Engagement 2410, “*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*” issued by the Hong Kong Institute of Certified Public Accountants. A review of these interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express such opinion.

#### ***Conclusion***

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

S/S Ernst & Young  
Certified Public Accountants  
Hong Kong  
6 January 2015

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS  
For the six months ended 30 June 2014

		For the six months ended 30 June	
		2014	2013
		HK\$	HK\$
	Notes	Unaudited	Unaudited
REVENUE	5	7,234,892,644	1,387,211,216
Cost of sales		( 4,140,242,398)	( 138,432,089)
<b>Gross profit</b>		<b>3,094,650,246</b>	<b>1,248,779,127</b>
Other income and gains	6	901,409,387	682,371,655
Administrative expenses		( 146,343,258)	( 136,047,805)
Finance costs	7	(1,602,563,739)	( 220,359,205)
Foreign exchange differences, net		( 22,678,828)	( 419,894,465)
Share of profit of associates and joint ventures		1,640,689,568	1,125,226,599
Other expenses		( 11,692,692)	( 637,566)
<b>Profit before tax</b>		<b>3,853,470,684</b>	<b>2,279,438,340</b>
Income tax expense	8	( 820,694,765)	( 568,916,459)
<b>Profit for the period</b>		<b><u>3,032,775,919</u></b>	<b><u>1,710,521,881</u></b>
Attributable to:			
Owners of the parent		2,790,017,455	1,710,521,881
Non-controlling interests		<u>242,758,464</u>	<u>-</u>
		<u>3,032,775,919</u>	<u>1,710,521,881</u>

Details of dividends payable and proposed for the year are disclosed in note 9 to the financial statements.

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
For the six months ended 30 June 2014

	For the six months ended 30 June	
	2014	2013
	HK\$	HK\$
	Unaudited	Unaudited
<b>Profit for the period</b>	<b><u>3,032,775,919</u></b>	<b><u>1,710,521,881</u></b>
<b>Other comprehensive income</b>		
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>		
Net gain from associates	131,316,268	58,185,734
Net gain from joint ventures	24,587,465	35,913,377
Changes in fair value of available-for-sale investments, net of tax	( 296,972,253)	( 524,046,007)
Net gain on hedge of a net investment	72,701,521	238,414,000
Exchange differences on translation of foreign operations	3,062,822,947	(1,584,434,380)
<i>Other comprehensive income that will never be reclassified to profit or loss:</i>		
Net gain on employee benefit programs	<u>10,659,413</u>	<u>-</u>
<b>Other comprehensive income for the period net of tax</b>	<b><u>3,005,115,361</u></b>	<b><u>(1,775,967,276)</u></b>
<b>Total comprehensive income for the period</b>	<b><u>6,037,891,280</u></b>	<b><u>( 65,445,395)</u></b>
Attributable to:		
Owners of the parent	5,110,253,398	( 65,445,395)
Non-controlling interests	<u>927,637,882</u>	<u>-</u>
	<b><u>6,037,891,280</u></b>	<b><u>( 65,445,395)</u></b>

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
30 June 2014

		30 June 2014 HK\$ Unaudited	31 December 2013 HK\$ Audited
	Notes		
<b>Non-current assets</b>			
Property, plant and equipment	10	44,591,328,099	669,971,941
Investment properties		100,221,720	93,757,440
Intangible assets		2,672,727,759	128,358,175
Investment in associates	11	26,600,335,989	8,599,579,817
Investment in joint ventures	12	11,454,703,040	4,516,249,538
Available-for-sale investments	13	8,251,618,025	8,705,494,691
Goodwill		8,296,863,318	579,767,729
Financial assets- Concession	14	14,993,239,300	14,301,120,203
Derivative financial assets		1,586,216,412	-
Other non-current assets	15	<u>1,298,691,630</u>	<u>850,660,879</u>
Total non-current assets		<u>119,845,945,292</u>	<u>38,444,960,413</u>
<b>Current assets</b>			
Inventories		267,524,848	33,689,696
Trade receivables		2,542,867,548	331,503,848
Prepayments, deposits and other receivables	16	1,205,031,279	338,378,516
Financial assets- Concession	14	2,545,917,406	2,322,407,644
Cash and cash equivalents	17	<u>9,861,622,502</u>	<u>25,869,449,731</u>
Total current assets		<u>16,422,963,583</u>	<u>28,895,429,435</u>
<b>Current liabilities</b>			
Trade payables		323,171,920	31,523,124
Other payables and accruals	18	2,451,396,942	345,315,399
Derivative financial liabilities		20,950,731	-
Tax payable		263,143,765	495,886,453
Provisions	20	202,757,572	-
Interest-bearing bank borrowings and other borrowings	19	<u>3,765,187,565</u>	<u>15,281,804,637</u>
Total current liabilities		<u>7,026,608,495</u>	<u>16,154,529,613</u>
NET CURRENT ASSETS		<u>9,396,355,088</u>	<u>12,740,899,822</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>129,242,300,380</u>	<u>51,185,860,235</u>

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)  
30 June 2014

		30 June 2014 HK\$ Unaudited	31 December 2013 HK\$ Audited
	Notes		
<b>Non-current liabilities</b>			
Interest-bearing bank borrowings and other borrowings	19	36,806,793,738	7,573,285,262
Deferred tax liabilities		5,012,413,103	1,298,700,598
Provisions	20	1,123,715,068	352,178,535
Derivative financial liabilities		804,749,670	-
Other non-current liabilities		<u>539,608,913</u>	<u>6,218</u>
Total non-current liabilities		<u>44,287,280,492</u>	<u>9,224,170,613</u>
Net assets		<u>84,955,019,888</u>	<u>41,961,689,622</u>
<b>EQUITY</b>			
Equity attributable to owners of the parent			
Issued capital	21	63,421,094,323	36,697,106,178
Reserves		12,411,880,021	9,942,134,372
Exchange fluctuation reserve		( 2,276,913,989)	( 4,677,550,928)
		73,556,060,355	41,961,689,622
Non-controlling interests		<u>11,398,959,533</u>	<u>-</u>
Total equity		<u>84,955,019,888</u>	<u>41,961,689,622</u>

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Zhu Guangchao  
Director

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
For the six months ended 30 June 2014

	Attributable to owners of the parent									
	Issued capital HK\$	Capital reserve HK\$	Available-for-sale investments reserve HK\$	Retained profits HK\$	Hedging reserve HK\$	Defined Benefit Plans reserve HK\$	Other reserve HK\$	Exchange fluctuation reserve HK\$	Non-controlling interest HK\$	Total HK\$
At 1 January 2014	36,697,106,178	523,422,572	(195,798,627)	9,627,961,427	(13,451,000)	-	-	(4,677,550,928)	-	41,961,689,622
Profit for the period	-	-	-	2,790,017,455	-	-	-	-	242,758,464	3,032,775,919
Other comprehensive income for the period:	-	-	-	-	-	-	-	-	-	-
Changes in fair value of available-for-sale investments, net of tax	-	-	-	-	-	-	-	-	-	-
Exchange differences on translation of foreign operations	-	-	(296,972,253)	-	-	-	-	-	-	(296,972,253)
Effective portion of net changes in fair value of net investment hedging instruments	-	-	-	-	-	-	-	2,400,636,939	662,186,008	3,062,822,947
Actual loss on defined benefits	-	-	-	-	54,271,876	-	-	-	18,429,645	72,701,521
Other comprehensive income from associates	-	-	-	-	-	6,395,648	-	-	4,263,765	10,659,413
Other comprehensive income from joint ventures	-	-	-	-	-	-	131,316,268	-	-	131,316,268
Total comprehensive income for the period	-	-	-	-	-	-	24,587,465	-	-	24,587,465
Acquisition of a subsidiary	-	-	(296,972,253)	2,790,017,455	54,271,876	6,395,648	155,903,733	2,400,636,939	927,637,882	6,037,891,280
Increase in capital (note 21a)	26,723,988,145	-	-	-	-	-	-	-	10,471,321,651	10,471,321,651
Declared and paid 2014 interim dividend (note 9)	-	-	-	(239,870,810)	-	-	-	-	-	26,723,988,145
	-	-	-	-	-	-	-	-	-	(239,870,810)
At 30 June 2014 (unaudited)	63,421,094,323	523,422,572	(492,770,880)	12,178,108,072	40,820,876	6,395,648	155,903,733	(2,276,913,989)	11,398,959,533	84,955,019,888

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
For the six months ended 30 June 2013

	Issued capital HK\$	Capital reserve HK\$	Available-for- sale investments reserve HK\$	Retained profits HK\$	Hedging reserve	Other reserve HK\$	Exchange fluctuation reserve HK\$	Total HK\$
At 1 January 2013	19,555,190,000	523,422,572	( 249,949,533 )	6,868,202,509	( 84,261,000 )	-	(1,614,111,995)	24,998,492,553
Profit for the period	-	-	-	1,710,521,881	-	-	-	1,710,521,881
Other comprehensive loss for the period:								
Changes in fair value of available-for-sale investments, net of tax	-	-	( 524,046,007 )	-	-	-	-	( 524,046,007 )
Exchange differences on translation of foreign operations	-	-	-	-	-	-	(1,584,434,380)	(1,584,434,380)
Effective portion of net changes in fair value of net investment hedging instruments	-	-	-	-	238,414,000	-	-	238,414,000
Other comprehensive income from associates	-	-	-	-	-	58,185,734	-	58,185,734
Other comprehensive income from joint ventures	-	-	-	-	-	35,913,377	-	35,913,377
Total comprehensive loss for the year	-	-	( 524,046,008 )	1,710,521,881	238,414,000	94,099,111	(1,584,434,380)	( 65,445,395 )
Increase in capital	17,144,819,778	-	-	-	-	-	-	17,144,819,778
At 30 June 2013 (unaudited)	36,700,009,778	523,422,572	( 773,995,541 )	8,578,724,390	154,153,000	94,099,111	(3,198,546,375)	42,077,866,936



STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
For the six months ended 30 June 2014

		Six months ended 30 June	
		2014	2013
		HK\$	HK\$
	Notes	Unaudited	Unaudited
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		3,853,470,684	2,279,438,340
Adjustments for:			
Finance costs	7	1,602,563,739	220,359,205
Interest income		( 191,289,154 )	( 148,970,799 )
Foreign exchange differences, net		22,678,828	419,894,464
Dividend income from listed investments		( 557,473,313 )	( 442,444,799 )
Share of profit of associates		( 1,351,165,329 )	( 975,600,694 )
Share of profit of joint ventures		( 289,524,239 )	( 149,625,906 )
Gain on disposal of available-for-sale investments		( 58,466,583 )	( 89,751,804 )
Depreciation of property, plant and equipment		506,052,011	3,569,950
Amortisation of intangible assets and non-current assets		242,197,243	87,565
Impairment of account receivables		846,367	-
(Increase) /decrease in inventories		( 7,791,102 )	3,188,532
Increase in trade receivables		( 303,319,585 )	( 152,031,632 )
Decrease /(increase) in prepayments, deposits and other receivables		( 187,431,905 )	( 110,143,569 )
(Increase) /decrease in long-term receivables		( 730,236,279 )	149,253,813
Increase in trade payables		381,320,275	18,422,050
Decrease/ (increase) in other payables and accruals		237,366,537	( 160,670,319 )
Increase in amount due to fellow subsidiaries		158,377,093	70,272
Overseas income taxes paid		( 246,665,431 )	( 320,917,415 )
Net cash flow from operating activities		<u>3,081,509,857</u>	<u>544,127,254</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		( 1,259,448,982 )	-
Proceeds from disposals of items of available-for-sale investments		215,370,996	295,182,736
Investment in associates and joint ventures		(16,925,648,003)	( 1,300,347,347 )
Acquisition of a subsidiary		(15,602,009,620)	-
Interest received		190,454,670	145,680,150
Dividend received		1,280,516,324	1,066,574,106
Others		<u>84,525,055</u>	<u>797,166</u>
Net cash flows (used in) /from investing activities		<u>(32,016,239,560 )</u>	<u>207,886,811</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from increase in capital		26,723,988,145	17,141,916,178
New bank loans and other borrowings		24,587,122,199	1,337,877,999
Repayment of bank loans		(36,547,487,851)	(10,306,563,796)
Dividends paid		( 239,870,813 )	-
Interest paid		( 1,566,557,572 )	( 234,517,681 )
Net cash flows from financing activities		<u>12,957,194,109</u>	<u>7,938,712,700</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(15,977,535,594 )	8,690,726,765
Cash and cash equivalents at beginning of year		25,869,449,731	6,249,850,086
Effect of foreign exchange rate changes, net		( 30,291,635 )	( 347,549,335 )
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	17	<u>9,861,622,502</u>	<u>14,593,027,516</u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	17	9,861,622,502	14,593,027,516
		<u>9,861,622,502</u>	<u>14,593,027,516</u>

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
30 June 2014

1. CORPORATE INFORMATION

State Grid International Development Limited (the “Company”) is a limited liability company incorporated in Hong Kong. In August 2012, the shareholder of the Company changed from State Grid Corporation of China to State Grid International Development Co., Ltd.. The registered office is located at Suite 1304, 13F, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong.

The Company commenced its operations as an investment holding company in June 2008. The principal activities include providing resources and logistics services; acting as agent for tenders and purchase; manufacturing electricity devices; research and development of electricity technology products; investment, exploitation and management of electricity; operation and maintenance of electricity networks; other businesses include the provision of work design, construction, management, consultancy and technical services.

In the opinion of directors, the ultimate holding company of the Company is State Grid Corporation of China. Its registered office is located at 86 West Chang An Avenue, Xicheng District, Beijing, China.

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
30 June 2014

1. CORPORATE INFORMATION (continued)

Particulars of the subsidiaries as at 30 June 2014 are as follows:

	Place of incorporation	Principal activities	Nominal value of issued and fully paid-up capital	Percentage of equity interest attributable to the Company
Expansion Transmissora Itumbiara Marimbondo S.A.	Brazil Rio de Janeiro	Grid operating	BRL 58,500,000	100%
Expansion Transmissora de Energia Eletrica S.A.	Brazil Rio de Janeiro	Grid operating	BRL 82,518,088	100%
Itumbiara Transmissora de Energia S.A.	Brazil Rio de Janeiro	Grid operating	BRL 373,710,000	100%
Pocosde Caldas Transmissora de Energia Eletrica S.A.	Brazil Rio de Janeiro	Grid operating	BRL 208,350,900	100%
Ribeirao Preto Transmissora de Energia Eletrica S.A.	Brazil Rio de Janeiro	Grid operating	BRL 170,886,000	100%
Serra Paracatu Transmissora de Energia S.A.	Brazil Rio de Janeiro	Grid operating	BRL 165,300,000	100%
Serra da Mesa Transmissora de Energia Eletrica S.A.	Brazil Rio de Janeiro	Grid operating	BRL 274,500,000	100%
Araraquara Transmissora De Energia S.A.	Brazil Rio de Janeiro	Grid operating	BRL 155,701,128	100%
Catxere Transmissora De Energia S.A.	Brazil Rio de Janeiro	Grid operating	BRL 313,298,233	100%
Iracema Transmissora De Energia S.A.	Brazil Rio de Janeiro	Grid operating	BRL 209,462,000	100%
Linhas De Transmissao Do Itatim S.A.	Brazil Rio de Janeiro	Grid operating	BRL 236,160,000	100%
Porto Primavera Transmissora De Energia S.A.	Brazil Rio de Janeiro	Grid operating	BRL 194,035,000	100%
SGBH Expansao Participacoes Ltda.	Brazil Rio de Janeiro	Project investment and financing	BRL 621,000,000	100%
SGBH Transmissao Participacoes Ltda.	Brazil Rio de Janeiro	Project investment and financing	BRL 251,000,000	100%
Marechal Rondon Transmissora de Energia S.A.	Brazil Rio de Janeiro	Grid operating	BRL 6,000,000	100%
International Grid Holdings Limited	British Virgin Islands	Project investment and financing	USD1	100%

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
30 June 2014

1. CORPORATE INFORMATION (continued)

	Place of incorporation	Principal activities	Nominal value of issued and fully paid-up capital	Percentage of equity interest attributable to the Company
Top View Grid Investment Limited	British Virgin Islands	Project investment and financing	USD1	100%
State Grid Brazil Holding S.A. ("SGBH")	Brazil Rio de Janeiro	Project investment and financing	BRL 2,494,172,500	100%
State Grid Europe Limited	Britain	Project investment and financing	GBP50,000	100%
State Grid International development Asia and Australia Holdings company Limited	Hong Kong	Project investment and financing	AUD 666,000,000	100%
State Grid International Australia Investment Limited	Hong Kong	Project investment and financing	HKD 10,000	100%
State Grid International Australia Development Limited	Hong Kong	Project investment and financing	HKD 10,000	100%
SGSP (Australia) Assets Pty Ltd (SGSPAA)*	Australia, Melbourne	Infrastructure investments and service	AUD 100	60%

\* The Company acquired 60% equity interest of SGSPAA in January 2014. Please refer to Note 4 for more information.

2. BASIS OF PREPARATION AND CHANGES TO THE ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months period ended 30 June 2014 have been prepared in accordance with Hong Kong Accounting Standard 34 "*Interim Financial Reporting*" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual consolidated financial statements as at 31 December 2013.

2. BASIS OF PREPARATION AND CHANGES TO THE ACCOUNTING POLICIES

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013, except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") as of 1 January 2014.

The nature and the impact of each new standard or amendment is described below:

Investment Entities (Amendments to HKFRS 10, HKFRS 12 and HKAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under HKFRS 10 Consolidated Financial Statements. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact to the Group, since none of the entities in the Group qualifies to be an investment entity under HKFRS 10.

Offsetting Financial Assets and Financial Liabilities - Amendments to HKAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments have no impact on the Group.

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to HKAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments have no impact to the Group as the Group has not novated its derivatives during the current or prior periods.

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to HKAS 36

These amendments remove the unintended consequences of HKFRS 13 Fair Value Measurement on the disclosures required under HKAS 36 Impairment of Assets. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognised or reversed during the period.

HKFRIC 21 Levies

HKFRIC 21 is effective for annual periods beginning on or after 1 January 2014 and is applied retrospectively. It is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., HKAS 12 Income Taxes) and fines or other penalties for breaches of legislation.

The interpretation clarifies that an entity recognises a liability for a levy no earlier than when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, no liability is recognized before the specified minimum threshold is reached. The interpretation requires these same principles to be applied in interim financial statements.

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
30 June 2014

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the interim condensed consolidated financial statements.

HKFRS 9 (2014)	<i>Financial Instruments</i> <sup>4</sup>
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	<i>Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39</i> <sup>4</sup>
HKFRS 10 and HKAS 28 Amendments	<i>Amendments to HKFRS 10 and HKAS 28 — Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>2</sup>
HKFRS 11 Amendments	<i>Amendments to HKFRS 11 — Accounting for Acquisitions of Interests in Joint Operations</i> <sup>2</sup>
HKFRS 14	<i>Regulatory Deferral Accounts</i> <sup>5</sup>
HKFRS 15	<i>Revenue from Contracts with Customers</i> <sup>3</sup>
HKAS 16 and HKAS 38 Amendments	<i>Amendments to HKAS 16 and HKAS 38 — Clarification of Acceptable Methods of Depreciation and Amortisation</i> <sup>2</sup>
HKAS 16 and HKAS 41 Amendments	<i>Amendments to HKAS 16 and HKAS 41 — Bearers Plants</i> <sup>2</sup>
HKAS 19 Amendments	<i>Amendments to HKAS 19 — Defined Benefit Plans: Employee Contributions</i> <sup>1</sup>
HKAS 27 (2011) Amendments	<i>Amendments to HKAS 27 (2011) — Equity Method in Separate Financial Statements</i> <sup>2</sup>
Annual Improvements 2010–2012 Cycle	<i>Amendments to a number of HKFRSs issued in January 2014</i> <sup>1</sup>
Annual Improvements 2011–2013 Cycle	<i>Amendments to a number of HKFRSs issued in January 2014</i> <sup>1</sup>
Annual Improvements 2012–2014 Cycle	<i>Amendments to a number of HKFRSs issued in October 2014</i> <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2014

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2016

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>5</sup> Effective for first annual HKFRS financial statements for a period beginning on or after 1 January 2016 and not applicable to the Group

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application.

2.4 SIGNIFICANT ACCOUNTING POLICIES

After the acquisition of Singapore Power International Assets (Australia) Assets Pty Limited, the Group adopted additional significant accounting policies besides the policies disclosed in the Company's annual consolidated financial statements as at 31 December 2013.

Revenue of render of services

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid.

Revenue is recognised for the major business activities as follows:

Services revenue includes revenue earned from the distribution of electricity and the transmission and distribution of gas. Services revenue is recognised on delivery which coincides with the stage of completion of the service. Customers are billed for sales on a periodic and regular basis. However, as at each balance date, sales and accrued revenue include an estimation of sales delivered to customers but not yet billed ("unread sales"). This estimation is based on previous consumption patterns and meter reading dates.

## 2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Services revenue also mainly includes the following:

Rendering of asset management services, which is recognised in proportion to the stage of completion of the contract when the stage of contract completion can be reliably measured. The stage of completion is assessed by reference to work performed or by reference to total costs incurred to date as a percentage of estimated total costs for each contract. Where the outcome of an asset management contract cannot be reliably estimated, contract costs are expensed as incurred. Revenue is only recognised to the extent of costs incurred where it is probable that the costs will be recovered. An expected loss is recognised immediately as an expense. From time to time the Group may receive revenue in advance of providing the services. This revenue is treated as unearned and is not recognised in the profit and loss but deferred to the statement of financial position.

Construction contracts:

Contract revenue and expenses are recognised on an individual contract basis using the stage of completion method when the stage of completion can be reliably determined, costs to date can be clearly identified and total contract revenue and costs to complete can be reliably estimated.

Stage of completion is measured by reference to an assessment of total labour hours and other costs incurred to date as a percentage of estimated total hours and costs for each contract or by reference to the physical proportion of the contract work completed for each contract.

Where the outcome of a contract cannot be reliably estimated, contract costs are expensed as incurred. Where it is probable that the costs will be recovered, revenue is recognised to the extent of costs incurred. An expected loss is recognised immediately as an expense.

### Employee benefits

Retirement benefit surplus/obligations

Defined benefit superannuation plans:

The Group's net surplus/obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior years, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The Group determines the net interest expense/(income) on the net defined benefit (liability)/asset for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the then-net defined benefit (liability)/asset, taking into account any changes in the net defined benefit (liability)/asset during the year as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss. When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Obligations for contributions to defined contribution superannuation plans are recognised as an expense in the profit and loss in the periods during which the services are rendered by the employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

STATE GRID INTERNATIONAL DEVELOPMENT LIMITED  
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
30 June 2014

3 SEGMENT INFORMATION

The Group's business mainly consists of investment holding, operation and maintenance of electricity networks. For management purposes, the Group's business are mainly monitored in 3 segments as follows:

- (a) the Brazil segment comprises the Group's subsidiaries and joint ventures engaged in the operation and maintenance of electricity networks in Brazil;
- (b) the Australia segment comprises the Group's subsidiaries engaged in electricity and gas transmission and distribution in Australia and the joint ventures and associates held by these subsidiaries;
- (b) the "Corporate" segment comprises, principally, the Group's investments in other associates and joint-ventures.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of profit/(loss) before tax from continuing operations. There are two principal businesses of the Company, one is investments of associates and joint-ventures for dividends incomes and the other one is acquisition of operational subsidiaries for operation revenues.



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3 SEGMENT INFORMATION (continued)

Segment assets and liabilities are also reviewed by the management for decision making.

Six months ended 30 June 2014 (unaudited)	Brazil HK\$	Australia HK\$	Corporate HK\$	Consolidated HK\$
<b>Segment revenue:</b>				
Sales to external customers	<u>1,318,628,033</u>	<u>5,916,264,611</u>	<u>-</u>	<u>7,234,892,644</u>
Revenue from continuing operations				<u>7,234,892,644</u>
<b>Segment results</b>	1,645,215,022	900,142,924	2,681,759,637	5,227,117,583
<b>Reconciliation</b>				
Elimination of other income				( 57,783,847 )
Elimination of finance costs				57,783,847
Exchange losses				( 1,373,646,899 )
Profit before tax from continuing operations				<u>3,853,470,684</u>
<b>As of 30 June 2014 (unaudited)</b>				
<b>Segment assets</b>	25,224,572,425	66,569,186,046	118,168,554,083	209,962,312,554
<b>Reconciliation</b>				
Elimination of other receivables				( 41,077,151,500 )
Long term equity investment				( 32,664,453,403 )
Plant, property and equipment and intangible assets				3,362,004,036
Goodwill				( 3,313,802,812 )
Total assets				<u>136,268,908,875</u>
<b>Segment liabilities</b>	14,950,571,379	69,334,248,349	39,412,377,163	123,697,196,891
<b>Reconciliation</b>				
Elimination of short-term loans				( 32,942,123,049 )
Elimination of other payables				( 36,061,785,241 )
Elimination of long-term loans				( 4,418,388,661 )
Deferred tax liabilities				<u>1,038,989,047</u>
Total liabilities				<u>51,313,888,987</u>

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3 SEGMENT INFORMATION (continued)

Six months ended 30 June 2013 (unaudited)	Brazil HK\$	Corporate HK\$	Consolidated HK\$
<b>Segment revenue:</b>			
Sales to external customers	<u>1,387,211,216</u>	<u>-</u>	<u>1,387,211,216</u>
Revenue from continuing operations			<u>1,387,211,216</u>
<b>Segment results</b>	148,917,999	1,799,895,360	1,948,813,359
<i>Reconciliation</i>			
Elimination of other income			( 49,263,355 )
Elimination of finance costs			49,263,355
Exchange losses			<u>330,624,981</u>
Profit before tax from continuing operations			<u>2,279,438,340</u>
<b>As of 31 December 2013 (audited)</b>			
<b>Segment assets</b>	22,983,546,927	100,373,819,343	123,357,366,270
<i>Reconciliation</i>			
Elimination of other receivables			( 39,741,477,663 )
Long term equity investment			<u>( 16,275,498,759 )</u>
Total assets			<u>67,340,389,848</u>
<b>Segment liabilities</b>	14,627,456,972	50,626,621,199	65,254,078,171
<i>Reconciliation</i>			
Elimination of short-term loans			( 379,980,300 )
Elimination of other payables			( 35,773,141,645 )
Elimination of long-term loans			<u>( 3,722,256,000 )</u>
Total liabilities			<u>25,378,700,226</u>

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4 SIGNIFICANT ACQUISITIONS

Acquisition of a subsidiary

On 3 January 2014, the Company's subsidiary, State Grid International Australia Investment Limited, acquired a 60 per cent of equity interest and trust units in Singapore Power International Assets (Australia) Assets Pty Limited ("SPIAA") and changed SPIAA's name to SGSP (Australia) Assets Pty Ltd ("SGSPAA") after the acquisition. SGSPAA is engaged in electricity and gas transmission and distribution. The acquisition was made as part of the Group's strategy to expand its investments in Australia. The purchase consideration for the acquisition was in the form of cash amounted to AU\$ 2.27 billion and paid in January 2014. After the acquisition, SGSPAA become a subsidiary of the Company.

The fair values of the identifiable assets and liabilities of SGSPAA as at the date of acquisition were as follows:

	Fair value recognised on acquisition HK\$
Property, plant and equipment	40,751,031,897
Intangible assets	2,416,132,036
Cash and bank balances	104,972,855
Trade receivables	514,866,820
Prepayments and other receivables	1,359,634,900
Inventories	213,262,530
Investment in associates and joint ventures	7,444,863,790
Other noncurrent assets	1,634,322,560
Trade payables	( 186,345,900)
Accruals and other payables	( 2,301,716,950)
Short-term Interest-bearing bank and other borrowings	( 5,927,179,960)
Long-term Interest-bearing bank and other borrowings	( 22,756,285,240)
Deferred income	( 124,230,600)
Deferred tax liabilities	( 2,719,269,800)
Other non-current liabilities	( 1,582,914,305)
Total identifiable net assets at fair value	<u>18,841,144,633</u>
Non-controlling interests	<u>(10,471,321,651)</u>
Goodwill on acquisition	<u>7,337,159,493</u>
Satisfied by cash	<u>15,706,982,475</u>

None of the goodwill recognised is expected to be deductible for income tax purpose.

The fair values disclosed above are provisional subject to finalisation of valuation for the identifiable assets and liabilities. The review of the fair value of the assets and liabilities acquired will be completed within 12 months after the acquisition date.

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4 SIGNIFICANT ACQUISITIONS (continued)

Acquisition of a subsidiary

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	Fair value recognised on acquisition HK\$
Cash consideration	15,706,982,475
Cash and bank balances acquired	( 104,972,855)
Net outflow of cash and cash equivalents included in cash flows from investing activities	<u>15,602,009,620</u>

Since the acquisition, SGSPAA contributed HK\$5,916,264,611 to the Group's turnover and HK\$900,142,924 to the consolidated profit for the six-month period ended 30 June 2014.

The fair values of the trade receivables and other receivables at the date of acquisition amounted to HK\$514,866,820 and 1,359,634,900, respectively. The gross contractual amount of trade receivables and other receivables were HK\$514,866,820 and 1,359,634,900, respectively.

The Group incurred transaction costs of HK\$ 138,385,515 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit and loss.

Acquisition of associates

- (a) On 3 January 2014, the Company's subsidiary, State Grid International Australia Development Limited, purchased a 19.9 per cent of its equity interest in AusNet Services from Singapore Power International Pte Ltd. ("SPI") at a consideration of AU\$824 million. After the acquisition, the management believes that the Company is able to exercise significant influence over AusNet Services. Therefore, the investee is considered as an associate of the Group.
- (b) On 27 January 2014, the Company signed a cornerstone investment agreement with HK Electric Investments Limited to subscribe 18% of the share stapled units that were issue by HK Electric Investments. After that the Company purchased another 2% of the share stapled units from public market. During the six-month period ended 30 June 2014, the Company acquired the above 20% of the share stapled units with total cash consideration of HK\$9,687 million. After the acquisition, the management believes that the Company is able to exercise significant influence over HK Electric Investments. Therefore, the investee is considered as an associate.

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5. REVENUE

	For the six months ended 30 June	
	2014	2013
	HK\$	HK\$
	Unaudited	Unaudited
Concession revenues	1,306,123,300	1,384,609,106
Render of services	5,599,286,300	-
Others	<u>329,483,044</u>	<u>2,602,110</u>
	<u>7,234,892,644</u>	<u>1,387,211,216</u>

6. OTHER INCOME AND GAINS

Other income includes the following:

	For the six months ended 30 June	
	2014	2013
	HK\$	HK\$
	Unaudited	Unaudited
Bank interest income	191,289,154	148,970,799
Dividend income from available-for-sale investments	557,473,313	442,444,799
Gain on disposal of available-for-sale investments	58,466,583	89,751,804
Change in fair value of hedged item	12,215,685	-
Others	<u>81,964,652</u>	<u>1,204,253</u>
	<u>901,409,387</u>	<u>682,371,655</u>

7. FINANCE COSTS

	For the six months ended 30 June	
	2014	2013
	HK\$	HK\$
	Unaudited	Unaudited
Interest on interest bearing borrowings	1,354,485,244	217,780,104
Others	<u>248,078,495</u>	<u>2,579,101</u>
	<u>1,602,563,739</u>	<u>220,359,205</u>

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8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits arising in Hong Kong during the period.

The Philippines profits tax has been provided at the rate of 15% (2013: 15%) on the dividend distributed out of Philippines during the period.

Brazil profits tax has been provided at the rate of 34% (2013: 34%) on the estimated assessable profits arising in Brazil during the period.

Australia profits tax has been provided at the rate of 30% (2013: N/A) on the estimated assessable profits arising in Australia during the period.

	For the six months ended 30 June	
	2014	2013
	HK\$	HK\$
	Unaudited	Unaudited
Current- Elsewhere:		
Withholding tax on the dividend income from an associate – Philippines	115,402,313	132,753,844
Income tax – Brazil	252,285,353	260,362,263
Income tax – Australia	276,879,182	-
Profit tax on dividends income of available-for-sales financial assets	-	44,244,480
Others	<u>31,173,361</u>	<u>17,246,591</u>
	675,740,209	454,607,178
Deferred:		
Deferred tax expenses	<u>144,954,556</u>	<u>114,309,281</u>
Tax charge for the period	<u>820,694,765</u>	<u>568,916,459</u>

9. DIVIDENDS

	For the six months ended 30 June	
	2014	2013
	HK\$	HK\$
	Unaudited	Unaudited
Interim dividend – preference share	<u>239,870,810</u>	<u>-</u>
	<u>239,870,810</u>	<u>-</u>

The interim dividend for the period has been approved at the special general meeting on 14 May 2014 and paid on 15 May 2014.

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10. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

During the six months ended 30 June 2014, the Group acquired property, plant and equipment with a cost of HK\$ 41,809,505,437 (the six months ended 30 June 2013: Nil), among which HK\$40,751,031,897 were acquired via acquisition of a subsidiary (the six months ended 30 June 2013: Nil). The depreciation for the six month ended 30 June 2014 was amount HK\$506,052,011 (the six months ended 30 June 2013: HK\$3,482,385) .

Property, plant and equipment with carrying amount of HK\$34,758,028 was disposed of during the six-month periods ended 30 June 2014 and no property, plant and equipment was disposed of during the six-month periods ended 30 June 2013 .

During the six months ended 30 June 2014, the Group acquired intangible assets with a cost of HK\$ 2,617,107,478 (the six months ended 30 June 2013: Nil), among which HK\$ 2,416,132,036 were acquired via acquisition of a subsidiary (the six months ended 30 June 2013: Nil). The amortizations for the six month ended 30 June 2014 was amount HK\$ 242,197,243 (the six months ended 30 June 2013: HK\$175,130) .

11. INVESTMENT IN ASSOCIATES

	As at 30 June 2014 HK\$ Unaudited	As at 31 December 2013 HK\$ Audited
<b>Listed shares</b>		
HK Electric Investments	9,852,973,850	-
Redes Energeticas Nacionais, SGPS, S.A.	4,099,751,593	4,157,564,689
AusNet Services	<u>6,176,308,868</u>	<u>-</u>
	<u>20,129,034,311</u>	<u>4,157,564,689</u>
<b>Unlisted shares</b>		
United Energy Distribution Holdings Pty Ltd. ("UEDH")	2,052,707,657	-
National Grid Corporation of the Philippines	<u>4,418,594,021</u>	<u>4,442,015,128</u>
	<u>6,471,301,678</u>	<u>4,442,015,128</u>
	<u>26,600,335,989</u>	<u>8,599,579,817</u>

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11. INVESTMENT IN ASSOCIATES (continued)

Particulars of the associates as of 30 June 2014 are as follows:

Name	Particulars of issued shares held	Place of incorporation and business	Percentage of ownership interest attributable to the Company	Principal Activities
National Grid Corporation of the Philippines (“NGCP”)	PHP800,000,000	Manila, The Philippines	40%	Operate electric transmission grid
Redes Energeticas Nacionais, SGPS, S.A. (“REN”)	EURO534,000,000	Lisbon, Portugal	25%	Operate electric transmission grid
AusNet Services (“AusNet”)	AUD824,000,000	Vitoria, Australia	19.9%	Operate electric transmission grid
HK Electric Investments	HKD969,000,000	Hong Kong, China	20%	Operate electric transmission grid
United Energy Distribution Holdings Pty Ltd (“UEDH”)	AUD306,112,000	Victoria, Australia	34%	Operate electric transmission grid

All of the above investments in associates are directly held by the Company, except for REN and AusNet and UEDH. REN is held by State Grid Europe Limited and AusNet is held by State Grid International Australia Development Limited. UEDH is an associate of SGSPAA, which is acquired by the Company as a subsidiary in January 2014. Please refer to Note 3 for more details.

All above associates are considered individually material associates of the Group, and are accounted for using the equity method.



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11. INVESTMENT IN ASSOCIATES (continued)

The following table illustrates the summarised financial information of associates:

	NGCP		REN	
	For the six months ended 30 June		For the six months ended 30 June	
	2014	2013	2014	2013
	HK\$	HK\$	HK\$	HK\$
Revenue	3,875,506,426	4,188,673,524	3,484,470,348	3,597,697,758
Profit for the period	1,815,820,253	2,031,082,567	619,699,113	652,670,664
Other comprehensive income/(loss)	( 17,179,718)	(1,258,241,909)	163,298,514	( 810,610,659)
Total comprehensive income/(loss) for the period	<u>1,798,640,535</u>	<u>772,840,658</u>	<u>782,997,627</u>	<u>( 157,939,995)</u>

	HK Electric Investment	Ausnet	UEDH
	For the six months ended	For the six months ended	For the six months ended
	30 June	30 June	30 June
	2014	2014	2014
	HK\$	HK\$	HK\$
Revenue	4,481,000,000	6,604,385,410	2,229,004,568
Profit for the year	967,000,000	1,124,965,660	67,308,817
Other comprehensive income/(loss)	( 92,000,000)	305,712,610	20,421,035
Total comprehensive income for the period	<u>875,000,000</u>	<u>1,430,678,270</u>	<u>87,729,852</u>

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12. INVESTMENT IN JOINT VENTURES

	As at 30 June 2014 HK\$ Unaudited	As at 31 December 2013 HK\$ Audited
ElectraNet	4,182,086,803	4,009,471,560
ActewAGL Distribution Partnership	5,915,530,504	-
Joint ventures in Brazil ( defined below)	<u>1,357,085,733</u>	<u>506,777,978</u>
	<u>11,454,703,040</u>	<u>4,516,249,538</u>

Particulars of the joint ventures as of 30 June 2014 are as follows:

Name	Particulars of issued shares held	Place of incorporation and business	Percentage of ownership interest attributable to the Company	Principal activities
ElectraNet Pty Ltd. ("ElectraNet")	AUD4,656	Canberra Australia	46.56%	Operate electric transmission grid
Matrincha Transmissora de Energia (TP North) S.A.*	BRL10,455,510	Rio de Janeiro Brazil	51%	Operate electric transmission grid
Guaraciaba Transmissora de Energia (TP Sul) S.A.*	BRL7,395,510	Rio de Janeiro Brazil	51%	Operate electric transmission grid
Luziania-Niquelandia Transmissora S.A.*	BRL969,000	Rio de Janeiro Brazil	51%	Operate electric transmission grid
Paranaiba Transmissora de Energia S.A.*	BRL36,720,510	Rio de Janeiro Brazil	51%	Operate electric transmission grid
ActewAGL Distribution Partnership("ActewAGL")	AUD1,187,968,000	Canberra Australia	50%	Operate electric and gas transmission grid

\* Collectively referred as "Joint ventures in Brazil".

ElectraNet and ActewAGL are considered as material joint ventures of the Group, and are accounted for using the equity method. ActewAGL is a joint venture of SGSPAA, which is acquired by the Company as a subsidiary in January 2014. Please refer to Note 3 for more details.

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12. INVESTMENT IN JOINT VENTURES (continued)

The following table illustrates the summarised financial information of ElectraNet and ActewAGL, adjusted for any differences in accounting policies.

	ElectraNet For the six months ended 30 June		ActewAGL For the six months ended 30 June
	2014 HK\$ Unaudited	2013 HK\$ Unaudited	2014 HK\$ Unaudited
Revenue	2,248,342,466	1,396,343,981	1,275,822,756
Profit for the period	80,010,168	223,751,866	354,147,234
Other comprehensive income for the period	<u>230,833,329</u>	<u>175,012,937</u>	<u>-</u>
Total comprehensive income for the period	<u>310,843,497</u>	<u>398,764,803</u>	<u>354,147,234</u>

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12. INVESTMENT IN JOINT VENTURES (continued)

The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material:

	For the six months ended 30 June	
	2014	2013
	HK\$	HK\$
	Unaudited	Unaudited
Share of the joint ventures' profit for the period	75,197,888	( 2,786,019)
Other comprehensive income	<u>-</u>	<u>-</u>
Total comprehensive income for the period	<u>75,197,888</u>	<u>( 2,786,019)</u>

13. AVAILABLE-FOR-SALE INVESTMENTS

	As at 30 June	As at 31 December
	2014	2013
	HK\$	HK\$
	Unaudited	Audited
Hong Kong Listed equity investments, at fair value	<u>8,251,618,025</u>	<u>8,705,494,691</u>

During the six months ended 30 June 2014, the fair value losses in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to HK\$296,972,253 (Six months ended 30 June 2013: HK\$524,046,008). The fair value of the available-for-sale investments fall into the level 1 fair value hierarchy in HKFRS 13.

The fair value of listed equity investments are based on market prices in Hong Kong Stock Exchange at the end of reporting periods.

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14. FINANCIAL ASSETS-Concessions

	As at 30 June 2014 HK\$ Unaudited	As at 31 December 2013 HK\$ Audited
Concession revenue receivables	<u>14,993,239,300</u>	<u>14,301,120,203</u>

The concession revenue receivables are derived from these operational subsidiaries in Brazil, which have entered into the electric power transmission service concession arrangement with the federal government of Brazil. *HK(IFRIC) interpretation 12 – Services Concession Arrangement* that provides guidance on how to record public service concessions granted to private operators is adopted. As at 30 June 2014, the total amount was HK\$17,539,156,706 (HK\$2,545,917,406 in current assets and HK\$14,993,239,300 in non-current assets).

15. OTHER NON-CURRENT ASSETS

	As at 30 June 2014 HK\$ Unaudited	As at 31 December 2013 HK\$ Audited
Non-current tax recoverable (note 16)	62,169,637	87,416,322
Retirement benefit surplus	47,925,280	-
Loan receivable from a joint venture	799,263,122	753,416,029
Others	<u>389,333,591</u>	<u>9,828,528</u>
	<u>1,298,691,630</u>	<u>850,660,879</u>

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 30 June 2014 HK\$ Unaudited	As at 31 December 2013 HK\$ Audited
Tax recoverable-current*	320,700,791	259,992,138
Prepayments	62,366,303	2,376,000
Dividends receivable	572,286,388	11,154,219
Interest receivable	26,235,353	25,400,868
Other receivables	<u>223,442,444</u>	<u>39,455,291</u>
	<u>1,205,031,279</u>	<u>338,378,516</u>

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

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16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

\*In accordance with the Brazilian laws, the Group's subsidiaries in Brazil are subject to Social Contribution Tax on Gross Revenue for Social Security Funding ("COFINS") and Social Contribution Tax on Gross Revenue for Social Integration Program ("PIS"). PIS and COFINS credits derive from purchases of plant, property and equipment during the construction period of the subsidiaries' transmission lines, as permitted by Brazilian laws. Such credits are available to be offset against the payment of PIS and COFINS on the monthly invoice at a rate of 1/48. As of 30 June 2014, the Group estimates tax recoverables as follows:

	As at 30 June 2014 HK\$ Unaudited	As at 31 December 2013 HK\$ Audited
Tax recoverables	<u>382,870,428</u>	<u>347,408,460</u>
Analysed into:		
Current	320,700,791	259,992,138
Non-current (note 15)	<u>62,169,637</u>	<u>87,416,322</u>
	<u>382,870,428</u>	<u>347,408,460</u>

17. CASH AND CASH EQUIVALENTS

	As at 30 June 2014 HK\$ Unaudited	As at 31 December 2013 HK\$ Audited
Cash and cash equivalents	<u>9,861,622,502</u>	<u>25,869,449,731</u>
Denominated in:		
HK\$	42,945,974	38,387,752
US\$	5,709,871,831	16,563,689,150
Brazilian Real ("BRL")	3,561,846,929	3,678,701,498
AUS\$	251,845,252	5,367,223,313
Others	<u>295,112,516</u>	<u>221,448,018</u>
	<u>9,861,622,502</u>	<u>25,869,449,731</u>

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their values.

At the end of the reporting period, the cash and bank balances of the Group denominated in BRL amounted to HK\$3,561,846,929 (2013: HK\$3,678,701,498). The BRL is not freely convertible into other currencies, however, according to the Brazilian regulation, the Group is permitted to exchange BRL for other currencies through financial institutions authorised to conduct foreign exchange business on certain conditions.

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18. OTHER PAYABLES AND ACCRUALS

	As at 30 June 2014 HK\$ Unaudited	As at 31 December 2013 HK\$ Audited
Advances from parent company	72,313,295	73,033,022
Advances from other related party controlled by the ultimate holding company (note 23)	158,377,093	-
Payables to professionals	28,377,198	165,319,451
Payroll payable	590,162,604	40,890,241
Interest payable	508,427,602	26,820,936
Advances payments from customers	141,526,571	-
Deferred Income	114,261,348	-
Other payables	<u>837,951,231</u>	<u>39,251,749</u>
	<u>2,451,396,942</u>	<u>345,315,399</u>

The amounts due are unsecured, non-interest bearing and repayable on demand.

19. INTEREST-BEARING BANK BORROWINGS AND OTHER BORROWINGS

	As at 30 June 2014 HK\$ Unaudited	As at 31 December 2013 HK\$ Audited
Bank borrowings		
Guaranteed:	4,602,560,728	5,577,675,456
Unsecured:	<u>9,678,100,324</u>	<u>17,277,414,443</u>
Debt Securities	<u>26,291,320,251</u>	-
	<u>40,571,981,303</u>	<u>22,855,089,899</u>
Analysed into :		
Within one year	3,765,187,565	15,281,804,637
In the second to fifth years, inclusive	21,430,349,266	7,573,285,262
Beyond five years	<u>15,376,444,472</u>	-
	<u>40,571,981,303</u>	<u>22,855,089,899</u>

- (a) The average effective interest rate (per annum) of the Group's borrowings was 2.59% over LIBOR (2013: 2.30% over LIBOR).

The carrying amount of interest-bearing bank borrowings approximates their fair value due to that approximately all of the bank borrowings are bearing floating interest rate. The fair value of the interest-bearing bank borrowings fall into the level 2 of the fair value hierarchy.

Certain of the bank borrowings borrowed by certain of the Company's subsidiaries are guaranteed by the Company.

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20. PROVISIONS

	As at 30 June 2014 HK\$ Unaudited	As at 31 December 2013 HK\$ Audited
Provision for contingencies-Current (a):		
Environment proceedings	202,757,572	-
	<u>202,757,572</u>	<u>-</u>
Provision for contingencies-Non-current (a):		
Tax proceedings	121,968,296	72,554,927
Civil proceedings	2,661,283	29,181,653
Rights proceedings	-	48,047,958
Labor proceedings	40,118,399	6,752,023
Employee benefits	93,351,995	-
Decommission	101,746,144	-
Environment proceedings	<u>593,769,586</u>	<u>63,331,810</u>
	953,615,703	219,868,371
Other provision – compensatory measures (b):	<u>170,099,365</u>	<u>132,310,164</u>
	<u>1,123,715,068</u>	<u>352,178,535</u>

- (a) The Group's subsidiaries in Brazil are involved in tax, civil, labor and others proceedings, arising in the normal course of its business and are discussing these issues, both in the administrative and judicial sphere. Provisions for possible losses arising from such proceedings are estimated and updated by the Group's management, supported by the opinion of its independent legal advisors.

A provision of SGSPAA for environmental and restoration costs is provided for the rehabilitation of sites based on the estimated costs of the rehabilitation, make good and restoration of the applicable site. The liability is determined based on the present value of each applicable environmental and restoration obligation as appropriate. Annual adjustments to the liability are charged to the profit and loss. The costs are estimated based on assumptions that current legal requirements and management's current assessment of the most appropriate rehabilitation approach, will in each case remain applicable. Any changes in estimates are dealt with on a prospective basis.

- (b) The Group has an electric transmission concession contract in Brazil that provides for that concessionaire shall endeavor to minimize damage to flora and fauna existing along the usage right of transmission lines on the implementation and concession period, taking into account the compliance with commitments and responsibilities defined in the environmental licensing documents.

The Group's subsidiaries in Brazil are operating in accordance with the Brazilian laws, meeting the environment and health, hygiene, safety and occupational health requirements. In the operation phase of the Group's business, environmental programs are developed in order to mitigate and offset the impacts.

As of 30 June 2014, the balance of the environmental provision is HK\$170,099,365 (31 December 2013: HK\$132,310,164). Management of the Group, based on the opinion of legal advisors, believes that no adjustment for inflation is expected for this provision. Besides, provision is held under non-current liabilities because disbursement in the next year is not expected.



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21. SHARE CAPITAL

	As at 30 June 2014 HK\$ Unaudited	As at 31 December 2013 HK\$ Audited
Ordinary Share:		
Authorised:		
22,779,327,845 (2013: 22,779,327,845) ordinary shares of HK\$1.00 each	<u>22,779,327,845</u>	<u>22,779,327,845</u>
Issued and fully paid 21,429,327,845 (2013: 21,429,327,845) ordinary shares of HK\$1.00 each	<u>21,429,327,845</u>	<u>21,429,327,845</u>
Preference Share:		
Authorised:		
41,991,766,478 (2013: 15,267,778,333) preference shares of HK\$1.00 each	<u>41,991,766,478</u>	<u>15,267,778,333</u>
Issued and fully paid 41,991,766,478 (2013: 15,267,778,333) preference shares of HK\$1.00 each (note a)	<u>41,991,766,478</u>	<u>15,267,778,333</u>
Total Share Capital	<u>63,421,094,323</u>	<u>36,697,106,178</u>

- (a) On 16 May 2014, 26,723,988,145 preference shares of HK\$1.00 each were issued at par for cash to State Grid Oversea International limited, a fellow subsidiary of the Company, which resulted in proceeds of HK\$26,723,988,145. The purpose of the issue was to provide additional working capital.
- (b) Pursuant to the constitution of the Company, the Company may from time to time, at its sole discretion, determines on the paid up amount and the date of payment of preferential dividend in respect of any period. The holders of preference shares of the Company are not entitled to vote at any general meetings that includes the consideration of a resolution relating to general operation decisions of the Company.

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22. CONTINGENT LIABILITIES

- (a) At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

As at 30 June 2014, the Group provided guarantees to associates for bank loans to the extent of approximately HK\$1,586,400,000 (31 December 2013: HK\$1,065,965,207). The Group also provided counter-guarantees to certain joint ventures, which were utilised to the extent of approximately HK\$2,210,608,257 (31 December 2013: HK\$1,291,469,975).

- (b) State Grid Brazil Holding S.A. ("SGBH") is required by Brazil's National Agency of Electric Energy (ANEL) to provide counter-guarantees to joint ventures in Brazil when these joint ventures propose to bid for the electric power transmission service concession of the federal government of Brazil. In this respect, the directors, based on the assessment of default risk relate and the advice from the Group's legal counsel, have not provided for any claim arising from the counter-guarantees, other than the related legal and other costs.

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23. RELATED PARTY TRANSACTIONS

In addition to the transaction disclosed elsewhere in these financial statements, the Group had the following transactions with related parties during the period:

	For the six months ended 30 June 2014 HK\$ Unaudited	2013 HK\$ Unaudited
Sales of goods and services	762,549,500	-
Other income	81,326,496	-
Administration expenses to other related parties	112,848,540	-
Management fees to parent entity	5,319,825	-
Service fee paid to a related party	-	391,255

The Group had outstanding balances with related parties:

	As at 30 June 2014 HK\$ Unaudited	As at 31 December 2013 HK\$ Audited
Advances from parent company	72,313,295	73,033,022
Other receivables	20,180,017	-
Accounts receivable	103,118,919	-
Loan receivable from a joint venture	799,263,122	753,416,029
Interest payable	132,576	-
Other payables	3,591,472	-
Advances from other related party controlled by the ultimate holding company	158,377,093	-

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24. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts and fair values of the Group's financial instruments are as follows:

	Carrying amounts		Fair values	
	As at 30 June 2014 HK\$ Unaudited	As at 31 December 2013 HK\$ Audited	As at 30 June 2014 HK\$ Unaudited	As at 31 December 2013 HK\$ Audited
<b>Financial assets</b>				
Cash and cash equivalents	9,861,622,502	25,869,449,731	9,861,622,502	25,869,449,731
Trade receivables	2,542,867,548	331,503,848	2,542,867,548	331,503,848
Financial assets included in prepayments, deposits and other receivables	1,142,664,975	336,002,516	1,142,664,975	336,002,516
Available-for-sale investments	8,251,618,025	8,705,494,691	8,251,618,025	8,705,494,691
Financial assets included in other non-current assets	1,236,521,993	763,244,557	1,236,521,993	763,244,557
Financial assets- Concession	17,539,156,706	16,623,527,847	17,539,156,706	16,623,527,847
Derivative financial assets	1,586,216,412	-	1,586,216,412	-
<b>Financial liabilities</b>				
Trade payables	323,171,920	31,523,124	323,171,920	31,523,124
Financial liabilities included in other payables and accruals	1,374,756,031	231,392,136	1,374,756,031	231,392,136
Interest-bearing bank borrowings	40,571,981,303	22,855,089,899	40,571,981,303	22,855,089,899
Derivative financial liabilities	825,700,401	-	825,700,401	-
Financial lease payable in other non-current liabilities	385,969,566	-	385,969,566	-

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, trade receivables, trade payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due to other related parties controlled by the ultimate holding company, accounts receivable-financial assets and interest-bearing bank borrowings all approximate to their carrying amounts. The fair value hierarchy of the financial assets and liabilities are disclosed in respective notes to financial statements. The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices; and the fair value of other financial assets and financial liabilities is determined in accordance with pricing models based on discounted cash flow analysis.

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25. EVENTS AFTER THE REPORTING PERIOD

On 27 November 2014, the Company completed the acquisition of 35 per cent of equity interest in Cassa Depositi e Prestiti Reti S.p.a. from Cassa depositi e prestiti S.p.a. with cash consideration amounted to EUR2.11 billion (equivalent to HK\$20,328,877,286).

26. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform to the current year's presentation, and those reclassifications are not significant.

27. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were authorised for issue by the board of directors on 6 January 2015.

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