



港燈電力投資
HK Electric Investments

HK Electric Investments
and
HK Electric Investments Limited
(Stock Code: 2638)

INTERIM REPORT 2016



FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2016	2015	Change
Revenue	HK\$5,326 million	HK\$5,232 million	+2%
Distribution amount	HK\$1,760 million	HK\$1,760 million	–
Distribution per			
Share Stapled Unit	HK19.92 cents	HK19.92 cents	–

This Interim Report has been posted in both the English and Chinese languages on the Company's website at www.hkei.hk. If, for any reason, Holders of Share Stapled Units who have chosen (or are deemed to have consented) to receive corporate communications through the Company's website have difficulty in gaining access to the Interim Report, they may request that a printed copy of this Interim Report be sent to them free of charge by mail.

Holders of Share Stapled Units may at any time choose to receive all future corporate communications either in printed form or through the Company's website, by writing to the Company at 44 Kennedy Road, Hong Kong or to the Share Stapled Units Registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong or by emailing to the Company's email address at mail@hkei.hk.



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CORPORATE INFORMATION

HK Electric Investments Manager Limited (港燈電力投資管理人有限公司)

(Incorporated in Hong Kong with limited liability, the trustee-manager of HK Electric Investments)

and

HK Electric Investments Limited (港燈電力投資有限公司)

(Incorporated in the Cayman Islands with limited liability)

Board of Directors

Executive Directors

FOK Kin Ning, Canning (*Chairman*)

(CHOW WOO Mo Fong, Susan
as his alternate)

WAN Chi Tin (*Chief Executive Officer*)

CHAN Loi Shun

CHENG Cho Ying, Francis

SHAN Shewu

YUEN Sui See

Non-executive Directors

LI Tzar Kuoi, Victor (*Deputy Chairman*)

(Frank John SIXT as his alternate)

Fahad Hamad A H AL-MOHANNADI

Ronald Joseph ARCULLI

DU Zhigang

JIANG Xiaojun

Deven Arvind KARNIK

Independent Non-executive Directors

FONG Chi Wai, Alex

KWAN Kai Cheong

LEE Lan Yee, Francis

George Colin MAGNUS

Donald Jeffrey ROBERTS

Ralph Raymond SHEA

Trustee-Manager Audit Committee

Donald Jeffrey ROBERTS (*Chairman*)

Ronald Joseph ARCULLI

LEE Lan Yee, Francis

Company Audit Committee

Donald Jeffrey ROBERTS (*Chairman*)

Ronald Joseph ARCULLI

LEE Lan Yee, Francis

Remuneration Committee

Donald Jeffrey ROBERTS (*Chairman*)

FOK Kin Ning, Canning

FONG Chi Wai, Alex

Company Secretary

Alex NG

Principal Bankers

Goldman Sachs (Asia) L.L.C.

The Hongkong and Shanghai Banking

Corporation Limited

Bank of China (Hong Kong) Limited

Mizuho Bank, Ltd.

Auditor

KPMG

Company Website

www.hkei.hk

Trustee-Manager Registered Office

44 Kennedy Road, Hong Kong

Company Registered Office

Codan Trust Company (Cayman) Limited

Cricket Square, Hutchins Drive,

P.O. Box 2681, Grand Cayman, KY1-1111,

Cayman Islands

Company Head Office and Principal Place of Business in Hong Kong

44 Kennedy Road, Hong Kong

Telephone: 2843 3111

Facsimile: 2810 0506

Email: mail@hkei.hk

Share Stapled Units Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716,
17th Floor, Hopewell Centre,
183 Queen's Road East,
Wanchai, Hong Kong
Website: www.computershare.com
Email: hkinfo@computershare.com.hk

Principal Share Registrar

Codan Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive,
P.O. Box 2681, Grand Cayman, KY1-1111,
Cayman Islands

Hong Kong Branch Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716,
17th Floor, Hopewell Centre,
183 Queen's Road East,
Wanchai, Hong Kong
Website: www.computershare.com
Email: hkinfo@computershare.com.hk

ADR (Level 1 Programme) Depository

Deutsche Bank Trust Company Americas
60 Wall Street, New York, NY 10005
Website: www.adr.db.com
Email: adr@db.com

Investor Relations

For institutional investors, please contact:
CHAN Loi Shun (*Executive Director*) or
WONG Kim Man (*Chief Financial Officer*)

For other investors, please contact:
Alex NG (*Company Secretary*)

Email: mail@hkei.hk
Telephone: 2843 3111
Facsimile: 2810 0506
Postal Address: G.P.O. Box 915, Hong Kong
Address: 44 Kennedy Road, Hong Kong

KEY DATES AND SHARE STAPLED UNIT INFORMATION

Key Dates

Interim Results Announcement	26 July 2016
Ex-distribution Date	9 August 2016
Interim Report Despatch Date	On or before 10 August 2016
Record Date for Interim Distribution	10 August 2016
Payment of Interim Distribution (HK19.92 cents per Share Stapled Unit)	19 August 2016
Financial Year End	31 December 2016

Share Stapled Unit Information

Board Lot	500 Share Stapled Units
Market Capitalisation as at 30 June 2016	HK\$63,886 million
Share Stapled Unit to American Depository Share Ratio	10:1
Stock Codes	
The Stock Exchange of Hong Kong Limited	2638
Bloomberg	2638 HK
Thomson Reuters	2638.HK
ADR Ticker Symbol	HKVTY
CUSIP Number	40422B101

CHAIRMAN'S STATEMENT

Powering Today for a Cleaner Future

Against a backdrop of transformation affecting the power sector both in Hong Kong and globally, HK Electric has always remained committed to delivering highly reliable electricity at affordable prices. Our century-old commitment to Hong Kong people is as strong as ever as I present the 2016 interim results for HKEI, which holds a 100% interest in the operating company HK Electric.

During the six months under review, HK Electric engaged with the HKSAR Government to review and discuss ways to improve the future regulatory framework that will guide the sector upon the expiry of the current Scheme of Control Agreement (SCA). It is our view, also reflected by the majority of the respondents to the Government's public consultation exercise held last year, that the current framework has performed well. It has achieved the Government's energy policy objectives of safety, reliability, affordability and environmental protection by encouraging prudent and necessary long-term investments. We expect that a satisfactory outcome in the best interests of Hong Kong going forward will be achieved.

Half Year Results

For the six months ended 30 June 2016, HKEI's EBITDA amounted to HK\$3,817 million (2015: HK\$3,789 million) and unaudited profit attributable to holders of Share Stapled Units (SSU) was HK\$1,101 million (2015: HK\$1,205 million).

Interim Distribution

The Board of the Trustee-Manager has declared an interim distribution of HK19.92 cents (2015: HK19.92 cents) per SSU, payable on 19 August 2016 to SSU holders whose names appear on the Share Stapled Units Register on 10 August 2016.

Moving Towards Increased Use of Natural Gas

During the six months under review, HK Electric progressed some key initiatives in support of the Government's policy to increase the proportion of natural gas in the fuel mix to about 50% by 2020. This change in the fuel mix will also help us play a part in the battle against climate change following a global consensus reached in the Paris Climate Change Conference (COP21) held in December 2015.

Construction of the new L10 combined cycle gas-fired unit commenced in January. Piling work has made good progress and is 45% complete. Tendering for the superstructure work and building plan submissions are underway. L10 is scheduled for commissioning in 2020.

In order to obtain secure and competitive long term gas supply, HK Electric and CLP Power Hong Kong Limited are jointly conducting an Environmental Impact Assessment as part of the overall feasibility study on constructing an offshore LNG terminal using floating storage and regasification unit technology in Hong Kong waters for receiving liquefied natural gas from overseas. If the project receives Government approval, the terminal will provide direct access to and enhanced bargaining power in the international market for gas supplies. It will support our long-term goal to increase the use of natural gas to generate electricity locally, allowing us to enhance the security and reliability of natural gas supply.

Consistently Dependable Performance

With milder weather in 2016 compared to 2015, unit sales for the first six months of 2016 were 0.8% lower compared with the same period last year.

HK Electric has consistently achieved excellence on two important metrics for the energy industry: supply reliability and customer service. This is the twentieth consecutive year that we have maintained a supply reliability rating of over 99.999%, with customers facing under one minute of unplanned power interruption on average per year since 2009. We once again met or surpassed all eighteen of our pledged customer service standards during the period.

During the first six months, natural gas comprised over 30% of our fuel mix, with the remainder consisting mainly of low-sulphur coal. Emissions of sulphur dioxide (SO₂), nitrogen oxides (NO_x) and respirable suspended particulates (RSP) remained well below statutory levels.

Building a Greener Hong Kong

We progressed a number of community initiatives to help transform Hong Kong into a low-carbon city. With an annual injection of close to HK\$5 million, our Smart Power Fund provides subsidies to owners of ageing residential buildings to implement energy efficiency works or upgrades. Since the inception of the Fund in 2014, a total of 23 projects have been approved. On the education front, our Green Energy Dreams Come True programme provided funding support and technical advice to 12 schools to develop their innovative green energy projects on campus.

Electric vehicles (EV) are a key element in our strategy to support the community's efforts to improve roadside air quality. During the first six months we strengthened our technical and advisory services to residential buildings interested in installing EV charging facilities, while operating free charging facilities at public carparks. At the same time we continued to replace our retired petrol cars with EVs for operational use, making our EV fleet one of the largest in Hong Kong.

CHAIRMAN'S STATEMENT *(Continued)*

Our Green Hong Kong Green programme which promotes public understanding of ecology and sustainable development was given the "Outstanding Partnership Project" award by the Hong Kong Council of Social Service (HKCSS) at the Caring Company Partnership Expo 2016.

Outlook

As HK Electric continues with its ongoing discussions with the Government on improving the post-2018 regulatory framework, the coming months are crucial in shaping the long-term development of Hong Kong's power sector. We firmly believe that the future framework should be based on feedback received during the Government's public consultation – that the SCA has worked well and allowed power companies to achieve energy policy objectives; that there is no need to introduce competition to the power industry for the sake of bringing in choices; that the duration of the new framework should be maintained at ten years; and that the rate of return should be maintained at the current level to incentivise power companies to make necessary investments. We are confident that the final framework will serve to give industry participants effective regulation and reasonable returns necessary to provide Hong Kong – Asia's World City – with affordable, reliable, safe and clean energy.

We will also move forward with other initiatives to increase our use of cleaner fuels and support the Government's 2030 carbon-reduction targets yet to be formulated in response to the Paris Agreement reached at COP21.

In conclusion, I would like to extend my thanks to our employees for their dedication. Our success depends on them – and I am delighted that this year we were ranked seventh in Randstad's Top 10 Most Attractive Employers and listed as one of the "Happy Companies" in Hong Kong. My thanks also go to our loyal SSU holders for their continuous support.

Fok Kin Ning, Canning

Chairman

Hong Kong, 26 July 2016

FINANCIAL REVIEW

Financial Performance

The Trust Group's revenue and unaudited consolidated profit for the period ended 30 June 2016 were HK\$5,326 million (2015: HK\$5,232 million) and HK\$1,101 million (2015: HK\$1,205 million) respectively.

Distribution

The Trustee-Manager Board has declared an interim distribution of HK19.92 cents (2015: HK19.92 cents) per SSU for the six months ended 30 June 2016. In order to enable the Trust to pay that distribution, the Company Board has declared the payment of a first interim dividend in respect of the Company's ordinary shares held by the Trustee-Manager of HK19.92 cents (2015: HK19.92 cents) per ordinary share in respect of the same period.

	Six months ended 30 June	
	2016 HK\$ million	2015 HK\$ million
Consolidated profit attributable to SSU holders for the period	1,101	1,205
After:		
(i) eliminating the effects of the Adjustments (see note (a) below)	2,742	2,611
(ii) adding/(deducting)		
– movement in Fuel Clause Recovery Account	979	775
– changes in working capital	(423)	(478)
– adjustment for employee retirement benefit schemes	12	8
– taxes paid	(233)	(238)
	335	67
(iii) capital expenditure payment	(1,340)	(1,099)
(iv) deducting		
– debt repayment	(6,296)	(520)
– net finance costs	(639)	(485)
	(6,935)	(1,005)
(v) deducting		
– reserve for future capital expenditure/ debt service	(439)	(19)
Distributable income for the period	(4,536)	1,760
(vi) adding discretionary item		
– early repayment of debt during the period	6,296	–
Distributable income after adjustment of discretionary item	1,760	1,760
Distribution amount for the period	1,760	1,760
Interim distribution amount per SSU	HK19.92 cents	HK19.92 cents

FINANCIAL REVIEW *(Continued)*

In determining the distribution amount, the Company Board has taken into account the Group's financial performance achieved during the period under review and its stable cashflow from operations, and consider it appropriate to adjust the distributable income for the six months ended 30 June 2016, as calculated pursuant to the Trust Deed, by the above discretionary item, pursuant to clause 14.1(c) of the Trust Deed.

Note:

- (a) Pursuant to clause 1.1 of the Trust Deed, "Adjustments" includes, but not limited to (i) transfers to/from the Tariff Stabilisation Fund and the Rate Reduction Reserve under the Scheme of Control; (ii) unrealised revaluation gains/losses, including impairment provisions and reversals of impairment provisions; (iii) impairment of goodwill/recognition of negative goodwill; (iv) material non-cash gains/losses; (v) costs of any public offering of Share Stapled Units that are expensed through the consolidated statement of profit or loss but are funded by proceeds from the issuance of such Share Stapled Units; (vi) depreciation and amortisation; (vii) tax charges as shown in the consolidated statement of profit or loss; and (viii) net finance income/costs as shown in the consolidated statement of profit or loss.
- (b) The Trustee-Manager Board has confirmed, in accordance with the Trust Deed, that (i) the auditors of the Trust Group have reviewed and verified the Trustee-Manager's calculation of the above distribution entitlement per SSU and (ii) having made all reasonable enquiries, immediately after making the above distribution to the registered unit holders of the Trust, the Trustee-Manager will be able to fulfill, from the Trust Property (as defined in the Trust Deed), the liabilities of the Trust as they fall due.

Capital Expenditure, Liquidity and Financial Resources

Capital expenditure during the period amounted to HK\$962 million (2015: HK\$656 million), which was primarily funded by cash from operations. Total external borrowings outstanding at 30 June 2016 were HK\$40,960 million (31 December 2015: HK\$47,217 million), comprising unsecured bank loans and debt securities in issue. In addition, the Trust Group at 30 June 2016 had undrawn committed bank facilities of HK\$1,050 million (31 December 2015: HK\$1,000 million) and bank deposits and cash of HK\$307 million (31 December 2015: HK\$6,157 million).

Treasury Policy, Financing Activities, Capital and Debt Structure

The Trust Group manages its financial risks in accordance with guidelines laid down in its treasury policy which is designed to manage the Trust Group's currency, interest rate and counterparty risks. Surplus funds, which arise mainly from provision for capital expenditure to be incurred and from electricity bill collection, are placed on short term deposits denominated in Hong Kong dollars. The Trust Group aims to ensure that adequate financial resources are available for refinancing and business growth whilst maintaining a prudent capital structure.

As at 30 June 2016, the net debt of the Trust Group was HK\$40,653 million (31 December 2015: HK\$41,060 million) with a net debt-to-net total capital ratio of 46% (31 December 2015: 46%). The Trust Group's financial profile remained strong during the period. On 23 February 2016, Standard & Poor's pronounced the long term credit ratings are "A-" with a stable outlook for both of the Company and HK Electric unchanged since September 2015 and January 2014, respectively.

In the first half of 2016, the Trust Group took advantage of the liquidity in the bond market to extend its debt maturity profile by issuing US\$750 million 10 year Notes in the public bond market and also tapped a total of HK\$1,410 million with 15 year tenor in the Hong Kong dollar private placements market through its Medium Term Notes Programme. During the period, the Trust Group has entered into new 5 year term loan facilities totalling HK\$15,200 million with various financial institutions. The proceeds of these issues together with the new term loans and internal resources were used to prepay approximately HK\$29 billion of its existing term loan facilities maturing in 2017.

The profile of the Trust Group's external borrowings as at 30 June 2016, after taking into account forward foreign exchange contracts, cross currency and interest rate swaps, was as follows:

- (1) 100% were in Hong Kong dollars;
- (2) 51% were bank loans and 49% were capital market instruments;
- (3) 16% were repayable within 1 year, 53% were repayable after 1 year but within 5 years and 31% were repayable after 5 years; and
- (4) 88% were in fixed rate and 12% were in floating rate.

The Trust Group's policy is to maintain a portion of its debt at fixed interest rates taking into consideration business and operational needs. Interest rate risk is managed by either securing fixed rate borrowings or by using interest rate derivatives.

Currency and interest rate risks are actively managed in accordance with the Trust Group's treasury policy. Derivative financial instruments are used primarily for managing interest rate and foreign currency risks and not for speculative purposes. Treasury transactions are only executed with counterparties with acceptable credit ratings to control counterparty risk exposure.

FINANCIAL REVIEW *(Continued)*

The Trust Group's principal foreign currency transaction exposures arise from the import of fuel and capital equipment. Foreign currency transaction exposure is managed mainly through forward foreign exchange contracts. As at 30 June 2016, over 90% of the Trust Group's transaction exposure from the import of fuel and capital equipment was either denominated in United States dollars or hedged into Hong Kong or United States dollars. The Trust Group is also exposed to foreign currency fluctuation arising from foreign currency borrowings. Such exposures are, where appropriate, mitigated by the use of either forward foreign exchange contracts or cross currency swaps.

The contractual notional amounts of derivative financial instruments outstanding at 30 June 2016 amounted to HK\$72,658 million (31 December 2015: HK\$54,267 million).

Charge on Assets

At 30 June 2016, no assets of the Trust Group were pledged to secure its loans and banking facilities (31 December 2015: Nil).

Contingent Liabilities

As at 30 June 2016, the Trust Group had no guarantee or indemnity to external parties (31 December 2015: Nil).

Employees

The Trust Group maintains a policy of pay-for-performance and the pay levels are monitored to ensure competitiveness is maintained. The Trust Group's total remuneration costs for the six months ended 30 June 2016, excluding directors' emoluments, amounted to HK\$560 million (2015: HK\$540 million). As at 30 June 2016, the Trust Group employed 1,783 (31 December 2015: 1,800) permanent employees. No share option scheme is in operation.

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS OF THE TRUST AND OF THE COMPANY

For the six months ended 30 June 2016

(Expressed in Hong Kong dollars)

	Note	2016 \$ million	2015 \$ million
Revenue	6	5,326	5,232
Direct costs		<u>(2,577)</u>	<u>(2,481)</u>
		2,749	2,751
Other revenue and other net income		25	37
Other operating costs		<u>(361)</u>	<u>(353)</u>
Operating profit		2,413	2,435
Finance costs		<u>(620)</u>	<u>(504)</u>
Profit before taxation	8	1,793	1,931
Income tax:	9		
Current		<u>(466)</u>	<u>(462)</u>
Deferred		144	126
		<u>(322)</u>	<u>(336)</u>
Profit after taxation		1,471	1,595
Scheme of Control transfers	10	<u>(370)</u>	<u>(390)</u>
Profit for the period attributable to the holders of Share Stapled Units/ shares of the Company		<u>1,101</u>	<u>1,205</u>
Earnings per Share Stapled Unit/ share of the Company			
Basic and diluted	11	<u>12.46 cents</u>	<u>13.64 cents</u>

The notes on pages 16 to 29 form part of these unaudited consolidated interim financial statements.

As explained in note 3, the unaudited consolidated interim financial statements of the Trust and the unaudited consolidated interim financial statements of the Company are presented together.

Details of distributions/dividends payable to holders of Share Stapled Units/shares of the Company attributable to the profit for the period are set out in note 21.

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF THE TRUST AND OF THE COMPANY

For the six months ended 30 June 2016

(Expressed in Hong Kong dollars)

	2016 \$ million	2015 \$ million
Profit for the period attributable to the holders of Share Stapled Units/ shares of the Company	1,101	1,205
Other comprehensive income for the period, after tax and reclassification adjustments		
Items that may be reclassified subsequently to profit or loss		
Cash flow hedges:		
Changes in fair value of hedging instruments recognised during the period	(110)	(173)
Reclassification adjustments for amounts transferred to profit or loss	62	–
Amounts transferred to the initial carrying amount of hedged items	2	11
Net deferred tax credited to other comprehensive income	8	27
	(38)	(135)
Total comprehensive income for the period attributable to the holders of Share Stapled Units/shares of the Company	1,063	1,070

The notes on pages 16 to 29 form part of these unaudited consolidated interim financial statements.

As explained in note 3, the unaudited consolidated interim financial statements of the Trust and the unaudited consolidated interim financial statements of the Company are presented together.

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE TRUST AND OF THE COMPANY

At 30 June 2016

(Expressed in Hong Kong dollars)

	Note	(Unaudited) 30 June 2016 \$ million	(Audited) 31 December 2015 \$ million
Non-current assets			
Property, plant and equipment		64,084	64,521
Interests in leasehold land held for own use under finance leases		6,376	6,472
		<u>70,460</u>	<u>70,993</u>
Goodwill	12	33,623	33,623
Derivative financial instruments	17	550	314
Employee retirement benefit scheme assets		577	580
Deferred tax assets		2	6
		<u>105,212</u>	<u>105,516</u>
Current assets			
Inventories		858	882
Trade and other receivables	13	1,665	1,160
Bank deposits and cash	14	307	6,157
		<u>2,830</u>	<u>8,199</u>
Current liabilities			
Trade and other payables	15	(2,273)	(2,586)
Fuel Clause Recovery Account		(3,262)	(2,283)
Current portion of bank loans and other interest-bearing borrowings	16	(6,400)	(900)
Current tax payable		(593)	(360)
		<u>(12,528)</u>	<u>(6,129)</u>
Net current (liabilities)/assets		<u>(9,698)</u>	<u>2,070</u>
Total assets less current liabilities		<u>95,514</u>	<u>107,586</u>
Non-current liabilities			
Bank loans and other interest-bearing borrowings	16	(34,560)	(46,317)
Derivative financial instruments	17	(363)	(207)
Customers' deposits		(2,022)	(2,001)
Deferred tax liabilities		(9,091)	(9,247)
Employee retirement benefit scheme liabilities		(596)	(587)
		<u>(46,632)</u>	<u>(58,359)</u>
Scheme of Control Fund and Reserve	18	<u>(585)</u>	<u>(215)</u>
Net assets		<u>48,297</u>	<u>49,012</u>
Capital and reserves			
Share capital	19	8	8
Reserves		48,289	49,004
Total equity		<u>48,297</u>	<u>49,012</u>

The notes on pages 16 to 29 form part of these unaudited consolidated interim financial statements.

As explained in note 3, the unaudited consolidated interim financial statements of the Trust and the unaudited consolidated interim financial statements of the Company are presented together.

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF THE TRUST AND OF THE COMPANY

For the six months ended 30 June 2016

(Expressed in Hong Kong dollars)

\$ million	Attributable to holders of Share Stapled Units/shares of the Company					Total
	Share capital	Share premium	Hedging reserve	Revenue reserve	Proposed/ declared/ dividend	
Balance at 1 January 2015	8	47,472	(70)	24	1,757	49,191
Changes in equity for the six months ended 30 June 2015:						
Profit for the period	-	-	-	1,205	-	1,205
Other comprehensive income	-	-	(135)	-	-	(135)
Total comprehensive income	-	-	(135)	1,205	-	1,070
Final distribution/second interim dividend in respect of the previous year approved and paid	-	-	-	-	(1,757)	(1,757)
Interim distribution/first interim dividend (see note 21)	-	-	-	(1,760)	1,760	-
Balance at 30 June 2015	<u>8</u>	<u>47,472</u>	<u>(205)</u>	<u>(531)</u>	<u>1,760</u>	<u>48,504</u>
Balance at 1 January 2016	8	47,472	(191)	(55)	1,778	49,012
Changes in equity for the six months ended 30 June 2016:						
Profit for the period	-	-	-	1,101	-	1,101
Other comprehensive income	-	-	(38)	-	-	(38)
Total comprehensive income	-	-	(38)	1,101	-	1,063
Final distribution/second interim dividend in respect of the previous year approved and paid	-	-	-	-	(1,778)	(1,778)
Interim distribution/first interim dividend (see note 21)	-	-	-	(1,760)	1,760	-
Balance at 30 June 2016	<u>8</u>	<u>47,472</u>	<u>(229)</u>	<u>(714)</u>	<u>1,760</u>	<u>48,297</u>

The notes on pages 16 to 29 form part of these unaudited consolidated interim financial statements.

As explained in note 3, the unaudited consolidated interim financial statements of the Trust and the unaudited consolidated interim financial statements of the Company are presented together.

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT OF THE TRUST AND OF THE COMPANY

For the six months ended 30 June 2016

(Expressed in Hong Kong dollars)

	2016 \$ million	2015 \$ million
Net cash generated from operating activities	3,598	3,430
Net cash used in investing activities	(1,218)	(2,069)
Net cash used in financing activities	<u>(8,052)</u>	<u>(2,247)</u>
Net decrease in cash and cash equivalents	(5,672)	(886)
Cash and cash equivalents at 1 January	5,977	3,236
Effect of foreign exchange rate changes	<u>2</u>	<u>(1)</u>
Cash and cash equivalents at 30 June	<u><u>307</u></u>	<u><u>2,349</u></u>

The notes on pages 16 to 29 form part of these unaudited consolidated interim financial statements.

As explained in note 3, the unaudited consolidated interim financial statements of the Trust and the unaudited consolidated interim financial statements of the Company are presented together.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS OF THE TRUST AND OF THE COMPANY

(Expressed in Hong Kong dollars)

1. Review of unaudited interim financial statements

These unaudited consolidated interim financial statements have been reviewed by the Audit Committees.

2. General information

HK Electric Investments Limited (the "Company") was incorporated in the Cayman Islands on 23 September 2013 as an exempted company with limited liability under the Companies Law 2011 (as consolidated and revised) of the Cayman Islands.

On 1 January 2014, HK Electric Investments (the "Trust") was constituted by a Hong Kong law governed Trust Deed entered into between HK Electric Investments Manager Limited (the "Trustee-Manager", in its capacity as the trustee-manager of the Trust) and the Company. The scope of activity of the Trust as provided in the Trust Deed is limited to investing in the Company.

3. Basis of presentation

Pursuant to the Trust Deed, the Trust and the Company are each required to prepare their own sets of interim financial statements on a consolidated basis. The unaudited consolidated interim financial statements of the Trust for the period ended 30 June 2016 comprise the unaudited consolidated interim financial statements of the Trust, the Company and its subsidiaries (together the "Trust Group"). The unaudited consolidated interim financial statements of the Company for the period ended 30 June 2016 comprise the unaudited consolidated interim financial statements of the Company and its subsidiaries (together the "Group").

The Trust controls the Company and the sole activity of the Trust during the six months period ended 30 June 2016 was investing in the Company. Therefore, the consolidated results and financial position that would be presented in the unaudited consolidated interim financial statements of the Trust are identical to the consolidated financial results and financial position of the Company with the only differences being disclosures of share capital of the Company. The Directors of the Trustee-Manager and Directors of the Company believe that it is clearer to present the unaudited consolidated interim financial statements of the Trust and of the Company together. The unaudited consolidated interim financial statements of the Trust and the unaudited consolidated interim financial statements of the Company are presented together to the extent they are identical and are hereinafter referred as the "unaudited consolidated interim financial statements of the Trust and of the Company".

The Trust Group and the Group are referred as the "Groups".

4. Basis of preparation

The unaudited consolidated interim financial statements of the Trust and of the Company have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting* issued by the HKICPA and comply with the applicable disclosure provisions of the Listing Rules.

The interim financial statements have been prepared in accordance with the same accounting policies adopted in and should be read in conjunction with the 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 annual financial statements. Details of these changes in accounting policies are set out in note 5.

The preparation of the interim financial statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial statements and selected explanatory notes thereon do not include all of the information required for full set of financial statements prepared in accordance with HKFRSs.

5. Changes in accounting policies

The HKICPA has issued a few amendments to HKFRSs that are first effective for the current accounting period of the Groups. Of these, the following developments are relevant to the Trust's and the Company's unaudited consolidated interim financial statements:

- Amendments to HKAS 1, *Disclosure initiative*
- Amendments to HKAS 16 and HKAS 38, *Clarification of acceptable methods of depreciation and amortisation*
- Annual Improvements to HKFRSs 2012-2014 Cycle

The adoption of these amendments to HKFRSs has no material impact on the Groups' results and financial positions for the current or prior periods. The Groups have not applied any new standard or amendment that is not effective for the current accounting period.

6. Revenue

The principal activity of the Groups is the generation and supply of electricity to Hong Kong Island and Lamma Island. Revenue is analysed as follows:

	Six months ended 30 June	
	2016	2015
	\$ million	\$ million
Sales of electricity	5,311	5,211
Concessionary discount on sales of electricity	(3)	(3)
Electricity-related income	18	24
	<u>5,326</u>	<u>5,232</u>

7. Segment reporting

The Groups have one reporting segment which is the generation and supply of electricity to Hong Kong Island and Lamma Island. All segment assets are located in Hong Kong. The Groups' chief operating decision-maker reviews the consolidated results of the Groups for the purposes of resource allocation and performance assessment. Therefore, no additional reportable segment and geographical information has been presented.

8. Profit before taxation

	Six months ended 30 June	
	2016	2015
	\$ million	\$ million
Profit before taxation is arrived at after charging/(crediting):		
Finance costs		
Interest on borrowings and other finance costs	684	549
Less: Interest and other finance costs capitalised to assets under construction	(56)	(36)
Interest transferred to fuel cost	(8)	(9)
	620	504
Depreciation		
Depreciation charges for the period	1,373	1,336
Less: Depreciation capitalised to assets under construction	(54)	(53)
	1,319	1,283
Amortisation of leasehold land	96	96

9. Income tax

	Six months ended 30 June	
	2016	2015
	\$ million	\$ million
Current tax		
Provision for Hong Kong Profits Tax for the period	466	462
Deferred tax		
Origination and reversal of temporary differences	(144)	(126)
	<u>322</u>	<u>336</u>

The provision for Hong Kong Profits Tax is calculated at 16.5% (2015: 16.5%) of the estimated assessable profits for the six months ended 30 June 2016.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Groups are exempt from any income tax in these jurisdictions.

10. Scheme of Control transfers

The Scheme of Control transfers are mid-year notional transfers. The actual Scheme of Control transfers can only be determined in accordance with the Scheme of Control at the year end. Notional Scheme of Control transfers during the period represent transfer to the following:

	Six months ended 30 June	
	2016	2015
	\$ million	\$ million
Tariff Stabilisation Fund	370	390
Rate Reduction Reserve	–	–
Smart Power Fund	–	–
	<u>370</u>	<u>390</u>

11. Earnings per Share Stapled Unit/share of the Company

The calculation of basic and diluted earnings per Share Stapled Unit/share of the Company are based on the profit attributable to the holders of Share Stapled Units/shares of the Company of \$1,101 million for the six months ended 30 June 2016 (2015: \$1,205 million) and the weighted average of 8,836,200,000 Shares Stapled Units/ordinary shares of the Company (2015: 8,836,200,000 Shares Stapled Units/ordinary shares of the Company) in issue throughout the period.

12. Property, plant and equipment and interests in leasehold land

\$ million	Site formation and buildings	Plant, machinery and equipment	Fixtures, fittings and motor vehicles	Assets under construction	Sub-total	Interests in leasehold land held for own use under finance leases	Total
Net book value at 1 January 2016	15,573	44,776	363	3,809	64,521	6,472	70,993
Additions	5	168	27	762	962	-	962
Transfers between categories	17	289	-	(306)	-	-	-
Disposals	-	(26)	-	-	(26)	-	(26)
Depreciation/amortisation	(254)	(1,078)	(41)	-	(1,373)	(96)	(1,469)
Net book value at 30 June 2016	15,341	44,129	349	4,265	64,084	6,376	70,460
Cost	16,569	48,942	525	4,265	70,301	6,844	77,145
Accumulated depreciation and amortisation	(1,228)	(4,813)	(176)	-	(6,217)	(468)	(6,685)
Net book value at 30 June 2016	15,341	44,129	349	4,265	64,084	6,376	70,460

13. Trade and other receivables

The ageing analysis of trade debtors based on invoice date, which are neither individually nor collectively considered to be impaired, is as follows:

	30 June 2016 \$ million	31 December 2015 \$ million
Current and within 1 month	864	625
1 to 3 months	34	36
More than 3 months but less than 12 months	16	17
Trade debtors	914	678
Other receivables	712	463
	1,626	1,141
Derivative financial instruments (see note 17)	12	2
Deposits and prepayments	27	17
	1,665	1,160

Electricity bills issued to residential, small industrial, commercial and miscellaneous customers for electricity supplies are due upon presentation whereas maximum demand customers are allowed a credit period of 16 working days. If settlements by maximum demand customers are received after the credit period, a surcharge of 5% can be added to the electricity bills.

14. Bank deposits and cash

	30 June 2016 \$ million	31 December 2015 \$ million
Deposits with banks and other financial institutions with 3 months or less to maturity when placed	245	5,712
Cash at bank and in hand	<u>62</u>	<u>265</u>
Cash and cash equivalents in the consolidated cash flow statement	307	5,977
Deposits with banks and other financial institutions with more than 3 months to maturity when placed	<u>-</u>	<u>180</u>
	<u><u>307</u></u>	<u><u>6,157</u></u>

15. Trade and other payables

	30 June 2016 \$ million	31 December 2015 \$ million
Due within 1 month or on demand	453	700
Due after 1 month but within 3 months	260	529
Due after 3 months but within 12 months	<u>1,417</u>	<u>1,328</u>
Creditors measured at amortised cost	2,130	2,557
Derivative financial instruments (see note 17)	<u>143</u>	<u>29</u>
	<u><u>2,273</u></u>	<u><u>2,586</u></u>

16. Non-current bank loans and other interest-bearing borrowings

	30 June 2016 \$ million	31 December 2015 \$ million
Bank loans	20,537	34,057
Current portion	<u>(5,500)</u>	<u>–</u>
	15,037	34,057
Hong Kong dollar medium term notes		
Fixed rate notes	5,879	4,486
Zero coupon notes	<u>644</u>	<u>633</u>
	6,523	5,119
Current portion	<u>(900)</u>	<u>(900)</u>
	5,623	4,219
United States dollar medium term notes		
Fixed rate notes	11,898	6,087
Zero coupon notes	<u>2,002</u>	<u>1,954</u>
	13,900	8,041
	<u>34,560</u>	<u>46,317</u>

17. Derivative financial instruments

	30 June 2016		31 December 2015	
	Assets \$ million	Liabilities \$ million	Assets \$ million	Liabilities \$ million
Derivative financial instruments used for hedging:				
Cash flow hedges:				
– Cross currency swaps	1	(316)	–	(69)
– Interest rate swaps	–	(119)	–	(88)
– Forward foreign exchange contracts	180	(3)	3	(67)
Fair value hedges:				
– Cross currency swaps	372	(4)	313	(5)
– Forward foreign exchange contracts	–	–	–	(1)
	<u>553</u>	<u>(442)</u>	<u>316</u>	<u>(230)</u>
Derivative financial instruments not qualifying as accounting hedges:				
– Cross currency swaps	–	(43)	–	–
– Interest rate swaps	–	(20)	–	(6)
– Forward foreign exchange contracts	9	(1)	–	–
	<u>562</u>	<u>(506)</u>	<u>316</u>	<u>(236)</u>
Analysed as:				
Current	12	(143)	2	(29)
Non-current	550	(363)	314	(207)
	<u>562</u>	<u>(506)</u>	<u>316</u>	<u>(236)</u>

18. Scheme of Control Fund and Reserve

The Tariff Stabilisation Fund, Rate Reduction Reserve and Smart Power Fund of the Groups' major subsidiary, HK Electric, are collectively referred to as Scheme of Control Fund and Reserve. The respective balances at the end of the period/year are:

	30 June 2016 \$ million	31 December 2015 \$ million
Tariff Stabilisation Fund	575	204
Rate Reduction Reserve	–	1
Smart Power Fund	10	10
	<u>585</u>	<u>215</u>

19. Share capital

The Company

	Number of shares	30 June 2016 Nominal value \$	31 December 2015 Nominal value \$
Authorised:			
Ordinary shares of \$0.0005 each	<u>20,000,000,000</u>	<u>10,000,000</u>	<u>10,000,000</u>
Preference shares of \$0.0005 each	<u>20,000,000,000</u>	<u>10,000,000</u>	<u>10,000,000</u>
Issued and fully paid:			
Ordinary shares of \$0.0005 each	<u>8,836,200,000</u>	<u>4,418,100</u>	<u>4,418,100</u>
Preference shares of \$0.0005 each	<u>8,836,200,000</u>	<u>4,418,100</u>	<u>4,418,100</u>

There were no movements in the share capital of the Company during the period.

20. Fair value measurement

The following table presents the fair value of the Groups' financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13: *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical financial assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data is not available
- Level 3 valuations: Fair values measured using significant unobservable inputs

(a) Recurring fair value measurements

	Level 2	
	30 June 2016 \$ million	31 December 2015 \$ million
Financial assets		
Derivative financial instruments:		
– Cross currency swaps	373	313
– Forward foreign exchange contracts	189	3
	562	316
	562	316
Financial liabilities		
Derivative financial instruments:		
– Cross currency swaps	363	74
– Interest rate swaps	139	94
– Forward foreign exchange contracts	4	68
Medium term notes subject to fair value hedges	4,618	4,554
Bank loans subject to fair value hedges	–	3,097
	5,124	7,887
	5,124	7,887

20. Fair value measurement *(Continued)*

(b) Fair values of financial assets and liabilities carried at other than fair value

Trade and other receivables, trade and other payables and external borrowings are carried at cost or amortised cost which are not materially different from their fair values as at 30 June 2016 and 31 December 2015.

(c) Valuation techniques and inputs in Level 2 fair value measurements

The fair values of forward foreign exchange contracts are determined using forward exchange market rates at the end of the reporting period. The fair values of cross currency swaps and interest rate swaps are determined by discounting the future cash flows of the contracts at the current market interest rates.

The fair values of medium term notes are estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

The fair values of bank loans are estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

21. Interim distribution/dividend

The distributable income for the period was as follows:

	Six months ended 30 June	
	2016	2015
	\$ million	\$ million
Consolidated profit attributable to the holders of Share Stapled Units for the period	1,101	1,205
After:		
(i) eliminating the effects of the Adjustments (see note (a) below)	2,742	2,611
(ii) adding/(deducting)		
– movement in Fuel Clause Recovery Account	979	775
– changes in working capital	(423)	(478)
– adjustment for employee retirement benefit schemes	12	8
– taxes paid	(233)	(238)
	335	67
(iii) capital expenditure payment	(1,340)	(1,099)
(iv) deducting		
– debt repayment	(6,296)	(520)
– net finance costs	(639)	(485)
	(6,935)	(1,005)
(v) deducting		
– reserve for future capital expenditure/debt service	(439)	(19)
Distributable income for the period	(4,536)	1,760
(vi) adding discretionary item		
– early repayment of debt during the period	6,296	–
Distributable income after adjustment of discretionary item	1,760	1,760
Distribution amount for the period (see note (d) below)	1,760	1,760
Number of Share Stapled Units/ordinary shares of the Company	8,836,200,000	8,836,200,000
Interim distribution per Share Stapled Unit/first interim dividend per ordinary share of the Company (see note (e) below)	19.92 cents	19.92 cents

21. Interim distribution/dividend *(Continued)*

- (a) Pursuant to clause 1.1 of the Trust Deed, "Adjustments" includes, but not limited to (i) transfers to/from the Tariff Stabilisation Fund and the Rate Reduction Reserve under the Scheme of Control; (ii) unrealised revaluation gains/losses, including impairment provisions and reversals of impairment provisions; (iii) impairment of goodwill/recognition of negative goodwill; (iv) material non-cash gains/losses; (v) costs of any public offering of Share Stapled Units that are expensed through the consolidated statement of profit or loss but are funded by proceeds from the issuance of such Share Stapled Units; (vi) depreciation and amortisation; (vii) tax charges as shown in the consolidated statement of profit or loss; and (viii) net finance income/costs as shown in the consolidated statement of profit or loss.
- (b) The Trust Deed requires the Trustee-Manager (on behalf of the Trust) to distribute 100% of the dividends, distributions and other amounts received by the Trustee-Manager in respect of the ordinary shares from the Company, after deduction of all amounts permitted to be deducted or paid under the Trust Deed.
- (c) The distributions received by the Trustee-Manager from the Company will be derived from the Group Distributable Income which is referred as audited consolidated profit attributable to the holders of Share Stapled Units for the relevant financial year or distribution period, after making adjustments in respect of items as set out in the Trust Deed.
- (d) In determining the distribution amount, the Company Board has taken into account the Group's financial performance achieved during the period under review and its stable cashflow from operations, and consider it appropriate to adjust the distributable income for the six months ended 30 June 2016, as calculated pursuant to the Trust Deed, by the above discretionary item, pursuant to clause 14.1(c) of the Trust Deed.
- (e) Interim distribution per Share Stapled Unit/first interim dividend per ordinary share of the Company of 19.92 cents (2015: 19.92 cents) is calculated based on the interim distribution of \$1,760 million for the six months ended 30 June 2016 (2015: \$1,760 million) and the number of Shares Stapled Units/ordinary shares of the Company of 8,836,200,000 in issue as at 30 June 2016 (2015: 8,836,200,000).

22. Capital commitments

The Groups' outstanding capital commitments not provided for in the financial statements were as follows:

	30 June 2016 \$ million	31 December 2015 \$ million
Capital expenditure for property, plant and equipment authorised and contracted for	<u>2,734</u>	<u>2,248</u>
Capital expenditure for property, plant and equipment authorised but not contracted for	<u>8,369</u>	<u>9,588</u>

23. Material related party transactions

The Groups had the following material transactions with related parties during the period:

(a) Holder of Share Stapled Units

Support service charge recovered from Power Assets group

Other operating costs included support service charge recovered from Power Assets group amounting to \$18 million (2015: \$18 million) for provision of the support services and office facilities to Power Assets group. The support service charge was based on the total costs incurred in the provision or procurement of the provision of the services and facilities and allocated to Power Assets group on a fair and equitable basis, taking into account the time spent by the relevant personnel when providing such services.

At 30 June 2016, the total outstanding balance receivable from Power Assets group was \$3 million (31 December 2015: \$4 million).

UNAUDITED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

For the six months ended 30 June 2016

(Expressed in Hong Kong dollars)

	<i>Note</i>	2016 \$	2015 \$
Revenue		–	–
Administrative expenses		–	–
		<hr/>	<hr/>
Profit before taxation	6	–	–
Income tax	7	–	–
		<hr/>	<hr/>
Profit and total comprehensive income for the period		–	–
		<hr/> <hr/>	<hr/> <hr/>

The notes on pages 34 to 36 form part of these unaudited interim financial statements.

UNAUDITED STATEMENT OF FINANCIAL POSITION OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

At 30 June 2016

(Expressed in Hong Kong dollars)

		(Unaudited) 30 June 2016 \$	(Audited) 31 December 2015 \$
	Note		
Current assets			
Amount due from immediate holding company		1	1
Net assets		1	1
Capital and reserves			
Share capital	8	1	1
Reserves		–	–
Total equity		1	1

The notes on pages 34 to 36 form part of these unaudited interim financial statements.

UNAUDITED STATEMENT OF CHANGES IN EQUITY OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

For the six months ended 30 June 2016

(Expressed in Hong Kong dollars)

\$	Share capital	Reserves	Total
Balance at 1 January 2015	1	–	1
Changes in equity for the six months ended 30 June 2015:			
Profit and total comprehensive income for the period	–	–	–
	<hr/>	<hr/>	<hr/>
Balance at 30 June 2015	<u>1</u>	<u>–</u>	<u>1</u>
Balance at 1 January 2016	1	–	1
Changes in equity for the six months ended 30 June 2016:			
Profit and total comprehensive income for the period	–	–	–
	<hr/>	<hr/>	<hr/>
Balance at 30 June 2016	<u>1</u>	<u>–</u>	<u>1</u>

The notes on pages 34 to 36 form part of these unaudited interim financial statements.

UNAUDITED CONDENSED CASH FLOW STATEMENT OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

For the six months ended 30 June 2016

(Expressed in Hong Kong dollars)

	2016	2015
	\$	\$
Net cash generated from operating activities	–	–
Net cash used in investing activities	–	–
Net cash used in financing activities	–	–
Net change in cash and cash equivalents	–	–
Cash and cash equivalents at 1 January	–	–
Cash and cash equivalents at 30 June	–	–

The notes on pages 34 to 36 form part of these unaudited interim financial statements.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

(Expressed in Hong Kong dollars)

1. Review of unaudited interim financial statements

These unaudited interim financial statements have been reviewed by the Audit Committee.

2. General information

HK Electric Investments Manager Limited (the "Company") was incorporated in Hong Kong under the Hong Kong Companies Ordinance on 25 September 2013 and is an indirect wholly-owned subsidiary of Power Assets.

The principal activity of the Company is administering HK Electric Investments (the "Trust"), in its capacity as trustee-manager of the Trust. The costs and expenses of administering the Trust may be deducted from all property and rights of any kind whatsoever which are held on trust for the registered holders of units of the Trust but, commensurate with its specific and limited role, the Company will not receive any fee for administering the Trust.

3. Basis of presentation

The Trust Deed requires the Company (on behalf of the Trust) to distribute 100% of the dividends, distributions and other amounts received in respect of the ordinary shares from HK Electric Investments Limited, after deduction of all amounts permitted to be deducted or paid under the Trust Deed.

In accordance with the Trust Deed, a distributions statement shall be included in the financial statements of the Company. As the details of the distribution has already been presented in note 21 to the unaudited consolidated interim financial statements of the Trust and of HK Electric Investments Limited on page 27, no distributions statement is therefore presented in these unaudited interim financial statements.

4. Basis of preparation

These unaudited interim financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting* issued by the HKICPA and comply with the applicable disclosure provisions of the Listing Rules.

The interim financial statements have been prepared in accordance with the same accounting policies adopted in and should be read in conjunction with the 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 annual financial statements. Details of these changes in accounting policies are set out in note 5.

The preparation of the interim financial statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial statements and selected explanatory notes thereon do not include all of the information required for full set of financial statements prepared in accordance with HKFRSs.

The financial information relating to the financial year ended 31 December 2015 that is included in the interim financial statements as comparative information does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company’s financial statements together with the consolidated financial statements of the Trust and of HK Electric Investments Limited for the year ended 31 December 2015 will be delivered to the Registrar of Companies in due course.

The Company’s auditor has reported on the financial statements of the Company for the year ended 31 December 2015. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

5. Changes in accounting policies

The HKICPA has issued a few amendments to HKFRSs that are first effective for the current accounting period of the Company. The adoption of these amendments to HKFRSs has no material impact on the Company's result and financial position for the current or prior periods. The Company has not applied any new standard or amendment that is not effective for the current accounting period.

6. Profit before taxation

All expenses of the Company which were incurred for the administering of the Trust of \$244,000 for the six months ended 30 June 2016 (2015: \$285,000) have been borne by HK Electric Investments Limited, which has waived its right of recovery thereof.

Except for the above, the Company did not incur any administrative expenses during the current and prior periods.

7. Income tax

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company did not have any assessable profits during the current and prior periods.

8. Share capital

	30 June 2016		31 December 2015	
	Number of shares	\$	Number of shares	\$
Ordinary shares, issued and fully paid	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

There were no movements in the share capital of the Company during the period.

9. Material related party transactions

Except for the transactions and balances disclosed elsewhere in the financial statements, the Company did not enter into material related party transactions.

CORPORATE GOVERNANCE

Corporate Governance Practices

The Boards are committed to maintaining high standards of corporate governance, and recognise that sound and effective corporate governance practices are fundamental to the smooth, effective and transparent operation of the Trustee-Manager and the Trust Group, and the ability to attract investment, protect the rights of Holders of Share Stapled Units and other stakeholders, and enhance the value of the Share Stapled Units. The corporate governance policies of the Trustee-Manager and the Trust Group are designed to achieve these objectives and are maintained through a framework of processes, policies and guidelines.

Pursuant to the Trust Deed, the Trustee-Manager is responsible for compliance by the Trust with the Listing Rules applicable to the Trust and other relevant laws and regulations, the Company is responsible for compliance by the Company with the Listing Rules applicable to the Company and other relevant laws and regulations, and each of the Trustee-Manager and the Company will co-operate with each other to ensure that each party complies with the Listing Rules obligations and to co-ordinate disclosure to the Stock Exchange.

The Trust and the Company have complied with the applicable code provisions in the Corporate Governance Code throughout the six months ended 30 June 2016, except as noted hereunder.

The Trustee-Manager does not have a remuneration committee as provided for in code provision B.1, since under the terms of their letters of appointment the Directors of the Trustee-Manager are not entitled to any remuneration.

Neither the Trustee-Manager nor the Company has a nomination committee as provided for in code provision A.5. At present, the Trustee-Manager and the Company do not consider it necessary to have a nomination committee as the full Boards are responsible for reviewing the structure, size and composition of the Boards and the appointment of new Directors from time to time having regard to the Group's board diversity policy. The Boards as a whole are also responsible for reviewing the succession plan for the Directors, in particular the Chairman and the Chief Executive Officer.

CORPORATE GOVERNANCE *(Continued)*

The Trust Group is committed to achieving and maintaining standards of openness, probity and accountability. In line with this commitment and in compliance with the Corporate Governance Code, the Trustee-Manager Audit Committee and the Company Audit Committee have reviewed the procedures for reporting possible improprieties in financial reporting, internal control or other matters. In addition, the Trustee-Manager and the Company have established a policy relating to inside information and securities dealing for compliance by all employees of the Group.

Boards of Directors

Each of the Trustee-Manager Board and the Company Board, led by the Chairman, is responsible for approval and monitoring of strategies and policies, approval of annual budgets and business plans, evaluation of the performance, and oversight of management of the Trustee-Manager and the Company respectively. Management is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer.

As at 30 June 2016, each of the Boards consisted of a total of eighteen Directors, comprising six Executive Directors, six Non-executive Directors and six Independent Non-executive Directors. All Directors are required to retire from office by rotation and are subject to re-election at the annual general meeting once every three years pursuant to the Trust Deed and the articles of association of the Company.

The positions of the Chairman and the Chief Executive Officer of the Company are held by separate individuals. The Trustee-Manager does not appoint a Chief Executive Officer due to its specific and limited role to administer the Trust. The Chairman is responsible for providing leadership to, and overseeing the functioning and effective running of, the Boards to ensure that each Board acts in the best interests of the Trust and the Group, as appropriate. In addition to board meetings, the Chairman schedules two meetings annually with Non-executive Directors without the presence of Executive Directors. The Chief Executive Officer, working with the executive management team, is responsible for managing the businesses of the Group, attending to the formulation and successful implementation of Group policies and assuming full accountability to the Company Board for all Group operations.

The Trustee-Manager Board and the Company Board hold meetings on a combined basis, and they meet at least four times a year. Additional board meetings will be held when warranted. Directors also participate in the consideration and approval of matters by way of written resolutions, which are circulated to Directors together with supporting explanatory write-up and coupled with briefings from the Chief Executive Officer or the Company Secretary as required.

The Company Secretary of the Trustee-Manager and the Company supports the Boards by ensuring good information flow within the Boards and that board policy and procedures are followed. The Company Secretary is responsible for ensuring that the Boards are briefed on all legislative, regulatory and corporate governance developments and that the Boards have regard to them when making decisions. The Company Secretary is also directly responsible for the Trustee-Manager's and the Trust Group's compliance with all obligations of the Listing Rules, Codes on Takeovers and Mergers and Share Buy-backs, Companies Ordinance, SFO and other related laws, rules and regulations.

Model Code for Securities Transactions by Directors

The Boards have adopted the Model Code as their code of conduct regarding directors' securities transactions. All Directors have confirmed following specific enquiry that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2016.

Senior managers, other nominated managers and staff who, because of their respective positions in the Company, are likely to be in possession of inside information regarding the Trust Group and its securities are also required to comply with the Model Code.

CORPORATE GOVERNANCE *(Continued)*

Change of Information of Directors

The change in the information of Directors since the publication of the 2015 annual report and up to 2 August 2016 (the latest practicable date prior to the printing of this interim report) is set out below pursuant to Rule 13.51B(1) of the Listing Rules:

Name of Director

Fok Kin Ning, Canning
Ceased to act as the Alternate Director to Mrs. Chow Woo Mo Fong, Susan of Hutchison Telecommunications Hong Kong Holdings Limited

Wan Chi Tin
Appointed as a member of the Audit Committee of The University of Hong Kong

Ceased to be a Council Member of the Hong Kong Institution of Engineers

Chow Woo Mo Fong, Susan
(Alternate Director to Fok Kin Ning, Canning)
Retired as an Executive Director and Group Deputy Managing Director of CK Hutchison Holdings Limited

Act as adviser and consultant to CK Hutchison Holdings Limited

Retired as an Executive Director and ceased to act as the Alternate Director to Mr. Frank John Sixt of Cheung Kong Infrastructure Holdings Limited

Retired as a Non-executive Director of Hutchison Telecommunications Hong Kong Holdings Limited

Resigned as a Director of Hutchison Whampoa Limited

Save for the information disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Internal Control

The Trustee-Manager Board has overall responsibility for the system of internal control of the Trust and the Trustee-Manager and reviews its effectiveness through the Trustee-Manager Audit Committee to ensure that policies and procedures in place for the identification and management of risks are adequate.

The Company Board has overall responsibility for the system of internal control of the Company and reviews its effectiveness through the Company Audit Committee to ensure that policies and procedures in place for the identification and management of risks are adequate.

The Internal Audit Department, reporting to an Executive Director and the Trustee-Manager Audit Committee and the Company Audit Committee, provides independent assurance as to the existence and effectiveness of the risk management activities and controls in business operations. Staff members of the department are from a wide range of disciplines including accounting, engineering and information technology. Using risk assessment methodology and taking into account the scope and nature of the Group's activities and changes in operating environment, the Internal Audit Department prepares its yearly audit plan which is reviewed and approved by the Audit Committees. Its internal audit reports on the Group's operations are also reviewed and considered by the Trustee-Manager Audit Committee and the Company Audit Committee. The scope of work performed includes financial and operations review, recurring and unscheduled audits, fraud investigation, productivity efficiency review and laws and regulations compliance review. The Internal Audit Department follows up audit recommendations on implementation by the operating units and the progress is reported to the Audit Committees.

Remuneration Committee of the Company

The Remuneration Committee of the Company comprises three members, two of whom are Independent Non-executive Directors. It is chaired by Mr. Donald Jeffrey Roberts and the other members are Mr. Fok Kin Ning, Canning and Mr. Fong Chi Wai, Alex.

The Remuneration Committee reports directly to the Company Board and its principal responsibilities include the review and consideration of the Company's policy for remuneration of Directors and senior management, and the determination of their individual remuneration packages. The terms of reference of the Remuneration Committee are published on the Company's website and the HKEX's website.

CORPORATE GOVERNANCE *(Continued)*

Trustee-Manager Audit Committee and Company Audit Committee

Each of the Trustee-Manager Audit Committee and the Company Audit Committee comprises two Independent Non-executive Directors and one Non-executive Director. It is chaired by Mr. Donald Jeffrey Roberts and the other members are Mr. Ronald Joseph Arculli and Mr. Lee Lan Yee, Francis.

The Trustee-Manager Audit Committee reports directly to the Trustee-Manager Board and its principal responsibilities are to assist the Trustee-Manager Board in fulfilling its audit duties through the review and supervision of the financial reporting system and internal control system of the Trust and the Trustee-Manager, to review the financial information of the Trust and the Trustee-Manager, and to consider issues relating to the external auditor and their appointment.

The Company Audit Committee reports directly to the Company Board and its principal responsibilities are to assist the Company Board in fulfilling its audit duties through the review and supervision of the financial reporting system and internal control system of the Company, to review the financial information of the Company and to consider issues relating to the external auditor and their appointment.

The Audit Committees also meet regularly with the external auditor to discuss the audit process and accounting issues. The terms of reference of the Trustee-Manager Audit Committee and the Company Audit Committee are published on the Company's website and the HKEX's website.

Communication with Holders of Share Stapled Units

The Trustee-Manager and the Company have established a range of communication channels between themselves and Holders of Share Stapled Units and investors. These include the annual general meeting, the annual and interim reports, notices, letters, announcements and circulars, results highlights published in newspapers, news releases, the Company's website at www.hkei.hk and meetings with investors and analysts. All Holders of Share Stapled Units have the opportunity to put questions to the Boards at general meetings, and at other times by e-mailing or writing to the Company.

Holders of Share Stapled Units may at any time notify the Company by mail or email of any change in their choice of language (English or Chinese or both) or means of receiving (printed copies or through the Company's website) corporate communications from the Trustee-Manager and the Company.

The Trustee-Manager and the Company handle registration of Share Stapled Units and related matters for Holders of Share Stapled Units through Computershare Hong Kong Investor Services Limited, the Share Stapled Units Registrar.

The Boards have adopted a communication policy which provided a framework to promote effective communication with Holders of Share Stapled Units.

Directors' Interests and Short Positions in Share Stapled Units, Underlying Share Stapled Units and Debentures

As at 30 June 2016, the interests or short positions of the Directors and chief executive of the Trustee-Manager and the Company in the SSUs, underlying SSUs and debentures of the Trust and the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Trustee-Manager, the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executive of the Trustee-Manager and the Company were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to section 352 of the SFO, or as otherwise notified to the Trustee-Manager, the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long Positions in Share Stapled Units

Name of Director	Capacity	Nature of Interests	Number of SSUs Held	Approximate % of Issued SSUs
Li Tzar Kuoi, Victor	Interest of controlled corporations	Corporate	7,870,000 (Note)	0.08%
Fok Kin Ning, Canning	Interest of controlled corporation	Corporate	2,000,000	0.02%
Donald Jeffrey Roberts	Interest of controlled corporation	Corporate	74,000	≈0%
Ronald Joseph Arculli	Interest of controlled corporation	Corporate	502	≈0%

Note:

Such SSUs comprise:

- (a) 2,700,000 SSUs held by Lankford Profits Limited, a wholly-owned subsidiary of Li Ka Shing (Overseas) Foundation ("LKSOFF"). By virtue of the terms of the constituent documents of LKSOFF, Mr. Li Tzar Kuoi, Victor may be regarded as having the ability to exercise or control the exercise of one-third or more of the voting power at general meetings of LKSOFF; and
- (b) 5,170,000 SSUs held by Li Ka Shing Foundation Limited ("LKSF"). By virtue of the terms of the constituent documents of LKSF, Mr. Li Tzar Kuoi, Victor may be regarded as having the ability to exercise or control the exercise of one-third or more of the voting power at general meetings of LKSF.

CORPORATE GOVERNANCE *(Continued)*

Save as disclosed above, as at 30 June 2016, none of the Directors or chief executive of the Trustee-Manager and the Company had any interests or short positions in the SSUs, underlying SSUs or debentures of the Trust and the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Trustee-Manager, the Company and the Stock Exchange pursuant to the Model Code.

Interests and Short Positions of Holders of Share Stapled Units

As at 30 June 2016, Holders of Share Stapled Units (other than Directors or chief executive of the Trustee-Manager and the Company) who had interests or short positions in the SSUs or underlying SSUs of the Trust and the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Trustee-Manager, the Company and the Stock Exchange were as follows:

Substantial Holders of Share Stapled Units

Long Positions in Share Stapled Units

Name	Capacity	Number of SSUs Held	Approximate % of Issued SSUs
Power Assets Holdings Limited	Interest of controlled corporation	2,948,966,418 (Note 1)	33.37%
Hyford Limited	Interest of controlled corporations	2,948,966,418 (Notes 1 and 2)	33.37%
Cheung Kong Infrastructure (BVI) Limited	Interest of controlled corporations	2,948,966,418 (Note 2)	33.37%
Cheung Kong Infrastructure Holdings Limited	Interest of controlled corporations	2,948,966,418 (Note 2)	33.37%
Hutchison Infrastructure Holdings Limited	Interest of controlled corporations	2,948,966,418 (Note 3)	33.37%
Hutchison International Limited	Interest of controlled corporations	2,948,966,418 (Note 3)	33.37%
Hutchison Whampoa Limited	Interest of controlled corporations	2,948,966,418 (Note 3)	33.37%
Cheung Kong (Holdings) Limited	Interest of controlled corporations	2,948,966,418 (Note 4)	33.37%
CK Hutchison Global Investments Limited	Interest of controlled corporations	2,948,966,418 (Note 4)	33.37%
CK Hutchison Holdings Limited	Interest of controlled corporations	2,948,966,418 (Note 4)	33.37%

Other Persons

Long Positions in Share Stapled Units

Name	Capacity	Number of SSUs Held	Approximate % of Issued SSUs
State Grid Corporation of China	Interest of controlled corporations	1,855,602,000 (Note 5)	21.00%
State Grid International Development Co., Limited	Interest of controlled corporation	1,855,602,000 (Note 5)	21.00%
State Grid International Development Limited	Beneficial owner	1,855,602,000 (Note 5)	21.00%
Qatar Investment Authority	Interest of controlled corporation	1,758,403,800	19.90%

Notes:

- (1) *Power Assets is deemed to be interested in 2,948,966,418 SSUs which are beneficially owned by its direct wholly-owned subsidiary, Quickview Limited. Hyford Limited is deemed to be interested in 2,948,966,418 SSUs which interests are duplicated in the 2,948,966,418 SSUs in which Power Assets is interested, as Hyford Limited is entitled to exercise or control the exercise of more than one-third of the issued shares of Power Assets through its direct and indirect wholly-owned subsidiaries.*
- (2) *CKI is deemed to be interested in the 2,948,966,418 SSUs as referred to in Note (1) above as it holds more than one-third of the issued share capital of Cheung Kong Infrastructure (BVI) Limited, which holds more than one-third of the issued share capital of Hyford Limited. Its interests are duplicated in the interest of Hutchison Whampoa Limited ("HWL") in HKEI described in Note (3) below.*
- (3) *HWL is deemed to be interested in the 2,948,966,418 SSUs as referred to in Note (2) above as it holds more than one-third of the issued shares of Hutchison International Limited, which holds more than one-third of the issued share capital of Hutchison Infrastructure Holdings Limited ("HIH"). HIH holds more than one-third of the issued share capital of CKI.*
- (4) *CKH Holdings is deemed to be interested in the 2,948,966,418 SSUs as referred to in Note (3) above as it holds more than one-third of the issued shares of Cheung Kong (Holdings) Limited and CK Hutchison Global Investments Limited respectively, each of which in turn holds more than one-third of the issued shares of HWL.*
- (5) *State Grid International Development Limited is a direct wholly-owned subsidiary of State Grid International Development Co., Limited and an indirect wholly-owned subsidiary of State Grid Corporation of China ("State Grid"), and the interests of State Grid International Development Limited and State Grid International Development Co., Limited of 1,855,602,000 SSUs each are duplicated in the 1,855,602,000 SSUs held by State Grid.*

Save as disclosed above, as at 30 June 2016, there was no other person (other than Directors or chief executive of the Trustee-Manager and the Company) who had interests or short positions in the SSUs or underlying SSUs of the Trust and the Company as recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Trustee-Manager, the Company and the Stock Exchange.

OTHER INFORMATION

Interim Distribution

The Trustee-Manager Board has declared an interim distribution by the Trust for 2016 of HK19.92 cents per Share Stapled Unit. The distribution will be payable on Friday, 19 August 2016 to Holders of Share Stapled Units whose names appear in the Share Stapled Units Register at the close of business on Wednesday, 10 August 2016, being the record date for determination of entitlement to the interim distribution. To qualify for the interim distribution, all transfers accompanied by the relevant Share Stapled Unit certificates should be lodged with the Share Stapled Units Registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Wednesday, 10 August 2016.

Purchase, Sale or Redemption of Share Stapled Units

Pursuant to the Trust Deed, the Holders of Share Stapled Units have no right to demand for repurchase or redemption of their Share Stapled Units. Unless and until expressly permitted to do so by the relevant codes and guidelines issued by the Securities and Futures Commission from time to time, the Trustee-Manager shall not repurchase or redeem any Share Stapled Units on behalf of the Trust.

None of the Trust, the Trustee-Manager, the Company nor any of their subsidiaries purchased, sold or redeemed any of the issued Share Stapled Units during the six months ended 30 June 2016.

GLOSSARY

In this interim report, unless the context otherwise requires, the following expressions shall have the following meanings:

Term(s)	Definition
"Boards" or "Boards of Directors"	Trustee-Manager Board and Company Board
"CKH Holdings"	CK Hutchison Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1)
"CKI"	Cheung Kong Infrastructure Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1038)
"Company"	HK Electric Investments Limited (港燈電力投資有限公司), a company incorporated in the Cayman Islands as an exempted company with limited liability on 23 September 2013
"Company Audit Committee"	Audit committee of the Company
"Company Board"	Board of directors of the Company
"Corporate Governance Code"	Corporate Governance Code set out in Appendix 14 of the Listing Rules
"Government"	HKSAR Government
"Group"	The Company and its subsidiaries

GLOSSARY *(Continued)*

Term(s)	Definition
"HK Electric"	The Hongkong Electric Company, Limited (香港電燈有限公司), a company incorporated in Hong Kong with limited liability on 24 January 1889 and an indirect wholly-owned subsidiary of the Company
"HKASs"	Hong Kong Accounting Standards
"HKEI"	The Trust and the Company
"HKEX"	Hong Kong Exchanges and Clearing Limited
"HKFRSs"	A collective term includes all applicable individual Hong Kong Financial Reporting Standards, HKASs and Interpretations issued by the HKICPA
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"Holder(s) of Share Stapled Units" or "SSU holder(s)"	Person(s) who holds Share Stapled Units issued by HKEI
"Listing Rules"	Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules
"Power Assets"	Power Assets Holdings Limited (電能實業有限公司), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 6)

Term(s)	Definition
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
"Share Stapled Unit(s)" or "SSU(s)"	<p data-bbox="619 407 1128 697">Share Stapled Unit(s) jointly issued by the Trust and the Company, with each Share Stapled Unit being the combination of the following securities or interests in securities which, subject to the provisions in the Trust Deed, can only be dealt with together and may not be dealt with individually or one without the others:</p> <ul style="list-style-type: none"> <li data-bbox="619 744 906 771">(a) a unit in the Trust; <li data-bbox="619 819 1128 1035">(b) the beneficial interest in a specifically identified ordinary share of the Company linked to the unit and held by the Trustee-Manager as legal owner (in its capacity as trustee-manager of the Trust); and <li data-bbox="619 1082 1128 1184">(c) a specifically identified preference share of the Company stapled to the unit.
"Share Stapled Units Register"	The register of registered Holders of Share Stapled Units
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Trust"	HK Electric Investments (港燈電力投資), as constituted pursuant to the Trust Deed under the Laws of Hong Kong

GLOSSARY *(Continued)*

Term(s)	Definition
"Trust Deed"	The trust deed dated 1 January 2014 constituting the Trust, entered into between the Trustee-Manager and the Company
"Trust Group"	The Trust and the Group
"Trustee-Manager"	HK Electric Investments Manager Limited (港燈電力投資管理人有限公司), a company incorporated in Hong Kong with limited liability on 25 September 2013 and an indirect wholly-owned subsidiary of Power Assets, in its capacity as trustee-manager of the Trust
"Trustee-Manager Audit Committee"	Audit committee of the Trustee-Manager
"Trustee-Manager Board"	Board of directors of the Trustee-Manager