

## FINANCIAL REVIEW

### Financial Performance

The Trust Group's revenue and unaudited consolidated profit for the period ended 30 June 2018 were HK\$5,457 million (2017: HK\$5,326 million) and HK\$982 million (2017: HK\$1,003 million) respectively.

### Distribution

The Trustee-Manager Board has declared an interim distribution of HK19.92 cents (2017: HK19.92 cents) per SSU for the six months ended 30 June 2018. 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 (2017: HK19.92 cents) per ordinary share in respect of the same period.

	Six months ended 30 June	
	2018	2017
	HK\$ million	HK\$ million
Consolidated profit attributable to SSU holders for the period	982	1,003
After:		
(i) eliminating the effects of the Adjustments (see note (a) below)	2,961	2,818
(ii) (deducting)/adding		
– movement in Fuel Clause Recovery Account	(713)	(526)
– changes in working capital	(224)	(193)
– adjustment for employee retirement benefit schemes	5	7
– taxes paid	(149)	(265)
	(1,081)	(977)
(iii) capital expenditure payment	(1,748)	(1,240)
(iv) net finance costs	(425)	(441)
Distributable income for the period	689	1,163
(v) adding discretionary amount as determined by the Company Board pursuant to clause 14.1(c) of the Trust Deed	1,071	597
Distributable income for the period after adjustment of discretionary amount	1,760	1,760
Distribution amount for the period	1,760	1,760
Interim distribution amount per SSU	HK19.92 cents	HK19.92 cents

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 2018, as calculated pursuant to the Trust Deed, by the above discretionary amount, 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\$1,651 million (2017: HK\$1,061 million), which was primarily funded by cash from operations. Total external borrowings outstanding at 30 June 2018 were HK\$41,525 million (31 December 2017: HK\$41,371 million), comprising unsecured bank loans and debt securities in issue. In addition, the Trust Group at 30 June 2018 had undrawn committed bank facilities of HK\$5,750 million (31 December 2017: HK\$5,750 million) and bank deposits and cash of HK\$704 million (31 December 2017: HK\$1,659 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.

## FINANCIAL REVIEW *(continued)*

As at 30 June 2018, the net debt of the Trust Group was HK\$40,821 million (31 December 2017: HK\$39,712 million) with a net debt-to-net total capital ratio of 45% (31 December 2017: 44%). The Trust Group's financial profile remained strong during the period. On 28 February 2018, Standard & Poor's reaffirmed the "A-" long term credit ratings with a stable outlook for the Company and HK Electric, unchanged since September 2015 and January 2014, respectively.

The profile of the Trust Group's external borrowings as at 30 June 2018, 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) 42% were bank loans and 58% were capital market instruments;
- (3) 1% were repayable within 1 year, 56% were repayable after 1 year but within 5 years and 43% were repayable after 5 years; and
- (4) 70% were in fixed rate and 30% 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.

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 2018, 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 the foreign currency borrowings. Such exposures are, where appropriate, mitigated by the use of either forward foreign exchange contracts and cross currency swaps.

The contractual notional amounts of derivative financial instruments outstanding at 30 June 2018 amounted to HK\$41,952 million (31 December 2017: HK\$37,258 million).

### **Charge on Assets**

As at 30 June 2018, no assets of the Trust Group were pledged to secure its loans and banking facilities (31 December 2017: Nil).

### **Contingent Liabilities**

As at 30 June 2018, the Trust Group had no guarantee or indemnity to external parties (31 December 2017: 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 2018, excluding directors' emoluments, amounted to HK\$564 million (2017: HK\$558 million). As at 30 June 2018, the Trust Group employed 1,757 (31 December 2017: 1,776) permanent employees. No share option scheme is in operation.