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 2018 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 2018 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 2018 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 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 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

(a) Overview

The HKICPA has issued a number of new HKFRSs and 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:

– HKFRS 9, *Financial instruments*
– HKFRS 15, *Revenue from contracts with customers*
– HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

The Groups have not applied any amendment, new standard or interpretation that is not effective for the current accounting period, except for the amendments to HKFRS 9, *Prepayment features with negative compensation* which have been adopted at the same time as HKFRS 9.

The adoption of HKFRS 9 and HKFRS 15 does not have a material impact on the Groups' results and financial positions for the current or prior periods. Details of the changes in accounting policies are discussed in note 5(b) for HKFRS 9 and note 5(c) for HKFRS 15.

(b) HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Groups have applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements.

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

(i) Classification and measurement of financial assets and financial liabilities

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

The measurement categories for all financial assets and financial liabilities of the Groups remain the same under HKFRS 9. The carrying amounts for all financial assets and financial liabilities as at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The Groups did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

(ii) Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the incurred loss accounting model in HKAS 39.

The Groups apply the new ECL model to financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables) and contract assets as defined in HKFRS 15.

Financial assets measured at fair value, including derivative financial assets, are not subject to the ECL assessment.

5. Changes in accounting policies *(continued)*

(b) HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation *(continued)*

(ii) Credit losses *(continued)*

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Groups in accordance with the contract and the cash flows that the Groups expect to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– trade and other receivables and fixed-rate financial assets: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Groups are exposed to credit risk.

In measuring ECLs, the Groups take into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Groups' historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Groups recognise a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Groups compare the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Groups consider both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Groups.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Groups recognise an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount.

5. Changes in accounting policies *(continued)*

(b) HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation *(continued)*

(ii) Credit losses *(continued)*

Basis of calculation of interest income on credit-impaired financial assets

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Groups assess whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

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

Write-off policy

The gross carrying amount of a financial asset or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Groups determine that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

Impact of the ECL model

The adoption of the ECL model under HKFRS 9 does not have material impact on the carrying amounts of the Groups' financial assets as at 1 January 2018.

(iii) Hedge accounting

The Groups have elected to adopt the new general hedge accounting model in HKFRS 9. Depending on the complexity of the hedge, this new accounting model allows a more qualitative approach to assessing hedge effectiveness compared to HKAS 39 to be applied, and the assessment is always forward-looking. The adoption of HKFRS 9 has not had a significant impact on the consolidated financial statements of the Trust and of the Company in this regard.

Cost of hedging

Under HKFRS 9, forward element of forward foreign exchange contracts and foreign currency basis spread of financial instruments may be separated and excluded from the designation of the hedging instruments. If the Groups exclude the forward element of a forward foreign exchange contract or the foreign currency basis spread of a financial instrument (the "excluded elements") from the designation of a hedging instrument, then the excluded elements may be separately accounted for as a cost of hedging. The fair value changes of the excluded elements are recognised in a separate component of equity to the extent that it relates to the hedged items. For time-period related hedged items, the excluded elements at the date of designation are amortised on a systematic and rational basis to profit or loss over the period during which the hedge adjustment for the designated hedging instrument could affect profit or loss. For transaction-related hedged items, the cumulative changes of the excluded elements are included in the initial carrying amounts of any non-financial assets or non-financial liabilities when the hedged transactions occur or are recognised in profit or loss if the hedged transactions affect profit or loss.

The Groups have elected to adopt the cost of hedging approach retrospectively but the adoption has no material impact on the Groups' opening balance of equity as at 1 January 2018 and 2017.

5. Changes in accounting policies *(continued)*

(b) HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation *(continued)*

(iv) Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. The information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

– The determination of the business model within which a financial asset is held has been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Groups).

– If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

– Changes to hedge accounting policies have been applied prospectively except for the cost of hedging approach for forward element of forward foreign exchange contracts and foreign currency basis spread of financial instruments, which has been applied retrospectively to hedging relationships that existed on or were designated after 1 January 2017.

– All hedging relationships designated under HKAS 39 at 31 December 2017 met the criteria for hedge accounting under HKFRS 9 at 1 January 2018 and are therefore regarded as continuing hedging relationships.

(c) HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

(i) Timing of revenue recognition

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

– When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

– When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

– When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed.

The adoption of HKFRS 15 does not have a significant impact on when the Groups recognise revenue from sales of electricity and electricity-related services.

(ii) Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognised only if the Groups have an unconditional right to consideration. If the Groups recognise the related revenue before receiving the consideration or being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Groups recognise the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

The adoption of HKFRS 15 will only affect the presentation and disclosure of contract balances including contract asset and contract liability in the consolidated financial statements.

5. Changes in accounting policies *(continued)*

(d) HK(IFRIC) 22, Foreign currency transactions and advance consideration

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity pays or receives advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial positions and the financial results of the Groups.

6. Revenue

The principal activity of the Groups is the generation and supply of electricity to Hong Kong Island and Lamma Island. Disaggregation of revenue by type of output and services is analysed as follows:

	Six months ended 30 June	
	2018	2017
	$ million	$ million
Sales of electricity	**5,440**	5,313
Less: Concessionary discount on sales of electricity	**(2)**	(2)
	5,438	5,311
Electricity-related income	**19**	15
	5,457	5,326

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	
	2018	2017
	$ million	$ million
Profit before taxation is arrived at after charging/(crediting):		
Finance costs		
Interest on borrowings and other finance costs	**566**	486
Less: Interest expense and other finance costs capitalised to assets under construction	**(84)**	(65)
Interest expense transferred to fuel costs	**(9)**	(10)
	473	411
Depreciation		
Depreciation charges for the period	**1,385**	1,384
Less: Depreciation capitalised to assets under construction	**(45)**	(59)
	1,340	1,325
Amortisation of leasehold land	**97**	96

9. Income tax

	Six months ended 30 June	
	2018	2017
	$ million	$ million
Current tax		
Provision for Hong Kong Profits Tax for the period	**195**	267
Deferred tax		
Origination and reversal of temporary differences	**157**	82
	352	349

The provision for Hong Kong Profits Tax is calculated at 16.5% (2017: 16.5%) of the estimated assessable profits for the six months ended 30 June 2018.

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	
	2018	2017
	$ million	$ million
Tariff Stabilisation Fund	**574**	592
Rate Reduction Reserve	**2**	–
Smart Power Fund	**–**	–
	576	592

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 $982 million for the six months ended 30 June 2018 (2017: $1,003 million) and the weighted average of 8,836,200,000 Shares Stapled Units/ordinary shares of the Company (2017: 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 2018	14,653	43,944	479	5,336	64,412	6,090	70,502
Additions	1	65	4	1,467	1,537	114	1,651
Transfers between categories	–	433	10	(443)	–	–	–
Disposals	–	(48)	–	–	(48)	–	(48)
Depreciation/amortisation	(254)	(1,084)	(47)	–	(1,385)	(97)	(1,482)
Net book value at 30 June 2018	14,400	43,310	446	6,360	64,516	6,107	70,623
Cost	16,650	52,083	766	6,360	75,859	6,958	82,817
Accumulated depreciation and amortisation	(2,250)	(8,773)	(320)	–	(11,343)	(851)	(12,194)
Net book value at 30 June 2018	14,400	43,310	446	6,360	64,516	6,107	70,623

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 2018 $ million	31 December 2017 $ million
Current and within 1 month	**719**	499
1 to 3 months	**32**	36
More than 3 months but less than 12 months	**14**	20
Trade debtors	**765**	555
Other receivables	**582**	449
	1,347	1,004
Derivative financial instruments *(see note 17)*	**2**	7
Deposits and prepayments	**60**	56
	1,409	1,067

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 and other cash flow information

(a) Bank deposits and cash comprise:

	30 June 2018 $ million	31 December 2017 $ million
Deposits with banks and other financial institutions with 3 months or less to maturity when placed	**395**	738
Cash at bank and in hand	**59**	46
Cash and cash equivalents in the consolidated cash flow statement	**454**	784
Deposits with banks and other financial institutions with more than 3 months to maturity when placed	**250**	875
Bank deposits and cash in the consolidated statement of financial position	**704**	1,659

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	Six months ended 30 June 2018 $ million	2017 $ million
Profit before taxation		**1,910**	1,944
Adjustments for:			
Interest income		**(11)**	–
Finance costs	*8*	**473**	411
Interest expense transferred to fuel costs	*8*	**9**	10
Depreciation	*8*	**1,340**	1,325
Amortisation of leasehold land	*8*	**97**	96
Net loss on disposal and written off of property, plant and equipment		**40**	35
Increase in provisions for asset decommissioning obligation		**85**	–
Net financial instrument revaluation and exchange gains		**(7)**	–
Changes in working capital:			
Decrease/(increase) in inventories		**25**	(30)
Increase in trade and other receivables		**(353)**	(171)
Movements in Fuel Clause Recovery Account		**(713)**	(526)
Increase in trade and other payables		**104**	8
Increase/decrease in net employee retirement benefit assets/liabilities		**5**	7
Cash generated from operations		**3,004**	3,109

15. Trade and other payables

	30 June 2018 $ million	31 December 2017 $ million
Due within 1 month or on demand	**1,199**	1,321
Due after 1 month but within 3 months	**274**	202
Due after 3 months but within 12 months	**1,019**	1,126
Creditors measured at amortised cost	**2,492**	2,649
Derivative financial instruments *(see note 17)*	**16**	3
	2,508	2,652

16. Bank loans and other interest-bearing borrowings

	30 June 2018 $ million	31 December 2017 $ million
Bank loans	**17,482**	17,359
Current portion	**(109)**	–
	17,373	17,359
Hong Kong dollar medium term notes		
Fixed rate notes	**6,294**	6,291
Zero coupon notes	**690**	679
	6,984	6,970
Current portion	**(330)**	–
	6,654	6,970
United States dollar medium term notes		
Fixed rate notes	**11,640**	11,741
Zero coupon notes	**5,419**	5,301
	17,059	17,042
Non-current portion	**41,086**	41,371

17. Derivative financial instruments

	30 June 2018 Assets $ million	30 June 2018 Liabilities $ million	31 December 2017 Assets $ million	31 December 2017 Liabilities $ million
Derivative financial instruments used for hedging:				
Cash flow hedges:				
– Cross currency swaps	**2**	**(134)**	5	(155)
– Interest rate swaps	**812**	**–**	494	–
– Forward foreign exchange contracts	**178**	**(24)**	166	(32)
Fair value hedges:				
– Cross currency swaps	**62**	**–**	151	–
– Forward foreign exchange contracts	**–**	**(2)**	–	–
	1,054	**(160)**	816	(187)
Analysed as:				
Current	**2**	**(16)**	7	(3)
Non-current	**1,052**	**(144)**	809	(184)
	1,054	**(160)**	816	(187)

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 2018 $ million	31 December 2017 $ million
Tariff Stabilisation Fund	**891**	316
Rate Reduction Reserve	**2**	1
Smart Power Fund	**18**	18
	911	335

19. Share capital

The Company

	Number of shares	30 June 2018 Nominal value $	31 December 2017 Nominal value $
Authorised:			
Ordinary shares of $0.0005 each	**20,000,000,000**	**10,000,000**	10,000,000
Preference shares of $0.0005 each	**20,000,000,000**	**10,000,000**	10,000,000
Issued and fully paid:			
Ordinary shares of $0.0005 each	**8,836,200,000**	**4,418,100**	4,418,100
Preference shares of $0.0005 each	**8,836,200,000**	**4,418,100**	4,418,100

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 2018 $ million	31 December 2017 $ million
Financial assets		
Derivative financial instruments:		
– Cross currency swaps	**64**	156
– Interest rate swaps	**812**	494
– Forward foreign exchange contracts	**178**	166
	1,054	816
Financial liabilities		
Derivative financial instruments:		
– Cross currency swaps	**134**	155
– Forward foreign exchange contracts	**26**	32
Medium term notes subject to fair value hedges	**4,301**	4,408
	4,461	4,595

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 2018 and 31 December 2017.

(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.

21. Interim distribution/dividend

The distributable income for the period was as follows:

	Six months ended 30 June 2018 $ million	2017 $ million
Consolidated profit attributable to the holders of Share Stapled Units 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 *(see note (d) below)*	**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
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 2018, as calculated pursuant to the Trust Deed, by the above discretionary amount, 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 (2017: 19.92 cents) is calculated based on the interim distribution of $1,760 million for the six months ended 30 June 2018 (2017: $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 2018 (2017: 8,836,200,000).

22. Capital commitments

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

	30 June 2018 $ million	31 December 2017 $ million
Capital expenditure for property, plant and equipment authorised and contracted for	**5,624**	4,740
Capital expenditure for property, plant and equipment authorised but not contracted for	**7,335**	9,847

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 $21 million (2017: $19 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 2018, the total outstanding balance receivable from Power Assets group was $3 million (31 December 2017: $4 million).

24. Comparative figures

The Groups have initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 5.