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 2019 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 2019 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 2019 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 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 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 new HKFRS, HKFRS 16, *Leases*, and a number of 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 16, *Leases*
– HK(IFRIC)-Int 23, *Uncertainty over income tax treatments*
– Annual improvements to HKFRSs 2015-2017 Cycle
– Amendments to HKAS 19, *Plan amendments, curtailment or settlement*

The adoption of HKFRS 16, *Leases* and these amendments to HKFRSs 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 for HKFRS 16 are discussed below.

The Groups have not applied any new standard or amendment that is not effective for the current accounting period.

5. Changes in accounting policies *(Continued)*

HKFRS 16, Leases

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC)-Int 4, *Determining whether an arrangement contains a lease*, HK(SIC)-Int 15, *Operating leases – incentives*, and HK(SIC)-Int 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Groups have initially applied HKFRS 16 as from 1 January 2019 and elected to use the modified retrospective approach. The adoption of HKFRS 16 does not have material effect to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

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

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Groups apply the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Groups have used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) *Lease accounting*

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Groups are required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets.

When the Groups enter into a lease in respect of a low-value asset, the Groups decide whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Groups' estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Groups will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

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	
	2019	2018
	$ million	$ million
Sales of electricity	**4,983**	5,440
Less: Concessionary discount on sales of electricity	**(2)**	(2)
	4,981	5,438
Electricity-related income	**22**	19
	5,003	5,457

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. Other operating costs

	Six months ended 30 June	
	2019	2018
	$ million	$ million
Administrative expenses, government rent and rates	**168**	170
Staff costs in relation to corporate and administrative supports	**114**	104
Provisions for asset decommissioning obligation	**107**	85
Portion of depreciation and amortisation of leasehold land included in other operating costs	**86**	82
Net loss on disposal and written off of property, plant and equipment	**56**	40
	531	481

9. Profit before taxation

	Six months ended 30 June	
	2019	2018
	$ million	$ million
Profit before taxation is arrived at after charging/(crediting):		
Finance costs		
Interest on borrowings and other finance costs	**617**	566
Less: Interest expense and other finance costs capitalised to assets under construction	**(117)**	(84)
Interest expense transferred to fuel costs	**(9)**	(9)
	491	473
Depreciation		
Depreciation charges for the period	**1,417**	1,385
Less: Depreciation capitalised to assets under construction	**(40)**	(45)
	1,377	1,340
Amortisation of leasehold land	**98**	97

10. Income tax

	Six months ended 30 June	
	2019	2018
	$ million	$ million
Current tax		
Provision for Hong Kong Profits Tax for the period	**209**	195
Deferred tax		
Origination and reversal of temporary differences	**43**	157
	252	352

The provision for Hong Kong Profits Tax is calculated in accordance with the two-tiered profits tax rate regime for the six months ended 30 June 2019 and 2018. Under the two-tiered profits tax rate regime, the first $2 million of assessable profits of qualifying corporations is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

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.

11. 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 2019 $ million	2018 $ million
Tariff Stabilisation Fund	**356**	574
Rate Reduction Reserve	**5**	2
	361	576

12. 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 $709 million for the six months ended 30 June 2019 (2018: $982 million) and the weighted average of 8,836,200,000 Shares Stapled Units/ordinary shares of the Company (2018: 8,836,200,000 Shares Stapled Units/ordinary shares of the Company) in issue throughout the period.

13. 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	Total
Net book value at 1 January 2019	14,167	43,375	482	7,025	65,049	6,010	71,059
Additions	2	65	7	1,196	1,270	–	1,270
Transfers between categories	–	117	1	(118)	–	–	–
Disposals	–	(72)	–	–	(72)	–	(72)
Depreciation/amortisation	(254)	(1,112)	(51)	–	(1,417)	(98)	(1,515)
Net book value at 30 June 2019	13,915	42,373	439	8,103	64,830	5,912	70,742
Cost	16,675	53,257	851	8,103	78,886	6,958	85,844
Accumulated depreciation and amortisation	(2,760)	(10,884)	(412)	–	(14,056)	(1,046)	(15,102)
Net book value at 30 June 2019	13,915	42,373	439	8,103	64,830	5,912	70,742

14. 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 2019 $ million	31 December 2018 $ million
Current and within 1 month	706	513
1 to 3 months	32	35
More than 3 months but less than 12 months	12	15
Trade debtors	750	563
Other receivables	628	402
	1,378	965
Derivative financial instruments *(see note 18)*	9	2
Deposits and prepayments	52	61
	1,439	1,028

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.

15. Bank deposits and cash and other cash flow information

(a) Bank deposits and cash comprise:

	30 June 2019 $ million	31 December 2018 $ million
Deposits with banks and other financial institutions with 3 months or less to maturity when placed	235	–
Cash at bank and in hand	42	34
Cash and cash equivalents in the consolidated cash flow statement	277	34
Deposits with banks and other financial institutions with more than 3 months to maturity when placed	70	–
Bank deposits and cash in the consolidated statement of financial position	347	34

15. Bank deposits and cash and other cash flow information
(Continued)

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

		Six months ended 30 June	
		2019	2018
	Note	**$ million**	$ million
Profit before taxation		**1,322**	1,910
Adjustments for:			
Interest income		**(1)**	(11)
Finance costs	*9*	**491**	473
Interest expense transferred to fuel costs	*9*	**9**	9
Depreciation	*9*	**1,377**	1,340
Amortisation of leasehold land	*9*	**98**	97
Net loss on disposal and written off of property, plant and equipment	*8*	**56**	40
Increase in provisions for asset decommissioning obligation	*8*	**107**	85
Net financial instrument revaluation and exchange losses/(gains)		**1**	(7)
Changes in working capital:			
Decrease in inventories		**167**	25
Increase in trade and other receivables		**(404)**	(353)
Movements in Fuel Clause Recovery Account		**(82)**	(713)
(Decrease)/increase in trade and other payables and contract liabilities		**(350)**	104
Increase/decrease in net employee retirement benefit assets/liabilities		**5**	5
Cash generated from operations		**2,796**	3,004

16. Trade and other payables and contract liabilities

	30 June 2019 $ million	31 December 2018 $ million
Due within 1 month or on demand	683	1,316
Due after 1 month but within 3 months	133	139
Due after 3 months but within 12 months	891	948
Creditors measured at amortised cost	1,707	2,403
Derivative financial instruments *(see note 18)*	24	6
Contract liabilities	37	38
	1,768	2,447

17. Bank loans and other interest-bearing borrowings

	30 June 2019 $ million	31 December 2018 $ million
Bank loans	19,411	17,755
Current portion	(158)	(110)
	19,253	17,645
Hong Kong dollar medium term notes		
Fixed rate notes	5,967	6,295
Zero coupon notes	714	702
	6,681	6,997
Current portion	–	(330)
	6,681	6,667
United States dollar medium term notes		
Fixed rate notes	11,721	11,673
Zero coupon notes	5,664	5,540
	17,385	17,213
Non-current portion	43,319	41,525

18. Derivative financial instruments

	30 June 2019 Assets $ million	30 June 2019 Liabilities $ million	31 December 2018 Assets $ million	31 December 2018 Liabilities $ million
Derivative financial instruments used for hedging:				
Cash flow hedges:				
– Cross currency swaps	10	(55)	–	(172)
– Interest rate swaps	139	–	497	–
– Forward foreign exchange contracts	199	(59)	10	(244)
Fair value hedges:				
– Cross currency swaps	103	–	63	–
– Forward foreign exchange contracts	2	–	–	(1)
	453	(114)	570	(417)
Analysed as:				
Current	9	(24)	2	(6)
Non-current	444	(90)	568	(411)
	453	(114)	570	(417)

19. Scheme of Control Fund and Reserve

The Tariff Stabilisation Fund, Rate Reduction Reserve and Smart Power Fund/ Smart Power Care 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 2019 $ million	31 December 2018 $ million
Tariff Stabilisation Fund	982	620
Rate Reduction Reserve	5	6
Smart Power Fund/Smart Power Care Fund	22	22
	1,009	648

20. Share capital

The Company

	Number of shares	30 June 2019 Nominal value $	31 December 2018 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.

21. 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

21. Fair value measurement *(Continued)*

(a) Recurring fair value measurements

	Level 2	
	30 June 2019	31 December 2018
	$ million	$ million
Financial assets		
Derivative financial instruments:		
– Cross currency swaps	**113**	63
– Interest rate swaps	**139**	497
– Forward foreign exchange contracts	**201**	10
	453	570
Financial liabilities		
Derivative financial instruments:		
– Cross currency swaps	**55**	172
– Forward foreign exchange contracts	**59**	245
Medium term notes subject to fair value hedges	**4,370**	4,327
	4,484	4,744

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

Trade and other receivables, trade and other payables and contract liabilities and external borrowings are carried at cost or amortised cost which are not materially different from their fair values as at 30 June 2019 and 31 December 2018.

(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.

22. Interim distribution/dividend

The distributable income for the period was as follows:

	Six months ended 30 June 2019 $ million	2018 $ million
Consolidated profit attributable to the holders of Share Stapled Units for the period	**709**	982
After:		
(i) eliminating the effects of the Adjustments *(see note (a) below)*	**2,750**	2,961
(ii) (deducting)/adding		
– movement in Fuel Clause Recovery Account	**(82)**	(713)
– changes in working capital	**(587)**	(224)
– adjustment for employee retirement benefit schemes	**5**	5
– taxes paid	**(107)**	(149)
	(771)	(1,081)
(iii) capital expenditure payment	**(1,429)**	(1,748)
(iv) net finance costs	**(500)**	(425)
Distributable income for the period	**759**	689
(v) adding discretionary amount as determined by the Company Board pursuant to clause 14.1(c) of the Trust Deed *(see note (d) below)*	**649**	1,071
Distributable income for the period after adjustment of discretionary amount	**1,408**	1,760
Distribution amount for the period	**1,408**	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)*	**15.94 cents**	19.92 cents

22. 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 2019, 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 15.94 cents (2018: 19.92 cents) is calculated based on the interim distribution of $1,408 million for the six months ended 30 June 2019 (2018: $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 2019 (2018: 8,836,200,000).

23. Capital commitments

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

	30 June 2019 $ million	31 December 2018 $ million
Capital expenditure for property, plant and equipment authorised and contracted for	**4,633**	4,155
Capital expenditure for property, plant and equipment authorised but not contracted for	**18,822**	20,717

24. 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 $20 million (2018: $21 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 2019, the total outstanding balance receivable from Power Assets group was $3 million (31 December 2018: $4 million).