

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 2020 comprise the unaudited consolidated interim financial statements of the Trust, the Company and its subsidiaries (together the "Trust Group") and the Trust Group's interest in a joint venture. The unaudited consolidated interim financial statements of the Company for the period ended 30 June 2020 comprise the unaudited consolidated interim financial statements of the Company and its subsidiaries (together the "Group") and the Group's interest in a joint venture.

The Trust controls the Company and the sole activity of the Trust during the six months period ended 30 June 2020 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 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 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 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:

- Amendments to HKAS 1 and HKAS 8, *Definition of material*
- Amendments to HKFRS 9, HKAS 39 and HKFRS 7, *Interest rate benchmark reform*

The adoption of these amendments to HKFRSs does not have a 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. Disaggregation of revenue by type of output and services is analysed as follows:

	Six months ended 30 June	
	2020	2019
	\$ million	\$ million
Sales of electricity	4,790	4,983
Less: Concessionary discount on sales of electricity	(2)	(2)
	4,788	4,981
Electricity-related income	12	22
	<u>4,800</u>	<u>5,003</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. Other operating costs

	Six months ended 30 June	
	2020	2019
	\$ million	\$ million
Administrative expenses, government rent and rates	182	168
Staff costs in relation to corporate and administrative supports	113	114
Provisions for asset decommissioning obligation	80	107
Portion of depreciation and amortisation of leasehold land included in other operating costs	94	86
Net loss on disposal and written off of property, plant and equipment	40	56
	<u>509</u>	<u>531</u>

9. Profit before taxation

	Six months ended 30 June	
	2020	2019
	\$ million	\$ million
Profit before taxation is arrived at after charging/(crediting):		
Finance costs		
Interest on borrowings and other finance costs	627	617
Less: Interest expense and other finance costs capitalised to assets under construction	(131)	(117)
Interest expense transferred to fuel costs	(8)	(9)
	<u>488</u>	<u>491</u>
Depreciation		
Depreciation charges for the period	1,399	1,417
Less: Depreciation capitalised to assets under construction	(43)	(40)
	<u>1,356</u>	<u>1,377</u>
Amortisation of leasehold land	<u>98</u>	<u>98</u>

10. Income tax

	Six months ended 30 June	
	2020	2019
	\$ million	\$ million
Current tax		
Provision for Hong Kong Profits Tax for the period	162	209
Deferred tax		
Origination and reversal of temporary differences	<u>76</u>	<u>43</u>
	<u>238</u>	<u>252</u>

The provision for Hong Kong Profits Tax for the six months ended 30 June 2020 is calculated at 16.5% (2019: 16.5%) of the estimated assessable profits, except for one subsidiary of the Groups which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For this subsidiary, the first \$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2019.

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	
	2020	2019
	\$ million	\$ million
Tariff Stabilisation Fund	211	356
Rate Reduction Reserve	5	5
	<u>216</u>	<u>361</u>

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 \$811 million for the six months ended 30 June 2020 (2019: \$709 million) and the weighted average of 8,836,200,000 Shares Stapled Units/ordinary shares of the Company (2019: 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	Properties leased for own use	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 2020	13,799	2	42,541	500	9,759	66,601	5,815	72,416
Additions	-	1	27	4	1,385	1,417	-	1,417
Transfers between categories	1,311	-	2,582	8	(3,901)	-	-	-
Disposals	-	-	(52)	-	-	(52)	-	(52)
Depreciation/amortisation	(256)	(1)	(1,090)	(52)	-	(1,399)	(98)	(1,497)
Net book value at 30 June 2020	<u>14,854</u>	<u>2</u>	<u>44,008</u>	<u>460</u>	<u>7,243</u>	<u>66,567</u>	<u>5,717</u>	<u>72,284</u>
Cost	18,122	5	56,932	948	7,243	83,250	6,959	90,209
Accumulated depreciation and amortisation	(3,268)	(3)	(12,924)	(488)	-	(16,683)	(1,242)	(17,925)
Net book value at 30 June 2020	<u>14,854</u>	<u>2</u>	<u>44,008</u>	<u>460</u>	<u>7,243</u>	<u>66,567</u>	<u>5,717</u>	<u>72,284</u>

14. Interest in a joint venture

	30 June 2020 \$ million	31 December 2019 \$ million
Groups' share of net assets	–	–
Loan to joint venture (see note below)	171	42
	<u>171</u>	<u>42</u>
	<u><u>171</u></u>	<u><u>42</u></u>

HK Electric entered into a Shareholder Loan Facility Agreement with its joint venture, Hong Kong LNG Terminal Limited ("HKLTL"), under which two tranches of loan facilities totaling \$699 million are provided by HK Electric to finance HKLTL's obtaining the land lease and construction of the jetty for a liquefied natural gas ("LNG") terminal. Both tranches of loans are unsecured and interest-bearing with the rates benchmarked with market rates.

15. 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 2020 \$ million	31 December 2019 \$ million
Current and within 1 month	759	476
1 to 3 months	15	30
More than 3 months but less than 12 months	–	7
	<u>774</u>	<u>513</u>
Trade debtors	774	513
Other receivables	690	414
	<u>1,464</u>	<u>927</u>
Derivative financial instruments (see note 19)	46	86
Deposits and prepayments	52	47
	<u>1,562</u>	<u>1,060</u>
	<u><u>1,562</u></u>	<u><u>1,060</u></u>

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.

16. Bank deposits and cash and other cash flow information

(a) Bank deposits and cash comprise:

	30 June 2020 \$ million	31 December 2019 \$ million
Deposits with banks and other financial institutions with 3 months or less to maturity when placed	700	263
Cash at bank and in hand	50	36
Bank overdrafts – unsecured	–	(33)
	<hr/>	<hr/>
Cash and cash equivalents in the consolidated cash flow statement	750	266
Bank overdrafts – unsecured	–	33
	<hr/>	<hr/>
Bank deposits and cash in the consolidated statement of financial position	<u>750</u>	<u>299</u>

16. 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	
		2020	2019
	Note	\$ million	\$ million
Profit before taxation		1,265	1,322
Adjustments for:			
Interest income		(3)	(1)
Finance costs	9	488	491
Interest expense transferred to fuel costs	9	8	9
Depreciation	9	1,356	1,377
Amortisation of leasehold land	9	98	98
Net loss on disposal and written off of property, plant and equipment	8	40	56
Increase in provisions for asset decommissioning obligation	8	80	107
Net financial instrument revaluation and exchange losses		21	1
Smart Power Care Fund disbursement		(15)	–
Changes in working capital:			
Decrease in inventories		113	167
Increase in trade and other receivables		(559)	(404)
Movements in Fuel Clause Recovery Account		49	(82)
Decrease in trade and other payables and contract liabilities		(14)	(350)
Increase/decrease in net employee retirement benefit assets/liabilities		2	5
Payment for asset decommissioning obligation expenditure		(1)	–
Cash generated from operations		<u>2,928</u>	<u>2,796</u>

17. Trade and other payables and contract liabilities

	30 June 2020 \$ million	31 December 2019 \$ million
Due within 1 month or on demand	953	1,778
Due after 1 month but within 3 months	236	270
Due after 3 months but within 12 months	797	873
	<hr/>	<hr/>
Creditors measured at amortised cost	1,986	2,921
Lease liabilities	1	2
Derivative financial instruments (see note 19)	21	39
Contract liabilities	25	18
	<hr/>	<hr/>
	2,033	2,980
	<hr/> <hr/>	<hr/> <hr/>

18. Bank loans and other interest-bearing borrowings

	30 June 2020 \$ million	31 December 2019 \$ million
Bank loans	14,647	18,333
Current portion	(14,147)	(113)
	<hr/>	<hr/>
	500	18,220
	<hr/>	<hr/>
Hong Kong dollar medium term notes		
Fixed rate notes	8,567	6,465
Zero coupon notes	739	727
	<hr/>	<hr/>
	9,306	7,192
	<hr/>	<hr/>
United States dollar medium term notes		
Fixed rate notes	15,545	11,697
Zero coupon notes	5,920	5,790
	<hr/>	<hr/>
	21,465	17,487
Current portion	(5,878)	(5,897)
	<hr/>	<hr/>
	15,587	11,590
	<hr/>	<hr/>
Non-current portion	25,393	37,002
	<hr/> <hr/>	<hr/> <hr/>

19. Derivative financial instruments

	30 June 2020		31 December 2019	
	Assets \$ million	Liabilities \$ million	Assets \$ million	Liabilities \$ million
Derivative financial instruments used for hedging:				
Cash flow hedges:				
– Cross currency swaps	66	(1)	24	–
– Interest rate swaps	–	(477)	230	–
– Forward foreign exchange contracts	871	(39)	407	(51)
Fair value hedges:				
– Cross currency swaps	45	–	70	–
– Forward foreign exchange contracts	–	–	4	(2)
	<u>982</u>	<u>(517)</u>	<u>735</u>	<u>(53)</u>
Analysed as:				
Current	46	(21)	86	(39)
Non-current	<u>936</u>	<u>(496)</u>	<u>649</u>	<u>(14)</u>
	<u>982</u>	<u>(517)</u>	<u>735</u>	<u>(53)</u>

20. Scheme of Control Fund and Reserve

The Tariff Stabilisation Fund, Rate Reduction Reserve and 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 2020 \$ million	31 December 2019 \$ million
Tariff Stabilisation Fund	1,073	848
Rate Reduction Reserve	5	14
Smart Power Care Fund	<u>1</u>	<u>16</u>
	<u>1,079</u>	<u>878</u>

21. Share capital

The Company

		30 June 2020	31 December 2019
	Number of shares	Nominal value \$	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.

22. 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

22. Fair value measurement *(Continued)*

(a) Recurring fair value measurements

	Level 2	
	30 June 2020 \$ million	31 December 2019 \$ million
Financial assets		
Derivative financial instruments:		
– Cross currency swaps	111	94
– Interest rate swaps	–	230
– Forward foreign exchange contracts	871	411
	<u>982</u>	<u>735</u>
	<u>982</u>	<u>735</u>
Financial liabilities		
Derivative financial instruments:		
– Cross currency swaps	1	–
– Interest rate swaps	477	–
– Forward foreign exchange contracts	39	53
Medium term notes subject to fair value hedges	4,320	4,341
	<u>4,837</u>	<u>4,394</u>
	<u>4,837</u>	<u>4,394</u>

(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 2020 and 31 December 2019.

(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.

23. Interim distribution/dividend

The distributable income for the period was as follows:

	Six months ended 30 June	
	2020	2019
	\$ million	\$ million
Consolidated profit attributable to the holders of Share Stapled Units for the period	811	709
After:		
(i) eliminating the effects of the Adjustments (see note (a) below)	2,521	2,750
(ii) adding/(deducting)		
– movement in Fuel Clause Recovery Account	49	(82)
– changes in working capital	(462)	(587)
– adjustment for employee retirement benefit schemes	2	5
– taxes paid	(488)	(107)
	(899)	(771)
(iii) capital expenditure payment	(2,272)	(1,429)
(iv) net finance costs	(543)	(500)
Distributable income for the period	(382)	759
(v) adding discretionary amount as determined by the Company Board pursuant to clause 14.1(c) of the Trust Deed (see note (d) below)	1,790	649
Distributable income for the period after adjustment of discretionary amount	1,408	1,408
Distribution amount for the period	1,408	1,408
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	15.94 cents

23. 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 2020, 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 (2019: 15.94 cents) is calculated based on the interim distribution of \$1,408 million for the six months ended 30 June 2020 (2019: \$1,408 million) and the number of Shares Stapled Units/ordinary shares of the Company of 8,836,200,000 in issue as at 30 June 2020 (2019: 8,836,200,000).

24. Commitments

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

	30 June 2020 \$ million	31 December 2019 \$ million
Capital expenditure for property, plant and equipment authorised and contracted for	<u>7,715</u>	<u>5,465</u>
Capital expenditure for property, plant and equipment authorised but not contracted for	<u>14,430</u>	<u>18,412</u>

- (b) At 30 June 2020, the Groups' share of capital commitments of a joint venture was \$438 million (31 December 2019: \$29 million).

At 30 June 2020, the Groups' share of the lease and other commitments of a joint venture approximated to \$1,170 million (31 December 2019: \$1,170 million).

25. 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 (2019: \$20 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 2020, the total outstanding balance receivable from Power Assets group was \$3 million (31 December 2019: \$3 million).

25. Material related party transactions *(Continued)*

(b) Joint Venture

- (i) The details of Shareholder Loan Facility provided to HKLTL by the Groups and the outstanding loan balance as at 30 June 2020 are disclosed in note 14.
- (ii) Interest income received/receivable from HKLTL in respect of the Shareholder Loan Facility amounted to \$2 million (2019: Nil) for the six months ended 30 June 2020.
- (iii) Under a Joint Development Agreement entered into between HK Electric, Castle Peak Power Company Limited (“CAPCO”) and HKLTL for the development of LNG terminal, HK Electric and CAPCO will perform project management and provide supports to HKLTL in the development and construction of the LNG terminal. During the six months ended 30 June 2020, HKLTL reimbursed related costs of \$2 million (2019: Nil) to HK Electric.