

港燈電力投資

HK Electric Investments

(根據香港法律按日期為二零一四年一月一日的信託契約組成，其受託人為港燈電力投資管理人有限公司。)

(As constituted pursuant to a deed of trust on 1 January 2014 under the laws of Hong Kong, the trustee of which is HK Electric Investments Manager Limited.)

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港燈電力投資有限公司

HK Electric Investments Limited

(於開曼群島註冊成立的有限公司 Incorporated in the Cayman Islands with limited liability)

(股份代號 Stock Code : 2638)



港燈電力投資

HK Electric Investments

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2017 INTERIM RESULTS **CHAIRMAN'S STATEMENT**

Stable framework assuring long-term certainty

In the six months under review, HKEI achieved steady performance through its wholly owned subsidiary HK Electric, meeting both immediate and long-term business goals. We continued to deliver stable returns for investors while providing safe, reliable, clean and affordable power to our customers.

The highlight of the operating period was the signing of the next Scheme of Control Agreement (SCA) with the Government following months of consultation and negotiation. With greater emphasis on promoting energy efficiency and using renewable energy, the new SCA will not only balance the interests of various stakeholders in the community, but also help Hong Kong develop into a low-carbon economy. This development adds impetus to our ongoing plans to increase HK Electric's infrastructural capacity to generate cleaner power.

Half year results

For the six months ended 30 June 2017, HKEI's EBITDA amounted to HK\$3,776 million (2016: HK\$3,817 million) and unaudited profit attributable to holders of Share Stapled Units (SSU) was HK\$1,003 million (2016: HK\$1,101 million).

Interim distribution

Distributable income for the period was HK\$1,760 million (2016: HK\$1,760 million), which will be 100% distributed to SSU holders.

The Board of the Trustee-Manager has declared an interim distribution of HK19.92 cents (2016: HK19.92 cents) per SSU, payable on 11 August 2017 to SSU holders whose names appear on the Share Stapled Units Register on 2 August 2017.

New SCA will underpin a greener future

I am delighted to report that on 25 April 2017, the Group entered into a new SCA with the Government. Compared with the existing agreement, the new SCA has a longer validity of 15 years from 1 January 2019 until 31 December 2033. This is a most welcome development as it provides the long-term certainty required for the local electricity sector to make the investments necessary to support the Government's aggressive climate change targets while enhancing energy efficiency, transparency and customer services.

To help reduce Hong Kong's carbon intensity by 65-70% by 2030 compared to the 2005 level, HK Electric must increase its gas-fired generation capacity and replace the retiring coal-fired units over the next decade. The longer duration of the SCA provides us with the confidence to put into action the infrastructure projects needed to achieve this.

Under the new SCA, HK Electric is entitled to a permitted rate of return on average net fixed assets of 8%. While we appreciate the community's aspiration for even more affordable tariffs, we must caution against unrealistic expectations about tariff adjustments as a result of a reduced rate of return. For a utility business greatly influenced by fuel costs and operating expenses, there are various factors at play affecting the tariff level, especially as HK Electric will substantially increase its use of natural gas to generate cleaner electricity in future. This factor alone will put immense pressure on tariff and managing it will continue to be our priority in the short to medium term.

Lamma Power Station - powering up for increased gas-fired generation

To achieve the Government's emissions and carbon intensity targets, HK Electric has made good progress with construction works to increase its gas-fired generation capacity and replace retired and soon-to-retire coal-fired units at Lamma Power Station.

Piling activities progressed on schedule for L10 and L11, the two new combined-cycle generating units that will substantially increase the proportion of our electricity generation from natural gas. Contracts for their construction were awarded during the period following a rigorous selection process. Commissioning of the two units is scheduled for 2020 and 2022 respectively.

To improve our ability to secure natural gas at competitive prices we have been exploring the development of an offshore LNG receiving terminal in Hong Kong waters based on Floating Storage and Regasification Unit technology in partnership with CLP Power. During the review period, the Environmental Impact Assessment (EIA) studies associated with the proposed project were initiated. We aim to submit the EIA report to the Government before end 2017, with commissioning set for 2020 if the necessary approvals are received on time.

Setting higher standards in performance and reliability

Notwithstanding the tariff reduction of 17.2% for customers in 2017 as a result of a reduction in the fuel clause charge and the offer of two special rebates, we continued to achieve a supply reliability rating of over 99.999%, with unplanned power interruption per customer kept below one minute on average. At the same time, all 18 pledged service standards were met or surpassed during the period under review.

On the sales front, the first half of the year showed a decrease of 3.6% mainly due to much milder weather in 2017 as compared to 2016, as well as the absence of an extra day in February.

We have made encouraging progress in our efforts to improve Hong Kong's air quality. Currently, over 30% of our total output is generated from natural gas, which produces lower emissions than other fossil fuels. Owing to the proportion of gas in the fuel mix and through other judicious control measures, emissions of sulphur dioxide, nitrogen oxides and respirable suspended particulates were well below the mandated levels.

Mobilising the community to protect the environment

Our initiatives to help transform Hong Kong into a greener and more sustainable society are multifold, including the promotion of electric vehicles (EVs). During the period we erected three new multi-standard EV quick charging stations, upgraded six existing standard charging stations and provided advisory services to our customers to install charging facilities at 17 buildings. In addition, HK Electric won the champion and second runner-up awards at Hong Kong's first "International Competition on Second Life for Retired Batteries from Electric Vehicles". The champion project proposes the use of retired batteries from EVs for energy storage in a solar power system being considered for Po Toi Island. HK Electric is currently studying the feasibility of installing this system to provide electricity to the residents of the island.

During the period under review, we doubled the upper limit of subsidy offered by the Smart Power Fund to enable energy efficiency works or upgrades for Hong Kong's older buildings, approving seven more project applications. We also ran several programmes under the Smart Power Campaign to promote environmental awareness and a low carbon lifestyle among Hong Kong's residents.

Outlook

We look forward to the next decade with confidence and optimism, underpinned by a clear and balanced regulatory framework that allows us to envision emerging trends for long-term planning. The new SCA provides a firm foundation that enables HK Electric to proceed with its investment pipeline, which includes the construction of new gas-fired units and other supporting infrastructure, to produce cleaner energy, while allowing us to supply affordable and reliable power.

Our immediate task is to engage with the Government to iron out the minutiae of implementation for the new SCA. Another focus will be to ensure that the infrastructure necessary for increased gas-fired generation progresses on schedule.

In conclusion, I would like to extend my thanks to our employees for their dedication and our SSU holders for their unwavering support, which are both at the heart of our continued success.

Fok Kin Ning, Canning
Chairman
Hong Kong, 18 July 2017

FINANCIAL REVIEW

Financial performance

The Trust Group's revenue and unaudited consolidated profit for the period ended 30 June 2017 were HK\$5,326 million (2016: HK\$5,326 million) and HK\$1,003 million (2016: HK\$1,101 million) respectively.

Distribution

The Trustee-Manager Board has declared an interim distribution of HK19.92 cents (2016: HK19.92 cents) per SSU for the six months ended 30 June 2017. 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 (2016: HK19.92 cents) per ordinary share in respect of the same period.

	Six months ended 30 June	
	2017	2016
	HK\$ million	HK\$ million
Consolidated profit attributable to SSU holders for the period	1,003	1,101
After:		
(i) eliminating the effects of the Adjustments (see note (a) below)	2,818	2,742
(ii) adding/(deducting)		
– movement in Fuel Clause Recovery Account	(526)	979
– changes in working capital	(193)	(423)
– adjustment for employee retirement benefit schemes	7	12
– taxes paid	(265)	(233)
	(977)	335
(iii) capital expenditure payment	(1,240)	(1,340)
(iv) deducting		
– debt repayment	-	(6,296)
– net finance costs	(441)	(639)
	(441)	(6,935)
(v) deducting		
– reserve for future capital expenditure/debt service	-	(439)
Distributable income for the period	1,163	(4,536)
(vi) adding discretionary amount as determined by the Company Board pursuant to clause 14.1(c) of the Trust Deed	597	6,296
Distributable income for the period after adjustment of the discretionary amount	1,760	1,760

	Six months ended 30 June	
	2017	2016
	HK\$ million	HK\$ million
Distribution amount for the period	<u>1,760</u>	<u>1,760</u>
Interim distribution amount per SSU	<u>HK19.92 cents</u>	<u>HK19.92 cents</u>

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 2017, 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\$1,061 million (2016: HK\$962 million), which was primarily funded by cash from operations. Total external borrowings outstanding at 30 June 2017 were HK\$40,395 million (31 December 2016: HK\$39,679 million), comprising unsecured bank loans and debt securities in issue. In addition, the Trust Group at 30 June 2017 had undrawn committed bank facilities of HK\$4,250 million (31 December 2016: HK\$4,000 million) and bank deposits and cash of HK\$329 million (31 December 2016: HK\$316 million).

Treasury policy, financing activities, capital and debt structure

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

As at 30 June 2017, the net debt of the Trust Group was HK\$40,066 million (31 December 2016: HK\$39,363 million) with a net debt-to-net total capital ratio of 45% (31 December 2016: 44%). The Trust Group's financial profile remained strong during the period. On 27 February 2017, 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 2017, 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) 48% were bank loans and 52% were capital market instruments;
- (3) 2% were repayable within 1 year, 62% were repayable after 1 year but within 5 years and 36% were repayable after 5 years; and
- (4) 62% were in fixed rate and 38% 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 2017, over 95% 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 2017 amounted to HK\$36,195 million (31 December 2016: HK\$65,367 million).

Charge on assets

As at 30 June 2017, no assets of the Trust Group were pledged to secure its loans and banking facilities (31 December 2016: Nil).

Contingent liabilities

As at 30 June 2017, the Trust Group had no guarantee or indemnity to external parties (31 December 2016: 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 2017, excluding directors' emoluments, amounted to HK\$558 million (2016: HK\$560 million). As at 30 June 2017, the Trust Group employed 1,772 (31 December 2016: 1,790) permanent employees. No share option scheme is in operation.

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

For the six months ended 30 June 2017

(Expressed in Hong Kong dollars)

	Note	2017	2016
		\$ million	\$ million
Revenue	6	5,326	5,326
Direct costs		(2,609)	(2,577)
		2,717	2,749
Other revenue and other net income		18	25
Other operating costs		(380)	(361)
Operating profit		2,355	2,413
Finance costs		(411)	(620)
Profit before taxation	8	1,944	1,793
Income tax:	9		
Current		(267)	(466)
Deferred		(82)	144
		(349)	(322)
Profit after taxation		1,595	1,471
Scheme of Control transfers	10	(592)	(370)
Profit for the period attributable to the holders of Share Stapled Units/ shares of the Company		1,003	1,101
Earnings per Share Stapled Unit/ share of the Company			
Basic and diluted	11	11.35 cents	12.46 cents

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

Details of distributions/dividends payable to holders of Share Stapled Units/shares of the Company attributable to the profit for the period are set out in note 17.

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

For the six months ended 30 June 2017

(Expressed in Hong Kong dollars)

	2017	2016
	\$ million	\$ million
Profit for the period attributable to the holders of Share Stapled Units/shares of the Company	1,003	1,101
Other comprehensive income for the period, after tax and reclassification adjustments		
Items that may be reclassified subsequently to profit or loss		
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the period	(911)	(110)
Reclassification adjustments for amounts transferred to profit or loss	1	62
Amounts transferred to the initial carrying amount of hedged items	(1)	2
Net deferred tax credited to other comprehensive income	151	8
	(760)	(38)
Total comprehensive income for the period attributable to the holders of Share Stapled Units/shares of the Company	243	1,063

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

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

At 30 June 2017

(Expressed in Hong Kong dollars)

	Note	(Unaudited) 30 June 2017 \$ million	(Audited) 31 December 2016 \$ million
Non-current assets			
Property, plant and equipment		64,064	64,432
Interests in leasehold land held for own use under finance leases		6,185	6,281
	12	<u>70,249</u>	<u>70,713</u>
Goodwill		33,623	33,623
Derivative financial instruments		405	1,034
Employee retirement benefit scheme assets		454	454
		<u>104,731</u>	<u>105,824</u>
Current assets			
Inventories		980	985
Trade and other receivables	13	1,376	1,225
Bank deposits and cash		329	316
		<u>2,685</u>	<u>2,526</u>
Current liabilities			
Trade and other payables	14	(2,322)	(2,735)
Fuel Clause Recovery Account		(3,562)	(4,088)
Current portion of bank loans and other interest-bearing borrowings	15	(651)	(335)
Bank overdrafts - unsecured		(19)	-
Current tax payable		(353)	(351)
		<u>(6,907)</u>	<u>(7,509)</u>
Net current liabilities		<u>(4,222)</u>	<u>(4,983)</u>
Total assets less current liabilities		<u>100,509</u>	<u>100,841</u>
Non-current liabilities			
Bank loans and other interest-bearing borrowings	15	(39,725)	(39,344)
Derivative financial instruments		(323)	(73)
Customers' deposits		(2,099)	(2,057)
Deferred tax liabilities		(8,948)	(9,017)
Employee retirement benefit scheme liabilities		(413)	(406)
		<u>(51,508)</u>	<u>(50,897)</u>
Scheme of Control Fund and Reserve	16	<u>(631)</u>	<u>(39)</u>
Net assets		<u>48,370</u>	<u>49,905</u>
Capital and reserves			
Share capital		8	8
Reserves		48,362	49,897
Total equity		<u>48,370</u>	<u>49,905</u>

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

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

(Expressed in Hong Kong dollars)

1. Review of unaudited interim financial statements

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

2. General information

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

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

3. Basis of presentation

Pursuant to the Trust Deed, the Trust and the Company are each required to prepare their own sets of interim financial statements on a consolidated basis. The unaudited consolidated interim financial statements of the Trust for the period ended 30 June 2017 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 2017 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 2017 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 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 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 7, *Statement of cash flows: Disclosure initiative*
- Amendments to HKAS 12, *Income taxes: Recognition of deferred assets for unrealised losses*

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

6. Revenue

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

	Six months ended 30 June	
	2017	2016
	\$ million	\$ million
Sales of electricity	5,313	5,311
Concessionary discount on sales of electricity	(2)	(3)
Electricity-related income	15	18
	<u>5,326</u>	<u>5,326</u>

7. Segment reporting

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

8. Profit before taxation

	Six months ended 30 June	
	2017	2016
	\$ million	\$ million
Profit before taxation is arrived at after charging/(crediting):		
Finance costs		
Interest on borrowings and other finance costs	486	684
Less: Interest expense and other finance costs capitalised to assets under construction	(65)	(56)
Interest expense transferred to fuel cost	(10)	(8)
	411	620
Depreciation		
Depreciation charges for the period	1,384	1,373
Less: Depreciation capitalised to assets under construction	(59)	(54)
	1,325	1,319
Amortisation of leasehold land	96	96

9. Income tax

	Six months ended 30 June	
	2017	2016
	\$ million	\$ million
Current tax		
Provision for Hong Kong Profits Tax for the period	267	466
Deferred tax		
Origination and reversal of temporary differences	82	(144)
	349	322

The provision for Hong Kong Profits Tax is calculated at 16.5% (2016: 16.5%) of the estimated assessable profits for the six months ended 30 June 2017.

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	
	2017	2016
	\$ million	\$ million
Tariff Stabilisation Fund	592	370
Rate Reduction Reserve	-	-
Smart Power Fund	-	-
	592	370

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

The calculation of basic and diluted earnings per Share Stapled Unit/share of the Company are based on the profit attributable to the holders of Share Stapled Units/shares of the Company of \$1,003 million for the six months ended 30 June 2017 (2016: \$1,101 million) and the weighted average of 8,836,200,000 Shares Stapled Units/ordinary shares of the Company (2016: 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 2017	15,147	44,214	385	4,686	64,432	6,281	70,713
Additions	6	189	12	854	1,061	-	1,061
Transfers between categories	-	531	60	(591)	-	-	-
Disposals	-	(45)	-	-	(45)	-	(45)
Depreciation/ amortisation	(255)	(1,084)	(45)	-	(1,384)	(96)	(1,480)
Net book value at 30 June 2017	14,898	43,805	412	4,949	64,064	6,185	70,249
Cost	16,637	50,560	647	4,949	72,793	6,844	79,637
Accumulated depreciation and amortisation	(1,739)	(6,755)	(235)	-	(8,729)	(659)	(9,388)
Net book value at 30 June 2017	14,898	43,805	412	4,949	64,064	6,185	70,249

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 2017 \$ million	31 December 2016 \$ million
Current and within 1 month	690	588
1 to 3 months	27	37
More than 3 months but less than 12 months	17	22
Trade debtors	734	647
Other receivables	560	499
	1,294	1,146
Derivative financial instruments	22	16
Deposits and prepayments	60	63
	1,376	1,225

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. Trade and other payables

	30 June 2017 \$ million	31 December 2016 \$ million
Due within 1 month or on demand	535	813
Due after 1 month but within 3 months	271	445
Due after 3 months but within 12 months	1,514	1,459
Creditors measured at amortised cost	2,320	2,717
Derivative financial instruments	2	18
	2,322	2,735

15. Bank loans and other interest-bearing borrowings

	30 June 2017 \$ million	31 December 2016 \$ million
Bank loans	19,201	18,628
Current portion	(351)	(35)
	18,850	18,593
Hong Kong dollar medium term notes		
Fixed rate notes	6,590	6,588
Zero coupon notes	667	656
	7,257	7,244
Current portion	(300)	(300)
	6,957	6,944
United States dollar medium term notes		
Fixed rate notes	11,812	11,758
Zero coupon notes	2,106	2,049
	13,918	13,807
Non-current portion	39,725	39,344

16. 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 2017 \$ million	31 December 2016 \$ million
Tariff Stabilisation Fund	617	24
Rate Reduction Reserve	-	1
Smart Power Fund	14	14
	631	39

17. Interim distribution/dividend

The distributable income for the period was as follows:

	Six months ended 30 June	
	2017 \$ million	2016 \$ million
Consolidated profit attributable to the holders of Share Stapled Units for the period	1,003	1,101
After:		
(i) eliminating the effects of the Adjustments (see note (a) below)	2,818	2,742
(ii) adding/(deducting)		
- movement in Fuel Clause Recovery Account	(526)	979
- changes in working capital	(193)	(423)
- adjustment for employee retirement benefit schemes	7	12
- taxes paid	(265)	(233)
	(977)	335
(iii) capital expenditure payment	(1,240)	(1,340)
(iv) deducting		
- debt repayment	-	(6,296)
- net finance costs	(441)	(639)
	(441)	(6,935)
(v) deducting		
- reserve for future capital expenditure/debt service	-	(439)
Distributable income for the period	1,163	(4,536)
(vi) adding discretionary amount as determined by the Company Board pursuant to clause 14.1(c) of the Trust Deed (see note (d) below)	597	6,296
Distributable income 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

- (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 2017, 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 (2016: 19.92 cents) is calculated based on the interim distribution of \$1,760 million for the six months ended 30 June 2017 (2016: \$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 2017 (2016: 8,836,200,000).

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

For the six months ended 30 June 2017

(Expressed in Hong Kong dollars)

	Note	2017	2016
		<u>\$</u>	<u>\$</u>
Revenue		-	-
Administrative expenses		<u>-</u>	<u>-</u>
Profit before taxation	6	-	-
Income tax	7	<u>-</u>	<u>-</u>
Profit and total comprehensive income for the period		<u><u>-</u></u>	<u><u>-</u></u>

**UNAUDITED STATEMENT OF FINANCIAL POSITION
OF HK ELECTRIC INVESTMENTS MANAGER LIMITED**

At 30 June 2017

(Expressed in Hong Kong dollars)

	(Unaudited) 30 June 2017 \$	(Audited) 31 December 2016 \$
Current assets		
Amount due from immediate holding company	<u>1</u>	<u>1</u>
Net assets	<u><u>1</u></u>	<u><u>1</u></u>
Capital and reserves		
Share capital	1	1
Reserves	<u>-</u>	<u>-</u>
Total equity	<u><u>1</u></u>	<u><u>1</u></u>

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

(Expressed in Hong Kong dollars)

1. **Review of unaudited interim financial statements**

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

2. **General information**

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

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

3. **Basis of presentation**

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

In accordance with the Trust Deed, a distributions statement shall be included in the financial statements of the Company. As the details of the distribution has already been presented in note 17 to the unaudited consolidated interim financial statements of the Trust and of HK Electric Investments Limited on page 18, no distributions statement is therefore presented in these unaudited interim financial statements.

4. **Basis of preparation**

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

The interim financial statements have been prepared in accordance with the same accounting policies adopted in and should be read in conjunction with the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of these changes in accounting policies are set out in note 5.

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

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

The financial information relating to the financial year ended 31 December 2016 that is included in the interim financial statements as comparative information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company's financial statements together with the consolidated financial statements of the Trust and of HK Electric Investments Limited for the year ended 31 December 2016 will be delivered to the Registrar of Companies in due course.

The Company's auditor has reported on the financial statements of the Company for the year ended 31 December 2016. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

5. Changes in accounting policies

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

6. Profit before taxation

All expenses of the Company which were incurred for the administering of the Trust of \$242,000 for the six months ended 30 June 2017 (2016: \$244,000) have been borne by HK Electric Investments Limited, which has waived its right of recovery thereof.

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

7. Income tax

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

OTHER INFORMATION

Interim Distribution

The Trustee-Manager Board has declared an interim distribution by the Trust for 2017 of HK19.92 cents per Share Stapled Unit. The distribution will be payable on Friday, 11 August 2017 to Holders of Share Stapled Units whose names appear in the Share Stapled Units Register at the close of business on Wednesday, 2 August 2017, being the record date for determination of entitlement to the interim distribution. To qualify for the interim distribution, all transfers accompanied by the relevant Share Stapled Unit certificates should be lodged with the Share Stapled Units Registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Wednesday, 2 August 2017.

Purchase, Sale or Redemption of Share Stapled Units

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

None of the Trust, the Trustee-Manager, the Company nor any of their subsidiaries purchased, sold or redeemed any of issued Share Stapled Units during the six months ended 30 June 2017.

Corporate Governance Practices

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

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

The Trust and the Company have complied with the applicable code provisions in the Corporate Governance Code throughout the six months ended 30 June 2017, except as noted hereunder.

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

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

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

Boards Composition

As at the date of this announcement, the Directors are:

Executive Directors : Mr. FOK Kin Ning, Canning (Chairman) (Mrs. CHOW WOO Mo Fong, Susan as his alternate), Mr. WAN Chi Tin (Chief Executive Officer), Mr. CHAN Loi Shun, Mr. CHENG Cho Ying, Francis and Mr. SHAN Shewu

Non-executive Directors : Mr. LI Tzar Kuoi, Victor (Deputy Chairman) (Mr. Frank John SIXT as his alternate), Mr. Fahad Hamad A H AL-MOHANNADI, Mr. Ronald Joseph ARCULLI, Mr. JIANG Xiaojun, Mr. Deven Arvind KARNIK and Mr. ZHU Guangchao

Independent Non-executive Directors : Mr. FONG Chi Wai, Alex, Mr. KWAN Kai Cheong, Mr. LEE Lan Yee, Francis, Mr. George Colin MAGNUS, Mr. Donald Jeffrey ROBERTS and Mr. Ralph Raymond SHEA

GLOSSARY

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

Term(s)	Definition
“Boards” or “Boards of Directors”	Trustee-Manager Board and Company Board
“Company”	HK Electric Investments Limited, a company incorporated in the Cayman Islands as an exempted company with limited liability on 23 September 2013
“Company Audit Committee”	Audit committee of the Company
“Company Board”	Board of directors of the Company
“Corporate Governance Code”	Corporate Governance Code set out in Appendix 14 of the Listing Rules
“Government”	HKSAR Government
“Group”	The Company and its subsidiaries
“HK Electric”	The Hongkong Electric Company, Limited, a company incorporated in Hong Kong with limited liability on 24 January 1889 and an indirect wholly-owned subsidiary of the Company
“HKASs”	Hong Kong Accounting Standards
“HKEI”	The Trust and the Company
“HKFRSs”	A collective term includes all applicable individual Hong Kong Financial Reporting Standards, HKASs and Interpretations issued by the HKICPA
“HKICPA”	Hong Kong Institute of Certified Public Accountants

Term(s)	Definition
“Holder(s) of Share Stapled Units” or “SSU holder(s)”	Person(s) who holds Share Stapled Units issued by HKEI
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
“Power Assets”	Power Assets Holdings Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 6)
“Share Stapled Unit(s)” or “SSU(s)”	<p>Share Stapled Unit(s) jointly issued by the Trust and the Company, with each Share Stapled Unit being the combination of the following securities or interests in securities which, subject to the provisions in the Trust Deed, can only be dealt with together and may not be dealt with individually or one without the others:</p> <ul style="list-style-type: none"> (a) a unit in the Trust; (b) the beneficial interest in a specifically identified ordinary share of the Company linked to the unit and held by the Trustee-Manager as legal owner (in its capacity as trustee-manager of the Trust); and (c) a specifically identified preference share of the Company stapled to the unit.
“Share Stapled Units Register”	The register of registered Holders of Share Stapled Units
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Trust”	HK Electric Investments, as constituted pursuant to the Trust Deed under the Laws of Hong Kong
“Trust Deed”	The trust deed dated 1 January 2014 constituting the Trust, entered into between the Trustee-Manager and the Company
“Trust Group”	The Trust and the Group

Term(s)	Definition
“Trustee-Manager”	HK Electric Investments Manager Limited, a company incorporated in Hong Kong with limited liability on 25 September 2013 and an indirect wholly-owned subsidiary of Power Assets, in its capacity as trustee-manager of the Trust
“Trustee-Manager Audit Committee”	Audit committee of the Trustee-Manager
“Trustee-Manager Board”	Board of directors of the Trustee-Manager