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)
與港燈電力投資 and HK Electric Investments*
(股份代號 Stock Code: 2638)

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港燈電力投資
HK Electric Investments

*港燈電力投資是根據香港法律按日期爲二零一四年一月一日的信託契約組成，其受託人爲港燈電力投資管理人有限公司
HK Electric Investments is a trust 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

2014 INTERIM RESULTS

CHAIRMAN'S STATEMENT

A New Chapter of Excellence

It gives me great pleasure to present the first interim results of HKEI, listed on the Stock Exchange of Hong Kong by way of Share Stapled Units (SSU) on 29 January 2014. HKEI, representing collectively HK Electric Investments and HK Electric Investments Limited, holds a 100% interest in the operating company HK Electric.

HK Electric has been lighting up Hong Kong since 1890, and is one of the longest-running power companies in the world. This interim report is our first as a separately listed entity following the spin-off in January 2014. During the period under review, HKEI focussed on continuing with HK Electric’s long tradition of excellence in the power business in Hong Kong.

As part of this effort HK Electric contributed its views to a major public consultation on the future fuel mix for electricity generation that took place between March and June 2014. At the same time we maintained the high standards of reliable supply of affordable and environmentally-friendly electricity to Hong Kong with a view to delivering stable returns to SSU holders.

Half Year Results

As indicated in the listing prospectus issued by HKEI, our intention is to distribute 100% of HKEI’s distributable income. For the period from the Listing Date to 30 June 2014, the distributable income was HK$1,461 million which will be all distributed to the holders of SSU.

For the period ended 30 June 2014, HKEI’s EBITDA was HK$3,279 million and unaudited profit was HK$967 million.

Interim Distribution

The interim distribution of HKEI amounts to HK16.53 cents per SSU, payable on 15 August 2014 to holders of SSU whose names appear on the Share Stapled Units Register on 6 August 2014.

Key Industry Developments

During the public consultation on the future fuel mix for electricity generation held earlier in the year, two alternative fuel mix options were proposed by the Hong Kong Government to improve local air quality and reduce carbon emissions for 2023 and beyond.

This was an important consultation that will affect not only the development of the power sector in Hong Kong but its very status as Asia's World City. The reliability, affordability and environmental performance of the chosen fuel option have to be considered carefully prior to making a decision. We believe that keeping the generation of electricity local, while increasing the proportion of natural gas to 60% in the fuel mix is the best option for Hong Kong. This option will enable us to maintain the world-class standards of supply reliability that underpin Hong Kong's status as an international financial hub while minimising tariff increases. Our views and reasonings were set out in detail in our submission to the Government.

We are pleased to see a high level of participation by the public in the consultation, with many people sharing the same views as ours. It has been widely reported by the media that some 86,000 responses to the consultation had been made to the Environment Bureau. Through our extensive engagement with stakeholders we understand that an overwhelming majority are in support of option 2 to increase local natural gas generation. The public consultation has already been concluded in mid June 2014. The Hong Kong Government is obliged to release the results of the consultation as early as possible in view of the enthusiastic response of the public. The public and the electricity industry alike await from the Government a policy decision to give a clear and certain road map for Hong Kong to contribute to combat global climate change and improve local air quality, and actions need to be planned and taken now rather than later.

The provision of affordable electricity to Hong Kong is our mission. We are committed to maintaining tariffs at the lowest possible levels, determined by a transparent regulatory framework. While natural gas is more expensive than coal, the increasing availability of natural gas in north-east Asia means that upward impact on tariffs can be stabilised.

In order to maintain affordability and reliability, HK Electric will retain the flexibility to expand gas-fired generation capacity based on growth in demand and environmental requirements.

Performance Review

During the period under review HK Electric maintained its standards of excellence in supply reliability, emissions performance, occupational safety and customer service.

Unit sales of electricity in the first six months of 2014 were slightly higher than the corresponding period in 2013 by 0.2%. Over 30% of the electricity we supplied came from gas-fired units in Lamma Power Station. The 800 kW wind turbine and the 1 MW solar power system together generated 990 MWh, avoiding 820 tonnes of carbon dioxide emissions.

Our proactive monitoring and maintenance of information technology systems, transmission and distribution equipment, and a number of scheduled infrastructure projects, enabled us to maintain our world-leading reliability level in excess of 99.999%, which is not only higher than our pledged service target but is a record we have been keeping since 1997. In the last five years, our customers experienced on average less than one minute of unplanned power interruption per customer per year. For the first half of 2014, this has been reduced to less than half a minute and we are confident that for the whole year our reliability rating can be maintained at less than one minute of unplanned power interruption per customer.

We continued to maintain our excellent customer service and are on track to meet or surpass all of our 18 pledged service standards for the 15th consecutive year. This includes higher standards for supply reliability, operational efficiency and customer services, which were revised upwards after the mid-term review of the Scheme of Control Agreement conducted with the Government in 2013.

We implemented a range of programmes to improve environmental consciousness and energy awareness in the Hong Kong community. In order to support the use of electric vehicles in Hong Kong to reduce roadside emissions, HK Electric has extended its free charging service in 11 charging stations across Hong Kong Island up to 31 December 2014. We entered into partnerships with some of Hong Kong’s most popular restaurants to install electric kitchens to provide an improved cooking environment. We are also in discussions with property developers to pre-install electric domestic kitchens in new residential buildings.

Our popular community outreach initiatives including the Good Neighbour Programme and other volunteering activities progressed during the period. The HK Electric Volunteers Team, which celebrated its 10th anniversary this year, has contributed more than 36,000 service hours to community initiatives in the past 10 years.

Strategic Long-term Programmes

With the completion of the mid-term review of the SCA which governs the operation of Hong Kong’s power companies, a number of key initiatives have been identified to enhance HK Electric’s performance especially with regard to energy efficiency and conservation. To implement these recommendations a Smart Power Fund was established in June 2014 to improve energy efficiency of the electrical infrastructure in old residential buildings. About HK$5 million will be injected into the Fund every year until 2018 and a committee including both HK Electric staff and external stakeholders has been set up to assess and approve applications for funding.

During the period under review we also commenced with the actions agreed with the Hong Kong Government under the 2014-2018 development plan. We have started the detailed planning and implementation of the approved HK$13 billion investment programme to continuously upgrade our services. We maintained and will keep net tariffs at their 2013 levels until 2018 barring unforeseen circumstances as part of our commitment to providing affordable electricity to Hong Kong’s residents. Our current tariff is consistently lower than that of major international cities and we expect that our tariff will become the lowest in the region within the 2014-2018 period.

Outlook

Following on from this positive start, we will pursue operational efficiencies and drive cost effectiveness in every aspect of our operations. Our long-term strategic investment programme will allow us to improve our emissions performance while maintaining our world-leading standards in reliability and service.

Following extensive engagement with all our stakeholders including holders of SSU and customers as part of the future fuel mix consultation, we firmly believe that expanding local electricity generation with an increased use of natural gas in the fuel mix is the preferred option for Hong Kong. This approach will allow the development of clean energy without compromising on reliability, environmental performance and price competitiveness.

It is HKEI’s current distribution policy to pay out 100% of Group Distributable Income for the period from the Listing Date to 31 December 2014 and each financial year thereafter.

It gives me great pleasure to see that State Grid, being the world’s largest utility and a dominant player in electricity power investment, has increased its unit holding to 20% stake. This significant milestone investment is a strong vote of confidence in our work and performance. Indeed, State Grid and we share corporate values to excel in the electricity business to power economic and social developments, and there are areas in which we can draw on their internationally renowned knowledge and expertise so as to better position ourselves for the challenges ahead and to secure our long term success. I and my fellow board members have extended our invitation to State Grid to join our Boards, and will be pleased to have our Boards strengthened by their presence. We will be making further announcement if and when this materializes.

My personal thanks go to our visionary board of directors and talented pool of employees for their diligence and commitment, and our holders of SSU and other stakeholders for their continual support.

Fok Kin Ning, Canning
Chairman
Hong Kong, 21 July 2014

FINANCIAL REVIEW

Financial Performance and Distribution

Unaudited consolidated profit of the Trust Group for the period ended 30 June 2014 was HK$967 million. Distributable income as calculated pursuant to the Trust Deed for the period from the Listing Date to 30 June 2014 was HK$1,461 million whilst distributable income per Share Stapled Unit was HK16.53 cents.

The Board of Directors of the Trustee-Manager has declared an interim distribution of HK16.53 cents per Share Stapled Unit for the period from the Listing Date to 30 June 2014. Holders of the Share Stapled Units will not receive distributions for any period before the Listing Date of the Share Stapled Units.

	For the period from the Listing Date to 30 June 2014	
	HK$ million	HK$ million
Consolidated profit attributable to the holders of Share Stapled Units for the period		967
After:		
(i) eliminating the effects of the Adjustments (see note (a) below)		2,339
(ii) adding/(deducting)		
− movement in Fuel Clause Recovery Account	280	
− changes in working capital	(295)	
− adjustment for deriving the actual amount of funding applied in respect of employee retirement benefit schemes	5	
		(10)
(iii) capital expenditure payment		(730)
(iv) deducting		
− finance costs payment net off interest income received		(664)
(v) deducting		
− reserve for future capital expenditure/ debt service and/or compliance with covenants in credit facility agreement		(441)
Distributable income for the period		1,461
Distribution amount for the period		1,461
Interim distribution amount per Share Stapled Unit		HK16.53 cents

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 Board of Directors of the Trustee-Manager 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 Share Stapled Unit 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 excluding the addition of fixed assets from the acquisition of HK Electric amounted to HK$578 million, which was primarily funded by cash from operations. Total external borrowings outstanding at 30 June 2014 were HK$48,235 million (31 December 2013: Nil), comprising unsecured bank loans and debt securities in issue. In addition, the Trust Group at 30 June 2014 had undrawn committed bank facilities of HK$2,300 million (31 December 2013: Nil) and bank deposits and cash of HK$3,575 million (31 December 2013: Nil). The amounts of committed bank facilities were voluntarily reduced to HK$1,000 million in July 2014 to meet the business requirement of the Trust Group.

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. The Trust Group aims to ensure that adequate financial resources are available for refinancing and business growth whilst maintaining a prudent capital structure.

Following the completion of the acquisition of HK Electric from Power Assets and the listing of Share Stapled Units on the Main Board of the Stock Exchange, a total of 8,836,200,000 Share Stapled Units are in issue, of which, 4,426,900,000 were issued pursuant to the global offering and 4,409,299,999 were issued, as part of the acquisition consideration, to Quickview Limited ("Quickview"), a wholly-owned subsidiary of Power Assets. The offer price per Share Stapled Unit was HK$5.45 and the total equity capital raised (including Share Stapled Units issued to Quickview and before listing expenses) amounted to HK$48,157 million.

Loan facility agreements dated 10 January 2014 were entered into between HK Electric, the Company and the lenders pursuant to which dual currency term loan facilities (the "Facilities") comprising a Hong Kong dollar tranche of HK$16,521 million and a United States dollar tranche of US$1,519 million (approximately HK$11,774 million) were made available to HK Electric while a Hong Kong dollar tranche of HK$5,079 million and a United States dollar tranche of US$467 million (approximately HK$3,620 million) were made available to the Company.

On 6 February 2014, the Facilities were fully drawn down for the repayments of amounts due from HK Electric to Power Assets and by the Company for the redemption of the promissory note issued by Treasure Business Limited in favour of Power Assets in partial settlement of the acquisition consideration. The maturity dates of these facilities are three years from the date of the first drawdown.

On 29 January 2014, upon the spin-off of HK Electric from Power Assets and the resulting increase in bank borrowings, Standard & Poor's revised the long term credit rating of HK Electric from "A+" to "A-" with a stable outlook. As at 30 June 2014, the net debt of the Trust Group was HK$44,660 million (31 December 2013: Nil) with a net debt-to-net total capital ratio of 48% (31 December 2013: Not Applicable).

The profile of the Trust Group's external borrowings as at 30 June 2014, after taking into account interest rate and cross currency swaps, was as follows:

(1) 100% were in Hong Kong dollars;

(2) 77% were bank loans and 23% were capital market instruments;

(3) 2% were repayable within 1 year, 80% were repayable between 2 and 5 years and 18% were repayable beyond 5 years;

(4) 91% were in fixed rate and 9% 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 contracts. As at 30 June 2014, over 90% of the Trust Group's transaction exposure from the import of fuel and capital equipment was either denominated in United States dollars or hedged into Hong Kong or United States dollars. The Trust Group is also exposed to foreign currency fluctuation arising from foreign currency borrowings raised during the period. Such exposures are, where appropriate, mitigated by the use of cross currency and interest rate swaps.

The contractual notional amounts of derivative financial instruments outstanding at 30 June 2014 amounted to HK$51,129 million (31 December 2013: Nil).

Charge on Assets

At 30 June 2014, no assets of the Trust Group were pledged to secure its loans and banking facilities (31 December 2013: Nil).

Contingent Liabilities

As at 30 June 2014, the Trust Group had no guarantee or indemnity to external parties (31 December 2013: Nil).

The Company had given guarantee to a third party supplier (the "Supplier") in respect of obligations of HK Electric under a gas sales contract (the "Contract"). The Contract is a take-or-pay contract with the entire amount that can only be determined based on the prevailing market rate when the gas volume is nominated. Accordingly, the entire amount, while being a contingent liability of the Company, is only reflected to the extent of the related amount currently due to the Supplier in the consolidated statement of financial position of the Trust and the Company.

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 2014, excluding directors' emoluments, amounted to HK$448 million. As at 30 June 2014, the Trust Group employed 1,814 permanent employees (31 December 2013: Nil). The increase in the remuneration costs and the number of permanent employees are due to the acquisition of HK Electric. 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 2014

(Expressed in Hong Kong dollars)

	Note	2014 $ million
Turnover	5	**4,481**
Direct costs		**(2,150)**
		2,331
Other revenue and other net income		**29**
Other operating costs		**(320)**
Finance costs		**(416)**
Profit before taxation	7	**1,624**
Income tax:	8	
Current		**(354)**
Deferred		**68**
		(286)
Profit after taxation		**1,338**
Scheme of Control transfers	9	**(371)**
Profit for the period attributable to the holders of Share Stapled Units/shares of the Company		**967**
Earnings per Share Stapled Unit/ share of the Company		
Basic and diluted	10	**10.94 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/dividend payable to holders of Share Stapled Units/shares of the Company attributable to the profit for the period are set out in note 16.

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF THE TRUST AND OF THE COMPANY FOR THE SIX MONTHS ENDED 30 JUNE 2014

(Expressed in Hong Kong dollars)

	2014
	$ million
Profit for the period attributable to the holders of Share Stapled Units/shares of the Company	**967**
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	**(105)**
Amounts transferred to the initial carrying amount of hedged items	**(5)**
Net deferred tax credited to other comprehensive income	**18**
	(92)
Total comprehensive income for the period attributable to the holders of Share Stapled units/shares of the Company	**875**

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 2014

(Expressed in Hong Kong dollars)

	Note	**(Unaudited) 30 June 2014 $ million**	(Audited) 31 December 2013 $ million
Non-current assets			
Fixed assets			
– Property, plant and equipment		**61,819**	-
– Assets under construction		**2,893**	-
– Interests in leasehold land held for own use under finance leases		**6,762**	-
		71,474	-
Goodwill	11	**33,623**	-
Derivative financial instruments		**311**	-
Employee retirement benefit scheme assets		**596**	-
Deferred tax assets		**4**	-
		106,008	-
Current assets			
Inventories		**1,016**	-
Deferred expenses	12	**-**	69
Trade and other receivables	13	**1,643**	-
Bank deposits and cash		**3,575**	-
		6,234	69
Current liabilities			
Amount due to a fellow subsidiary		**-**	(6)
Trade and other payables	14	**(2,023)**	(63)
Fuel Clause Recovery Account		**(381)**	-
Current portion of bank loans and other interest-bearing borrowings		**(1,000)**	-
Current tax payable		**(540)**	-
		(3,944)	(69)
Net current assets		**2,290**	-
Total assets less current liabilities		**108,298**	-
Non-current liabilities			
Bank loans and other interest-bearing borrowings		**(47,235)**	-
Derivative financial instruments		**(136)**	-
Customers' deposits		**(1,918)**	-
Deferred tax liabilities		**(9,695)**	-
Employee retirement benefit scheme liabilities		**(469)**	-
		(59,453)	-
Scheme of Control Fund and Reserve	15	**(490)**	-
Net assets		**48,355**	-
Capital and reserves			
Share capital		**8**	-
Reserves		**48,347**	-
Total equity		**48,355**	-

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 CHANGES IN EQUITY OF THE TRUST AND OF THE COMPANY FOR THE SIX MONTHS ENDED 30 JUNE 2014

(Expressed in Hong Kong dollars)

	Attributable to holders of Share Stapled Units/shares of the Company					
$ million	Share capital	Share premium	Hedging reserve	Revenue reserve	Proposed/ declared distribution/ dividend	Total
Balance at 1 January 2014	**-**	**-**	**-**	**-**	**-**	**-**
Changes in equity for the six months ended 30 June 2014:						
Profit for the period	**-**	**-**	**-**	**967**	**-**	**967**
Other comprehensive income	**-**	**-**	**(92)**	**-**	**-**	**(92)**
Total comprehensive income	**-**	**-**	**(92)**	**967**	**-**	**875**
Issue of Share Stapled Units as part of purchase consideration of HK Electric	**4**	**24,027**	**-**	**-**	**-**	**24,031**
Issue of Share Stapled Units pursuant to global offering	**4**	**24,122**	**-**	**-**	**-**	**24,126**
Transaction costs attributable to issue of Share Stapled Units	**-**	**(677)**	**-**	**-**	**-**	**(677)**
Interim distribution/dividend (see note 16)	**-**	**-**	**-**	**(1,461)**	**1,461**	**-**
Balance at 30 June 2014	**8**	**47,472**	**(92)**	**(494)**	**1,461**	**48,355**

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 Committee.

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.

In connection with the spin-off and separately listing of Power Assets Holdings Limited ("Power Assets") group's Hong Kong electricity business, which is operated by The Hongkong Electric Company, Limited ("HK Electric"), by way of a listing of the Share Stapled Units jointly issued by the Trust and the Company on the Main Board of the Stock Exchange, a reorganisation was implemented pursuant to which Treasure Business Limited, an indirect wholly-owned subsidiary of the Company, acquired the entire issued share capital of HK Electric.

The acquisition was completed on 29 January 2014 following which HK Electric has become an indirect wholly-owned subsidiary of the Company. The Share Stapled Units were listed on the Main Board of the Stock Exchange on the same day.

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 2014 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 2014 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 2014 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 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 the Company”.

The Trust Group and the Group are referred as the “Groups”.

4. Summary of significant accounting policies

(a) Basis of preparation

The unaudited consolidated interim financial statements of the Trust and the Company have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).

The preparation of the consolidated 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.

These consolidated interim financial statements are the Groups’ first set of consolidated interim financial statements. Accordingly, no comparative financial information is presented in the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flows statement.

HKICPA has issued a few amendments to HKFRSs and one new interpretation 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 HKFRS 10, HKFRS 12 and HKAS 27, *Investment Entities*
- HKAS 32, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*
- Amendments to HKAS 36, *Recoverable Amount Disclosures for Non-financial Assets*
- HK(IFRIC) – Interpretation 21, *Levies*

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.

(b) Subsidiaries

Subsidiaries are entities (including structured entities) over which the Groups have control. The Groups control an entity when the Groups are exposed to, or have the rights to, variable returns from their involvement with the entity and have the ability to affect those returns through their power over the entity.

Investments in subsidiaries are consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Groups' interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Groups lose control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in a joint venture or an associate.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 4(f)(i)).

(c) Goodwill

Goodwill represents the excess of:

(i) the aggregate of the fair value of the consideration transferred; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 4(f)(ii)).

(d) Fixed assets, depreciation and amortisation

(i) Fixed assets are stated in the statement of financial position at cost less accumulated depreciation (see note 4(d)(vii)), amortisation (see note 4(d)(vi)) and impairment losses (see note 4(f)(ii)).

(ii) The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located and an appropriate proportion of production overheads and borrowing costs (see note 4(s)).

(iii) Where parts of a fixed asset have different useful lives, the cost of the fixed asset is allocated on a reasonable basis between the parts and each part is depreciated separately. Subsequent expenditure to replace a component of a fixed asset that is accounted for separately, or to improve its operational performance is included in the asset's carrying amount or recognised as a separate asset as appropriate when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Groups and the cost of the item can be measured reliably. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iv) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss on the date of retirement or disposal.

(v) Leasehold land held for own use under finance leases is stated in the statement of financial position at cost less accumulated amortisation (see note 4(d)(vi)) and impairment losses (see note 4(f)(ii)).

(vi) The cost of acquiring land held under finance leases is amortised on a straight-line basis over the period of the unexpired lease term.

(vii) Depreciation is calculated to write off the cost of fixed assets less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

	Years
Cable tunnels	100
Buildings	60
Ash lagoon and gas pipeline	60
Transmission and distribution equipment, overhead lines and cables	60
Generating plant and machinery	35
Gas turbines and gas turbine combined cycle	30
Mechanical meters	30
Photovoltaic systems	25
Wind turbines	20
Electronic meters, microwave and optical fibre equipment and trunk	15
Furniture and fixtures, sundry plant and equipment	10
Computers	5 to 10
Motor vehicles and marine craft	5 to 6
Workshop tools and office equipment	5

Immovable assets are amortised on a straight-line basis over the unexpired lease terms of the land on which the immovable assets are situated if the unexpired lease terms of the land are shorter than the estimated useful lives of the immovable assets.

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(e) Leased assets and operating lease charges

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Groups determine that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Where the Groups have the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

Where the Groups acquire the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present values of the minimum lease payments of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Groups will obtain ownership of the asset, the life of the asset, as set out in note 4(d)(vii). Impairment losses are accounted for in accordance with the accounting policy as set out in note 4(f)(ii). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(f) Impairment of assets

Under the Listing Rules, the Groups are required to prepare an interim financial report in compliance with HKAS 34 in respect of the first six months of the financial year. At the end of the interim period, the Groups applied the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 4(f)(i) and 4(f)(ii)).

(i) Impairment of investment in a subsidiary, trade and other receivables and other financial assets

Investment in a subsidiary, trade and other receivables and other financial assets that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Groups about one or more of the following loss events:

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

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investment in a subsidiary recognised at cost, the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 4(f)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 4(f)(ii).

- For trade and other receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of the asset), where the effect of discounting is material. For financial assets carried at cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset, where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

  Impairment losses are written off against the corresponding assets directly.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- fixed assets; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

  An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro-rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- Reversals of impairment losses

  In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill recognised in an interim period is not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

  A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the period in which the reversals are recognised.

(g) Short term employee benefits

Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(h) Retirement scheme obligations

(i) Defined benefit retirement scheme obligations

The Groups' net obligation in respect of defined benefit retirement schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any scheme assets is deducted. The discount rate is the yield at the end of the reporting period on Hong Kong Special Administrative Region Government Exchange Fund Notes that have maturity dates approximating the terms of the Groups' obligations. The calculation is performed by a qualified actuary using the "Projected Unit Credit Method".

Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in the revenue reserve and will not be reclassified to profit or loss.

The Groups determine the net interest expense or income for the period on the net defined benefit retirement scheme liability or asset by applying the discount rate used to measure the defined benefit retirement scheme obligation at the beginning of the annual period to the net defined benefit retirement scheme liability or asset, taking into account any changes in the net defined benefit retirement scheme liability or asset during the period as a result of contributions and benefit payments.

Where the calculation of the Groups' net obligation results in a negative amount, the asset recognised is limited to the total of any cumulative unrecognised past service costs and the present value of any future refunds from the schemes or reductions in future contributions to the schemes.

(ii) Contributions to defined contribution retirement schemes

Obligations for contributions to defined contribution retirement schemes, including contributions payable under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in profit or loss as incurred.

(i) Inventories

Coal, stores, fuel oil and natural gas are valued at cost measured on a weighted average basis.

Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost of inventories recognised as an expense includes the write-off and all losses of inventories.

(j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 4(f)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(k) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, with the exception of fixed interest borrowings that are designated as hedged items in fair value hedges (see note 4(n)(i)), interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

For fixed interest borrowings that are designated as hedged items in fair value hedges, fair value changes that are attributable to the hedged risk are recognised in profit or loss (see note 4(n)(i)).

(l) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 4(t)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see note 4(n)).

(n) Hedging

(i) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss, along with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

(ii) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gains or losses on remeasurement of the derivative financial instrument to fair value are recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gain or loss is recognised immediately in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is reclassified from equity and included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (such as when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the Groups revoke designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from equity to profit or loss immediately.

(o) Revenue recognition

(i) Regulation of earnings under the Scheme of Control Agreement

The earnings of the Groups' major subsidiary, HK Electric, are regulated by the Hong Kong SAR Government ("the Government") under a Scheme of Control Agreement ("SoCA") which provides for a permitted level of earnings based principally on a return on HK Electric's capital investment in electricity generation, transmission and distribution assets (the "Permitted Return"). The SoCA also provides for performance based incentives and penalties which encourage emission reduction, customer service quality, energy efficiency and the use of renewable energy. The Net Return of HK Electric under the SoCA is determined by deducting from the Permitted Return interest and excess capacity adjustments, if any, and adjusting for the abovementioned incentives and penalties. HK Electric is required to submit detailed Development Plans for approval by the Government which project the key determinants of the Net Return to which HK Electric will be entitled over the Development Plan period.

In December 2013, the Government has approved the 2014 to 2018 Development Plan covering the period from 1 January 2014 to 31 December 2018. Similar to the 2009-2013 Development Plan, no further Government approval is required during this period unless a need for significant Basic Tariff increases, over and above those set out in the Development Plan, is identified during the Annual Tariff Review conducted with the Government under the terms of the SoCA.

(ii) Fuel Clause Recovery Account

Under the SoCA, any difference between the standard cost of fuel, as agreed with the Government, and the actual cost of fuel consumed is transferred to the Fuel Clause Recovery Account ("Fuel Cost Account Adjustments").

Fuel Clause Charges (or Rebates) are charged (or given) to customers by adding to (or deducting from) the Basic Tariff to produce a Net Tariff payable by customers and are credited (or debited) to the Fuel Clause Recovery Account.

The balance on the Fuel Clause Recovery Account at the end of the reporting period represents the difference between Fuel Clause Charges (or Rebates) and Fuel Cost Account Adjustments during the period, together with any balance brought forward from the prior year and interest thereon based on prevailing market interest rates. Any debit balance is carried forward as a deferred receivable to be recovered from Fuel Clause Charges and/or Fuel Cost Account Adjustments and any credit balance is carried forward as a deferred payable to be cleared by Fuel Clause Rebates and/or Fuel Cost Account Adjustments.

Fuel Clause Charges or Rebates are utilised to smooth increases in Net Tariffs paid by customers. The impact of tariff smoothing is to reduce the Net Tariffs payable by customers in certain years and increase the Net Tariffs in other years. However, the tariff smoothing has no impact on the HK Electric's total earnings and the related balance on the Fuel Clause Recovery Account is expected to be recovered by Fuel Clause Charges and/or Fuel Cost Account Adjustments.

(iii) Income recognition

Electricity income is recognised based on the actual and accrued units of electricity consumed by customers during the period at the Basic Tariff, which is the unit charge agreed with the Government during the Annual Tariff Review for each financial year.

Electricity-related income is recognised when the related services are rendered.

Interest income is recognised on a time apportioned basis using the effective interest method.

(p) Translation of foreign currencies

Foreign currency transactions during the period are translated into Hong Kong dollars at the foreign exchange rates ruling at the transaction dates, or at contract rates if foreign currencies are hedged by forward foreign exchange contracts. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the foreign exchange rates ruling at the end of the reporting period.

Exchange gains and losses in respect of fixed assets under construction are, up to the date of commissioning, incorporated in the cost of the assets. All other exchange differences are dealt with in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Groups' cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(r) Income tax

Income tax for the period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

All deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset.

(s) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(t) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

When consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in profit or loss.

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Groups have a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(u) Related parties

(i) A person or a close member of that person's family is related to the Groups if that person:

(1) has control or joint control over the Groups;

(2) has significant influence over the Groups; or

(3) is a member of the key management personnel of the Groups.

(ii) An entity is related to the Groups if any of the following conditions apply:

(1) The entity and the Groups are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(3) Both entities are joint ventures of the same third party.

(4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(5) The entity is a post-employment benefit plan for the benefit of employees of either the Groups or an entity related to the Groups.

(6) The entity is controlled or jointly controlled by a person identified in 4(u)(i).

(7) A person identified in 4(u)(i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(v) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker of the Groups for the purposes of resource allocation and performance assessment. Accordingly, the Groups' aggregated operating segments are based on their principal activities and geographical regions to present the reportable segments.

5. Turnover

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

	Six months ended 30 June 2014 $ million
Sales of electricity	**4,476**
Concessionary discount on sales of electricity	**(2)**
Electricity-related income	**7**
	4,481

6. 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.

7. Profit before taxation

		Six months ended 30 June 2014 $ million
Profit before taxation is arrived at after charging/(crediting):		
Finance costs		
Interest on borrowings	**461**	
Less: Interest capitalised to fixed assets	**(37)**	
Interest transferred to fuel cost	**(8)**	
		416
Depreciation		
Depreciation charges for the period	**1,224**	
Less: Depreciation capitalised to fixed assets	**(50)**	
		1,174
Amortisation of leasehold land		**82**

8. Income tax

	Six months ended 30 June 2014 $ million
Current tax	
Provision for Hong Kong Profits Tax for the period	**354**
Deferred tax	
Origination and reversal of temporary differences	**(68)**
	286

The provision for Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the six months ended 30 June 2014.

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.

9. 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 2014 $ million
Tariff Stabilisation Fund	**366**
Rate Reduction Reserve	**-**
Smart Power Fund	**5**
	371

10. 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 for the period attributable to the holders of Share Stapled Units/shares of the Company of $967 million for the six months ended 30 June 2014 and 8,836,200,000 Shares Stapled Units/ordinary shares of the Company in issue as if the Shares Stapled Units/ordinary shares of the Company have been issued throughout the period.

11. Business combination

In connection with the spin-off and separately listing of Power Assets group's Hong Kong electricity business, which is operated by HK Electric, by way of a listing of the Share Stapled Units jointly issued by the Trust and the Company on the Main Board of the Stock Exchange, a reorganisation was implemented pursuant to which the Group has acquired the entire issued share capital of HK Electric. The acquisition was completed on 29 January 2014 and HK Electric has become an indirect wholly-owned subsidiary of the Company.

Details of the estimated fair values of the identifiable assets and liabilities of HK Electric and goodwill in respect of acquisition at the acquisition date were as follows:

	$ million
Purchase consideration	
Cash consideration	**32,026**
Issuance of 4,409,299,999 Share Stapled Units to Quickview Limited ("Quickview")	**24,031**
	56,057

Less: estimated fair values of identifiable assets acquired and liabilities assumed recognised

Assets	
Fixed Assets	**72,237**
Net employee retirement benefit scheme assets	**132**
Net derivative financial instruments	**278**
Inventories	**848**
Trade and other receivables	**1,141**
Bank deposits and cash	**1,148**
	75,784
Liabilities	
Loan from Power Assets	**(27,445)**
Medium term notes	**(11,500)**
Trade and other payables	**(2,313)**
Fuel Clause Recovery Account	**(101)**
Current tax payable	**(186)**
Customers' deposits	**(1,910)**
Deferred tax liabilities	**(9,776)**
Tariff Stabilisation Fund	**(119)**
	(53,350)
Total identifiable net assets acquired	**22,434**
Goodwill on acquisition	**33,623**

	$ million
Analysis of cash flows on acquisition:	
Cash consideration	**32,026**
Cash and cash equivalents acquired	**(1,148)**
Net cash outflow	**30,878**

(a) The goodwill is attributable mainly to future stable cash flows and profits generated from generation and supply of electricity in Hong Kong, and the skills and technical talent of HK Electric's work force.

(b) Stamp duty of $112 million on sale and purchase of entire issued share capital of HK Electric was borne by Power Assets. Other acquisition-related costs totalled $3 million were included in other operating costs of unaudited consolidated statement of profit or loss.

(c) The acquisition contributed $4,481 million and $2,143 million to the Groups' revenue and profit before taxation since acquisition. If the acquisition had occurred on 1 January 2014, the revenue and profit before taxation of the Groups would have been approximately $5,163 million and $2,320 million respectively.

(d) As of the date of these unaudited consolidated interim financial statements, the purchase price allocation process is nearly complete. The Groups have used the estimated fair values of the acquired assets and assumed liabilities with the excess of the cost of acquisition over these estimated fair values being recorded as goodwill. The purchase price allocation to the acquired assets and assumed liabilities in these unaudited consolidated interim financial statements is provisional and may be adjusted in the Groups' consolidated financial statements for the year ending 31 December 2014 when the purchase price allocation is finalised. Had the purchase price allocation been finalised, the fair values of the assets acquired and liabilities assumed and the amount of goodwill could be different from the amounts recognised.

12. Deferred expenses

At 31 December 2013, deferred expenses represented expenses incurred during the period from 23 September 2013 (date of incorporation of the Company) to 31 December 2013 in connection with the acquisition of HK Electric (the "Acquisition") and the listing of Share Stapled Units jointly issued by the Trust and the Company (the "Listing").

During the six months period ended 30 June 2014, the balance of deferred expenses were charged to the profit or loss or equity upon the completion of the Acquisition and the Listing.

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 2014 $ million	31 December 2013 $ million
Current and within 1 month	**905**	-
1 to 3 months	**31**	-
More than 3 months but less than 12 months	**10**	-
Trade debtors	**946**	-
Other receivables	**676**	-
	1,622	-
Derivative financial instruments		
− held as cash flow/fair value hedging instruments	**1**	-
Deposits and prepayments	**20**	-
	1,643	-

Electricity bills issued to domestic, 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 2014 $ million	31 December 2013 $ million
Due within 1 month or on demand	**660**	63
Due after 1 month but within 3 months	**211**	-
Due after 3 months but within 12 months	**1,151**	-
Creditors measured at amortised cost	**2,022**	63
Derivative financial instruments		
− held as cash flow/fair value hedging instruments	**1**	-
	2,023	63

15. 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 2014 $ million	31 December 2013 $ million
Tariff Stabilisation Fund	**485**	-
Rate Reduction Reserve	**-**	-
Smart Power Fund (see note (a) below)	**5**	-
	490	**-**

(a) Pursuant to mid-term review of Scheme of Control which was conducted in 2013, a Smart Power Fund was established in June 2014 to support the carrying out of improvement works to upgrade the energy efficiency performance of building services installations for communal use in residential buildings or composite buildings with substantial portion for residential use.

16. Interim distribution/dividend

The distributable income for the period from the Listing Date to 30 June 2014 was as follows:

	$ million	$ million
Consolidated profit attributable to the holders of Share Stapled Units for the period		**967**
After:		
(i) eliminating the effects of the Adjustments (see note (a) below)		**2,339**
(ii) adding/(deducting)		
- movement in Fuel Clause Recovery Account	**280**	
- changes in working capital	**(295)**	
- adjustment for deriving the actual amount of funding applied in respect of employee retirement benefit schemes	**5**	
		(10)
(iii) capital expenditure payment		**(730)**
(iv) deducting		
– finance costs payment net off interest income received		**(664)**
(v) deducting		
– reserve for future capital expenditure/ debt service and/or compliance with covenants in credit facility agreement		**(441)**
Distributable income for the period		**1,461**
Distribution amount for the period		**1,461**
Number of Share Stapled Units/ordinary shares of the Company		**8,836,200,000**
Interim distribution/dividend per Share Stapled Unit/ ordinary share of the Company (see note (d) below)		**16.53 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) Interim distribution/dividend per Share Stapled Unit/ordinary share of the Company of 16.53 cents for the period from the Listing Date to 30 June 2014 is calculated based on the interim distribution of $1,461 million for the period and the number of Shares Stapled Units/ordinary shares of the Company of 8,836,200,000 as at 30 June 2014.

UNAUDITED STATEMENT OF COMPREHENSIVE INCOME OF HK ELECTRIC INVESTMENTS MANAGER LIMITED FOR THE SIX MONTHS ENDED 30 JUNE 2014

(Expressed in Hong Kong dollars)

	Note	2014 $
Revenue		-
Administrative expenses		-
Profit before taxation	4	-
Income tax	5	-
Profit and total comprehensive income for the period		-

UNAUDITED STATEMENT OF FINANCIAL POSITION
OF HK ELECTRIC INVESTMENTS MANAGER LIMITED
AT 30 JUNE 2014
(Expressed in Hong Kong dollars)

	(Unaudited) 30 June 2014 $	(Audited) 31 December 2013 $
Current assets		
Amount due from immediate holding company	**1**	1
Net assets	**1**	1
Capital and reserves		
Share capital	**1**	1
Reserves	**-**	-
Total equity	**1**	1

UNAUDITED STATEMENT OF CHANGES IN EQUITY OF HK ELECTRIC INVESTMENTS MANAGER LIMITED FOR THE SIX MONTHS ENDED 30 JUNE 2014

(Expressed in Hong Kong dollars)

$	Share capital	Reserves	Total
Balance at 1 January 2014	**1**	**-**	**1**
Changes in equity for the six months ended 30 June 2014:			
Profit and total comprehensive income for the period	-	-	-
Balance at 30 June 2014	**1**	**-**	**1**

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 Companies Ordinance on 25 September 2013 and is an indirect wholly-owned subsidiary of Power Assets.

The principal activity of the Company is administering 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 preparation and presentation

These unaudited interim financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The interim financial statements have been prepared in accordance with the same accounting policies adopted in and should be read in conjunction with the 2013 annual financial statements for the period from 25 September 2013 (date of incorporation) to 31 December 2013.

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 Company was incorporated on 25 September 2013. These unaudited interim financial statements are the Company’s first set of interim financial statements. Accordingly, no comparative financial information is presented in the statement of comprehensive income, statement of changes in equity and cash flow statement.

The Trust Deed requires the Company (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 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 16 to the unaudited consolidated interim financial statements of the Trust and HK Electric Investments Limited on page 32, no distributions statement is therefore presented in this unaudited interim financial statements.

4. Profit before taxation

All expenses of the Company which were incurred for the administering of the Trust of $110,000 for the period ended 30 June 2014 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 period.

5. 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 period.

OTHER INFORMATION

Interim Distribution

The Trustee-Manager Board has declared an interim distribution by the Trust for 2014 of HK16.53 cents per Share Stapled Unit. The distribution will be payable on 15 August 2014 to Holders of Share Stapled Units whose names appear in the Share Stapled Units Register at the close of business on Wednesday, 6 August 2014, 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, 6 August 2014.

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 period from the Listing Date to 30 June 2014.

Corporate Governance Practices

HKEI is committed to maintaining high standards of corporate governance. The Boards recognise that sound and effective corporate governance practices are fundamental to the smooth, effective and transparent operation of the Trust Group, and the ability to attract investment, protect the rights of Holders of Share Stapled Units and other stakeholders, and enhance holder value. HKEI's corporate governance policy is designed to achieve these objectives, and is 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 coordinate disclosure to the Stock Exchange.

HKEI has complied with the applicable code provisions in the Corporate Governance Code throughout the period from the Listing Date to 30 June 2014, 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.

Neither the Trustee-Manager nor the Company has a nomination committee as provided for in code provision A.5. At present, 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 Company has established the policy on handling of inside information and securities dealing for compliance by the Company's employees.

Boards Composition

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

Executive directors	:	Mr. FOK Kin Ning, Canning (Chairman), Mr. WAN Chi Tin (Chief Executive Officer), Mr. CHAN Loi Shun, Mr. CHENG Cho Ying, Francis, Mrs. CHOW WOO Mo Fong, Susan and Mr. YUEN Sui See
Non-executive directors	:	Mr. TSO Kai Sum (Deputy Chairman) and Mr. Ronald Joseph ARCULLI
Independent non-executive directors	:	Mr. FONG Chi Wai, Alex, Mr. LEE Lan Yee, Francis, Mr. George Colin MAGNUS and Mr. Donald Jeffrey ROBERTS

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 (港燈電力投資有限公司), 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
"Group"	The Company and its subsidiaries
"HK Electric"	The Hongkong Electric Company, Limited (香港電燈有限公司), a company incorporated in Hong Kong with limited liability on 24 January 1889 and an indirect wholly-owned subsidiary of the Company
"HKEI"	The Trust and the Company
"HKFRSs"	A collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants
"Holder(s) of Share Stapled Units"	Person(s) who hold Share Stapled Units issued by HKEI
"Listing Date"	29 January 2014, being the date of listing of Share Stapled Units jointly issued by the Trust and the Company on the Main Board of the Stock Exchange

Term(s)	Definition
"Listing Rules"	Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules
"Power Assets"	Power Assets Holdings Limited, a company incorporated in Hong Kong with limited liability, which shares are listed on the Main Board of the Stock Exchange (stock code: 6)
"Share Stapled Unit(s)" or "SSU(s)"	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: (a) a unit in the Trust; (b) the beneficial interest in a specifically identified ordinary share 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.
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Trust"	HK Electric Investments (港燈電力投資), 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 (港燈電力投資管理人有限公司), 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