港燈電力投資
HK Electric Investments

HK Electric Investments
and
HK Electric Investments Limited
(Stock Code: 2638)

ANNUAL REPORT 2016

PAINTING HONG KONG'S FUTURE GREEN

HK Electric

Investments, constituted in January 2014, is the first fixed single investment trust in Hong Kong focusing purely on the energy sector. Our Share Stapled Units, issued by the trust and HK Electric Investments Limited (collectively known as "HKEI"), are listed on the Main Board of the Hong Kong Stock Exchange. Our trust is structured to enable us to maintain a single-minded focus on delivering stable distributions to holders of our Share Stapled Units, while ensuring we have the potential for sustainable long-term growth.

Our main operating company, HK Electric, is a vertically integrated power utility responsible for the generation, transmission, distribution and supply of electricity to more than 570,000 customers in Hong Kong. Through HK Electric, we have a heritage of powering Hong Kong's economic growth for over 125 years, investing in the most appropriate technologies and fuels to support the provision of affordable, safe, reliable and clean electricity to both businesses and residential communities.

We are committed to continuing HK Electric's long tradition of community engagement and support for the underprivileged, and to remaining a positive and responsible member of the Hong Kong community.

PAINTING HONG KONG'S FUTURE GREEN

This year's annual report highlights our enduring and multi-faceted commitment to the environment.

Over the years, care for the environment has formed an integral part of every single facet of our operations. From switching to cleaner fuels for generation to investing in emissions reduction equipment, and from educating the community on conservation to offering energy advisory services for customers, we strive to behave in a sustainable manner no matter what we do.

The cover design illustrates our belief that just as every individual colour is important to an artwork, each of our actions has a role in painting a greener Hong Kong for future generations.

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PERFORMANCE HIGHLIGHTS

FINANCIALS

	2016		2015	
REVENUE	**HK$ 11,420**	million	**HK$ 11,210**	million
DISTRIBUTABLE INCOME	**HK$ 3,538**	million	**HK$ 3,538**	million
TOTAL DISTRIBUTION PER SSU	**HK 40.04**	cents	**HK 40.04**	cents
INTERIM DISTRIBUTION PER SSU	**HK 19.92**	cents	**HK 19.92**	cents
FINAL DISTRIBUTION PER SSU	**HK 20.12**	cents	**HK 20.12**	cents
TOTAL ASSETS	**HK$ 108,350**	million	**HK$ 113,715**	million
NET DEBT-TO-NET TOTAL CAPITAL RATIO	**44%**		**46%**	
S&P CREDIT RATING				
HK ELECTRIC	**A- / Stable**		**A- / Stable**	
HK ELECTRIC INVESTMENTS LIMITED	**A- / Stable**		**A- / Stable**	

OPERATIONS

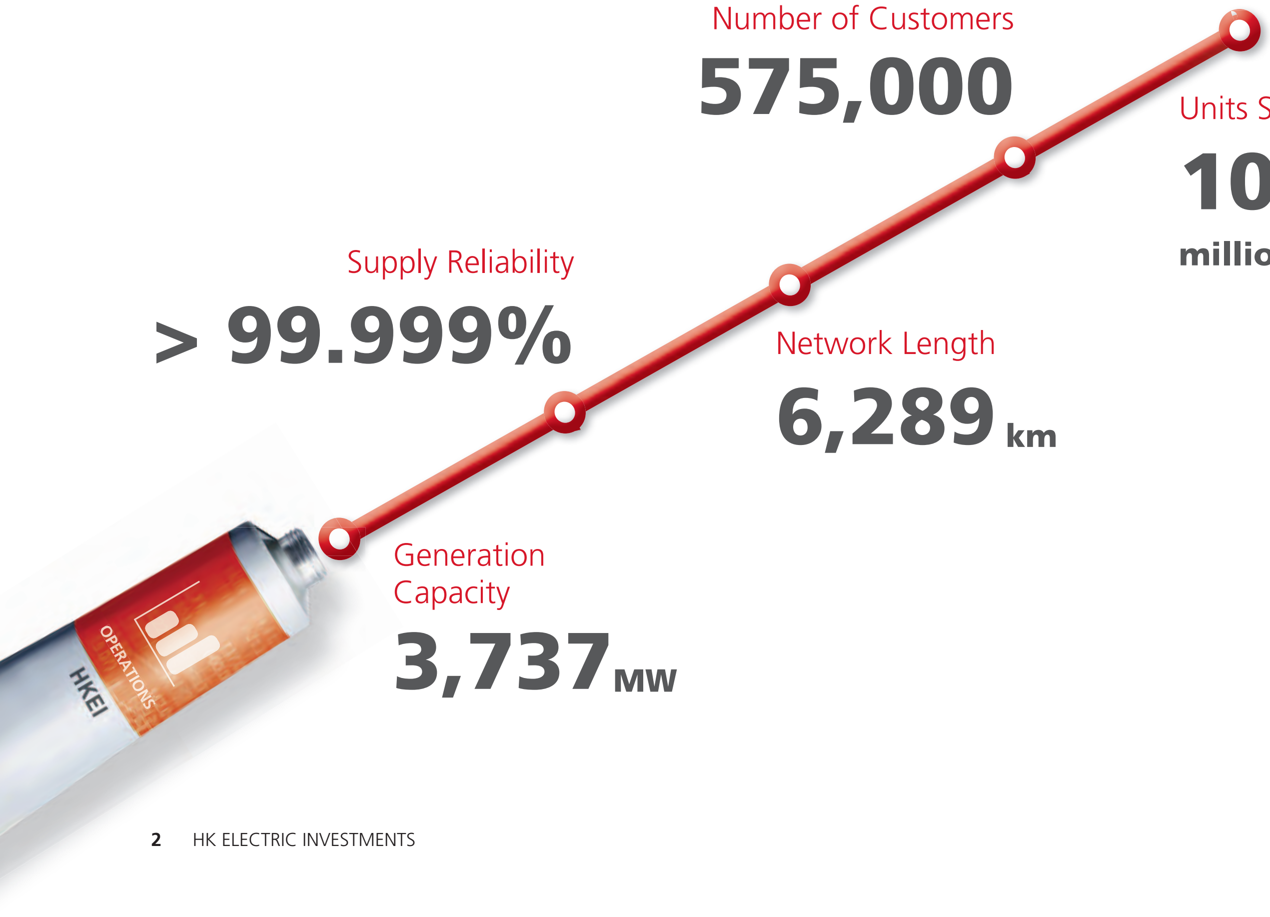
Number of Customers
575,000

Units Sold
10,792
millions of kWh

Supply Reliability
> 99.999%

Network Length
6,289 km

Generation Capacity
3,737 MW



CHAIRMAN'S STATEMENT

In the longer term, we envisage an investment pipeline which includes the further replacement of coal-fired generating units by gas-fired units and other supporting infrastructure.

PREPARING FOR A GREEN ENERGY FUTURE

It gives me great pleasure to present the financial and operating results for HKEI in 2016.

This year we continued to achieve a balance between shareholder and customer value, with stable distribution to holders of our Share Stapled Units (SSU), while reducing our tariffs across the board. Following the 2016 tariff reduction we have announced further cuts for 2017, delivering savings of over 17% on average for all customers, thanks to lower-than-expected fuel costs. These cuts follow a two-year tariff freeze and have enabled us to go over and above our 2013 pledge to keep tariffs unchanged for five years till end 2018.

Over the years, it is clear that the world's energy needs have evolved: the need is now for reliable and accessible energy that is also environmentally friendly. One of our key strategies to achieve this in the immediate term is through a significant increase in the use of natural gas for generation. In 2015, we had begun the work of increasing gas-firing generation capacity with the construction of a new gas-fired generating unit, L10 at Lamma Power Station (LPS). In September 2016, we secured Government approval for another such unit, L11, and have already commenced with preparation works for its construction.

In the longer term, more efforts would be required to support the Government's Climate Action Plan 2030+ which sets out an aggressive target to reduce Hong Kong's carbon intensity by 65-70% in 2030 compared to the 2005 level. We envisage an investment pipeline which includes the further replacement of coal-fired generating units by gas-fired units and other supporting infrastructure.

FINANCIAL RESULTS AND DISTRIBUTIONS

For the year ended 31 December 2016, HKEI's EBITDA was HK$8,034 million (2015: HK$8,035 million) and audited profits attributable to SSU holders was HK$3,599 million (2015: HK$3,591 million).

The Board of the Trustee-Manager has declared a final distribution by the Trust of HK20.12 cents (2015: HK20.12 cents) per SSU, payable on 19 April 2017 to SSU holders whose names appear on the Share Stapled Units Register on 6 April 2017. This, together with the interim distribution of HK19.92 cents (2015: HK19.92 cents) per SSU, amounts to a total distribution of HK40.04 cents (2015: HK40.04 cents) per SSU for the year.

INFRASTRUCTURE FOR INCREASED GAS-FIRED GENERATION TO COMBAT CLIMATE CHANGE

In 2015, following an extensive public consultation exercise, the Hong Kong Government released its fuel mix strategy for the energy sector. It mandated an increase in local gas-fired generation to about 50% of total output in 2020 which we fully support. In 2016, we progressed with several key initiatives to reach this target.

We will consecutively install two new gas-fired combined cycle generating units, L10 and L11, at LPS, our primary generating facility, to replace retiring coal-fired and gas-fired units. Construction of the L10 unit is progressing well with the superstructure construction set to commence on schedule for commissioning of the unit in 2020. Preparations for the newly approved L11 unit are underway with piling work having commenced at end 2016. When L11 is commissioned in 2022, our gas-firing generation capacity will rise to about 55% of total output which will help reduce emissions further. We are excited about these projects and are confident that they will be completed on time and within budget. Other coal-fired units at LPS are coming to the end of their useful lives and need to be replaced by gas-fired units before the end of the next decade.

In October 2016, the Hong Kong Government's Sixth Technical Memorandum was published. The annual emission allowances of sulphur dioxide (SO_2), nitrogen oxides (NO_x) and respirable suspended particulates (RSP) are further tightened by 8%, 2% and 10% respectively for HK Electric from 2021 onwards. Our expanded gas-firing capacity as well as other emission control measures will enable us to meet these tightened allowances.

To maintain supply reliability while increasing gas-firing generation capacity, it is imperative to secure the supply chain. Hong Kong at present lacks storage facilities for natural gas imported by sea, which also affects our negotiating power with international gas suppliers. To address this gap, we are, in partnership with CLP Power Hong Kong Limited, jointly exploring the feasibility of siting an offshore liquefied natural gas terminal using floating storage and regasification unit technology (FSRU). The terminal, if and when built, will serve the electricity sector as a whole. An Environmental Impact Assessment (EIA) began during the year. If the Government approves the EIA report and the project in time, the terminal is scheduled for commissioning in 2020.

CONSISTENT PERFORMANCE ACROSS ALL PARAMETERS

While preparing for the future we continued to excel on all operating parameters in 2016.

Supply reliability was maintained at over 99.999% for the twentieth consecutive year and unplanned power interruption per customer was under one minute for the eighth consecutive year. I am gratified to note that we, once again, met or surpassed all eighteen customer service pledges, as we continue to offer customers reduced tariffs in response to softer fuel prices. Electricity sales in 2016 declined slightly by 0.8% as a result of conservation efforts across the community.

In preparation for the expansion of our gas-firing generation capacity, security and reliability enhancement works were carried out on the gas receiving station at LPS. On the transmission and distribution front, proactive network enhancement and improvement projects were implemented, to maintain high standards with respect to system reliability and power quality, and new equipment was commissioned for provision of new supply. Equally, we remained a prudent and mindful consumer of energy in our office buildings and across our fleet of company vehicles.

We believe that Electric Vehicles (EVs) have great potential to reduce roadside emissions. Our own fleet has over a hundred EVs. We were the official energy partner for the first Hong Kong ePrix held in October 2016, helping increase awareness that EVs are powerful enough to make it to the racing circuit. Other initiatives during the year included EV charging advisory services for buildings and the continued provision of free charging facilities in public carparks.

We once again outperformed all statutory emissions caps in 2016 and continued to encourage and educate the public on energy efficiency and environmental awareness through our community involvement programmes such as the Green Hong Kong Green and Smart Power Campaign. We offered energy audit advisory services for non-residential customers and funded energy improvement works at older residential blocks through the Smart Power Fund.

We remain an employer of choice, offering a healthy work-life balance, stimulating opportunities and planned career progression to employees from recruitment to retirement. I am honoured that we were ranked one of the Top 10 Most Attractive Employers in Hong Kong by Randstad.

Our involvement in the community remained unwavering, as our dedicated team of volunteers offered their time and expertise to the causes close to our hearts; such as supporting the vulnerable elderly, participating in community-wide initiatives and educating the public on conserving the environment. We pressed ahead with our efforts to minimise the amount of waste we produced and recycled unavoidable waste.

REGULATORY FRAMEWORK FOR A STABLE SECTOR

One of the priorities for the Hong Kong Government during this period is to set the regulatory framework that will drive the sector upon the expiry of the current Scheme of Control Agreement (SCA). Responses to a public consultation on the future development of the electricity market conducted in 2015 indicated that the majority of the community felt the current arrangement should be maintained. We share this view.

The SCA framework has worked well and allowed the fulfillment of the Government's energy policy objectives of safety, reliability, affordability and environmental protection. It has been effective in balancing the interests of consumers and industry players, appropriately incentivising the long-term investments necessary to evolve Hong Kong's electricity infrastructure to meet the needs of the 21st century particularly in addressing climate change and air quality concerns.

On this note, we are encouraged by the reasonably good progress that has been made in our ongoing deliberations with the Government over the future regulatory framework. The discussion is in an advanced stage now with both sides acknowledging the need for an early agreement with which HK Electric will be able to make timely investments to achieve the Government's energy and environmental objectives.

OUTLOOK

With socio-economic uncertainties likely to prevail in Hong Kong and around the world, it is important to conclude the deliberations over the future shape of the regulatory framework for the power industry, as early as possible. A secure regulatory environment and a reasonable rate of return are crucial for industry players to make appropriate investments to maintain a high-quality, affordable and cleaner supply of electricity. This is particularly pertinent in the case of HK Electric with the impending retirement of many of our coal-fired units and the pressing need to reduce Hong Kong's air emission and improve its carbon footprint.

Another key priority will be the smooth construction and completion of the three large infrastructural projects for the two new gas-fired generating units and the FSRU which will contribute greatly to Hong Kong's green energy future.

Our expanded use of natural gas for power generation will increase our fuel costs from 2020, in turn exerting pressure on tariffs. We will plan appropriate measures to minimise the impact of these future increases on our customers.

To honour Hong Kong's commitments in the COP 21 agreement, the community as a whole needs to work to improve energy efficiency in both private and public life. We will work with the Government, and also intensify our community engagement efforts, adopting both best practice from overseas and developing our own measures applicable to the unique conditions of Hong Kong.

As always, I would like to thank our staff for their excellent service and the constant "can do" approach. Their skills, attitude and dedication are central to our continued success.

Fok Kin Ning, Canning
Chairman
Hong Kong, 21 March 2017

YEAR AT A GLANCE

JAN – MAR

- HK Electric signs agreement for construction of a new gas-fired combined cycle unit (L10) for commissioning by 2020 to meet the Government's fuel mix target. HK Electric obtains Government approval later in the year for another new unit (L11) with commissioning scheduled for 2022.
- With an aim of nurturing engineering talent, the HK Electric Institute collaborates with The Hong Kong Polytechnic University to co-teach courses for the latter's Masters programme.

- The University of 3rd Age, co-founded by HK Electric and The Hong Kong Council of Social Service to encourage lifelong learning and volunteerism among Hong Kong's senior citizens, celebrates its 10th anniversary.
- SSU holders visit Lamma Power Station under the annual shareholders' visit programme. More than 1,100 SSU holders and friends are received in 2016.

- HK Electric continues to expand its use of electric vehicles (EVs) to improve roadside air quality in Hong Kong. Its EV fleet has over 100 vehicles and is expected to grow.

APR – JUN

- Randstad names HK Electric one of Hong Kong's Top 10 "Most Attractive Employers".
- HK Electric completes the replacement of 40 MVA oil-immersed transformers supplying the MTR Island Line with the last 50 MVA gas-insulated transformer in Admiralty Substation energised and put into service in early June to meet the increase in demand.
- HK Electric and CLP jointly explore the feasibility of building an offshore liquefied natural gas terminal using floating storage and regasification unit technology in Hong Kong waters to meet future demand.

- To support World Environment Day, HK Electric launches a one-month campaign to encourage colleagues to make low-carbon lifestyle choices, such as taking steps over elevators. More than 1,000 colleagues take part.

- "Green Hong Kong Green" is named an "Outstanding Partnership Project" by The Hong Kong Council of Social Service in recognition of its success in promoting public awareness of local eco-heritage resources.

JUL – SEP

- To facilitate the installation of EV charging facilities in housing blocks, HK Electric introduces an online tool that generates preliminary proposals including power supply capacity and loading of the building as well as metering arrangements for owners' reference.

- HK Electric joins the Electronic Bill Presentment and Payment platform to provide one more convenient e-channel for customers to receive e-bill summaries and pay for their electricity bills through internet banking accounts.

- The Good Neighbour Fund, which encourages employees to extend care to the community, supports two projects addressing care of HK Electric's retirees and the underprivileged during the year.

- To improve supply reliability, HK Electric replaces the 132 kV Gas Insulated Switchgear Busbar No.2 in the North Point Switching Station with a new and compact one.

- HK Electric's customer service publications made available in Hindi as part of our continuous effort to support the needs of ethnic minorities in Hong Kong.

OCT – DEC

- HK Electric announces tariff reduction for the second year in a row, surpassing its promise to freeze tariffs for five years until the end of 2018. Net tariff for 2017 will be reduced by 17.2% with the offer of two special rebates.

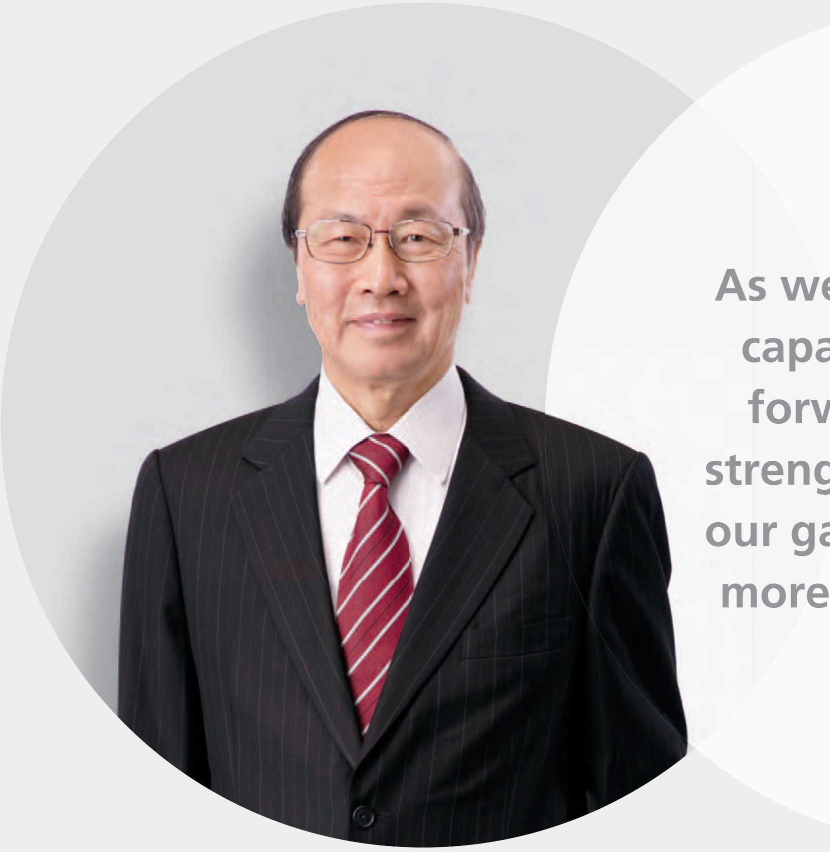
- Subsidy limit for Smart Power Fund is doubled to HK$400,000 to encourage more old residential buildings to carry out energy efficiency projects.

- HK Electric becomes the official energy partner of the first-ever Formula E Hong Kong ePrix, offering energy supply and electricity-related technical support to the race.

- HK Electric wins the "2016 Excellence Award" of the Mystery Shopper Programme, organised by the Hong Kong Retail Management Association, for its excellent service to customers.

- Smart Power Campaign promotes energy efficiency and a low-carbon lifestyle through a series of activities. Programmes organised throughout the year spread green messages to about 350 member schools and the general public.

CEO'S REPORT



As we increase gas-firing capacity we also move forward with plans to strengthen the security of our gas supply and secure more competitive prices.

PROGRESS TOWARDS A GREENER ENERGY FUTURE

In 2016, HK Electric maintained its excellent track record in customer service, supply reliability and environmental performance. At the same time, it made systematic investments to move towards greener fuels to further reduce emissions in the future.

During the year, we met our promise to provide affordable power to our customers by reducing tariffs in response to soft fuel prices, after freezing them for the two preceding years. We fulfilled our obligations to the holders of our Share Stapled Units by achieving steady returns and stable distribution.

OPERATION REVIEW

In 2016, our customer base increased slightly from 572,000 in 2015 to 575,000, driven by the residential and commercial sectors though electricity sales decreased by 0.8% from 10,879 million kWh in 2015 to 10,792 million kWh. As a result of a decline in international fuel prices, combined with operating efficiencies, we were able to reduce net tariffs for all customers by an average of 1.1% or 1.5 cents per unit of electricity in 2016.

The reduction in electricity consumption in Hong Kong in 2016 was partly due to milder weather compared to the record-breaking temperatures during the summer of 2015, as well as the result of various energy efficiency and conservation efforts undertaken across the community.

Oil prices reverted the falling trend in the preceding years and started to rebound in 2016. Coal prices on the other hand underwent significant adjustments. We are planning ahead to minimise the impact any potential long-term increase in the price of natural gas will have on tariffs, at a time when our dependence on this fuel will also increase.

We actively engaged with the Government on discussions through the year to determine the future development of the electricity sector in Hong Kong after the expiry of the current regulatory period. Respondents to a 2015 public consultation exercise shared our view that the current Scheme of Control arrangement had generally worked well to achieve the energy policy objectives, enabling reliable power supply at an affordable price. Respondents agreed that going forward, the current contractual agreement should be maintained with rate of return at the current level of 9.99% to provide the necessary incentive for power companies to make investments. The community did not see a need to introduce competition for the sake of bringing in choices.

REALIGNING THE FUEL MIX TO YIELD LONG-TERM EMISSIONS BENEFITS

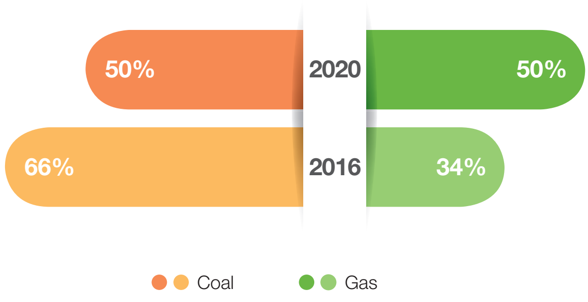
In 2016, HK Electric progressed with several key initiatives in support of the Government's fuel mix target, which mandated that the proportion of natural gas in the fuel mix should increase to about 50% in 2020.

The first of these was the installation of the new L10 gas-fired combined cycle generating unit, which has entered the construction stage. Combined cycle generation technology is one of the cleanest, most popular and efficient ways available in the world today to generate electricity with fossil fuels. The new L10 unit, with a high efficiency, can generate more power and reduce fuel costs when compared with the older gas-fired unit at Lamma Power Station (LPS).

In September 2016, the Government approved the construction of L11, another new gas-fired combined cycle generating unit with an installed capacity of 380 MW to replace an ageing gas-fired unit. The two new units are scheduled for completion in 2020 and 2022 respectively and will jointly improve HK Electric's gas-firing generation capacity to about 55% of total output by 2022.

HK Electric's fuel mix in 2016 and 2020

(based on GWh sent out)



The city's carbon intensity will continue to be tightened as Hong Kong joins the worldwide move against climate change following China's signing of the Paris Agreement made at the UN Climate Change Conference (COP 21). In this context we will continue to accelerate our adoption of natural gas-firing capacity and reduce our use of coal, as we plan ahead for the long-term development of LPS.

UPGRADING THE RELIABILITY AND AFFORDABILITY OF NATURAL GAS SUPPLY

As we increase gas-firing capacity we also moved forward with plans to strengthen the security of our gas supply and secure more competitive prices. Importing gas via oceanic routes is a practical and attractive option.

Plans are in place for Lamma Power Station to increase its gas-firing capacity progressively.

In 2016, HK Electric and CLP jointly began an Environmental Impact Assessment (EIA) as part of the overall feasibility study to construct an offshore liquefied natural gas (LNG) terminal using floating storage and regasification unit technology, to receive LNG from overseas. The terminal will provide HK Electric with direct access to and enhance bargaining power in the international market for gas supplies. The EIA is scheduled to be completed at the end of 2017 and subject to timely Government approvals the terminal will be constructed and commence operations in 2020.

HK Electric's solar power system helps reduce carbon footprint.

ACHIEVING OPTIMISED GENERATION PERFORMANCE

Gas-fired generation accounted for over 33% of HK Electric's total electricity output in 2016 with coal-fired generation accounting for the remainder. Natural gas was sourced mainly from Australia and Qatar while low-sulphur coal came from Indonesia, Russia and Australia. During the year, plant availability at LPS stood at 85.6%.

LPS operates eight coal-fired units, two gas-fired combined cycle units and five oil-fired open cycle gas turbine units. This is supplemented by Lamma Winds, a commercial-scale wind turbine and a solar power system consisting of 8,662 thin-film photovoltaic panels.

Emissions reduction is a strong focus area for the Government and targets are constantly being tightened. Our performance continued to achieve or surpass statutory requirements. In October 2016 the Government published Technical Memorandum no. 6 (TM6), which set more stringent emission allowances for the electricity sector from 2021 onwards. As compared with the emission allowances for 2020 set under the Technical Memorandum no. 5, TM6 will further tighten emissions of sulphur dioxide (SO_2), nitrogen oxides (NO_X) and respirable suspended particulates (RSP) by 8%, 2% and 10% respectively for HK Electric. We

THERMAL IMAGING SYSTEM AND CARBON MONOXIDE DETECTION AT COAL BUNKER

An infrared thermal imaging system comprising 15 infrared cameras and 15 normal vision cameras was installed at the coal bunker floor at Lamma Power Station for online monitoring of the area. The system will provide early warning of any incipient fire incidents and also monitor the coal bunkers and conveyors for any anomalies. Additionally, a carbon monoxide detection system was installed at the coal bunkers for early detection of any smouldering coal inside the bunker. These early warning alarm signals allow for timely and appropriate actions to tackle the "hot spots" inside the coal bunkers, significantly enhancing safety.

Acoustic sensors installed to enhance the safety infrastructure of Lamma Power Station.

are confident of achieving these targets with the increased gas-firing capacity now under construction, as well as through our range of emissions control equipment and measures.

The fire and gas-leak detection system of the gas receiving station at LPS was upgraded to enhance security of supply to the two existing gas-fired combined cycle units, including the installation of open-path gas-leak detectors, acoustic sensors, thermal image cameras and closed circuit television. Further modifications will be carried out in 2017. The modernisation of the water supply systems initiated in 2014 were progressing according to schedule.

The company's 1-MW solar power system and the iconic Lamma Winds generated 979 MWh and 492 MWh of electricity respectively in 2016. These two renewable energy systems together cut carbon dioxide emissions by 1,230 tonnes in 2016.

WORLD-CLASS STANDARDS OF NETWORK RELIABILITY

To deliver electricity from LPS, the wind turbine and solar power system to customer premises, HK Electric operates a transmission and distribution network of 6,233 km of underground and submarine cables. The system is monitored and controlled by a state-of-the-art computer system at the System Control Centre. The company operates a year-round programme of proactive maintenance and upgrades to ensure safe, secure and affordable power supply for customers.

In 2016 HK Electric once again attained a supply reliability rating of over 99.999%, a record maintained for the 20th consecutive year. The average unplanned customer minutes lost per year has been less than one minute since 2009. We successfully achieved a better performance in average supply availability, appointment punctuality and connection and supply performance compared with the set benchmarks, qualifying for financial incentives under the Scheme of Control arrangement.

We continued to expand the application of an advanced online partial discharge detection system to monitor equipment performance in primary stations and cable diagnostic techniques to identify weak components in the cable network, successfully averting two potential transmission switchgear faults and detecting 16 potentially faulty 11 kV cables.

Proactive network upgrade and maintenance is key to HK Electric's high reliability rating.

Two sophisticated real-time computer systems, namely, the Energy Management System (EMS) and the Distribution Management System (DMS) with smart grid features control and monitor the company's generation, transmission and

MTR's new South Island line runs on HK Electric's power infrastructure.

distribution systems. A comprehensive system upgrade including the integration of next generation features was conducted on both EMS and DMS. User acceptance testing is under way and the upgrade will go live in 2017.

The Hong Kong Mass Transit Rail (MTR), an important customer of HK Electric, is steadily expanding its rail network to support the economic and social development of the community. An important milestone in this regard was the launch of the South Island line in December 2016, for which we provided the requisite power supply infrastructure. In addition, we are on schedule with a number of electric infrastructural projects associated with the upcoming Shatin to Central Link (North-South line), with energisation set for 2020. 2016 also saw the completion of staged replacement of two 132/33 kV 40 MVA old oil-immersed transformers at Admiralty Substation with modern 50 MVA gas-insulated transformers. The upgrade increased transformer capacity, bolstered supply reliability and enhanced operational safety.

Proactive maintenance and a calendar of replacement of network equipment is an essential part of our approach to uphold supply standards. During the year, older gas-insulated switchgear was replaced with new compact switchgear, along with associated cabling work, at the North Point 132 kV Switching Station. An aged shunt reactor at Nam Fung Road was replaced with a new 275 kV 100 MVAr shunt reactor in April 2016.

North Point Switching Station is upgraded with new compact switchgear.

BUILDING AUTHENTIC CONNECTIONS WITH CUSTOMERS

HK Electric has pledged itself to a comprehensive set of 18 customer service standards. All of these were once again achieved or surpassed in 2016. The average waiting times for telephone enquiries and counter services at the

CUSTOMER SERVICE RECOGNITION THROUGH "MYSTERY SHOPPER" AWARD

HK Electric places great importance on understanding its customer service performance. We participate in the Mystery Shopper Programmes organised by Hong Kong Retail Management Association and Hong Kong Call Centre Association to gauge our frontline service level and benchmark our position in the service industry.

In 2016, HK Electric attained the highest score among all participating brands in the Mystery Shopper Programme for the second year running and won the highest honour of the programme.

Customer Centre were less than 9 seconds and 3.5 minutes respectively. Customer commendations once again reached a record high.

Listening carefully to customer feedback and acting on it is central to creating authentic connections with customers. To do this, HK Electric gathered data throughout the year through a range of satisfaction surveys. In 2016 the average satisfaction index after a service interaction was 4.5 on a 5-point scale. We also ran Mystery Shopper and Mystery Caller programmes to gauge frontline performance and benchmark ourselves against other organisations, with encouraging results.

To address the needs of technology and mobile-savvy consumers, the customer web portal was revamped, incorporating smartphone and tablet friendly designs. We also launched the Electronic Bill Presentment and Payment Service, allowing customers to receive e-bill summaries and pay their bills through internet banking. A QR code was incorporated into e-bills to enable customers to pay conveniently at popular convenience stores. Online accessibility was enhanced with a webpage with important publications in eight regional languages as well as a series of videos with sign language for the benefit of those with hearing impairments.

Facilities at Customer Centre were refurbished to provide better service for different customers in need. The enhancement included a dedicated wheelchair friendly counter and automatic door at building access.

Convenient mobile payment options launched for the convenience of tech-savvy customers.

The "Smart EV, Smart Charging" seminar encourages electric vehicle use.

ELECTRIC VEHICLES FOR A CLEANER COMMUTE

The use and promotion of electric vehicles (EVs) have been an important focus for HK Electric. 2016 saw a significant increase in the broad-based use and promotion of EVs across Hong Kong. To encourage and facilitate this trend, we launched a series of initiatives including an online tool that generates tailor-made preliminary proposals on the installation of EV charging facilities at multi-storey buildings, real-time updates on the occupancy of HK Electric's charging stations and a trial system to book slots at EV charging stations. During the year, 39 buildings used the company's services to install charging infrastructure on their premises.

Free charging at HK Electric's charging stations has been extended to end 2017. The company's EV standard charging stations at Star Ferry Car Park and Tin Hau Car Park were upgraded to medium charging stations with dual-mode chargers in December 2016 to provide consumers with shorter charging times. The other four EV standard charging stations will also be upgraded progressively to quick charging stations in 2017. Three new multi-standard quick charging stations are being erected progressively in 2016/2017 to further expand the quick charging network in Hong Kong.

HK Electric is committed to increasing its use of EVs to help improve roadside air quality and we give priority to EVs when expanding or upgrading our own fleet. At end of 2016, we operate 107 EVs, representing over 37% of the fleet. EVs accounted for 36% of the company's total mileage during the year, and helped reduce fuel consumption by 19% or 35,979 litres.

OFFICIAL ENERGY PARTNER FOR FORMULA E

Zero-emission EVs are gaining widespread acceptance across Hong Kong. This interest culminated at the first Hong Kong ePrix, staged at the Central Harbourfront on 8 and 9 October 2016. The event provided a unique opportunity for Hong Kong people to appreciate both the speed and performance of zero-emission EVs powerful enough to make it to the racing circuit.

As the official energy partner, HK Electric provided Hong Kong ePrix with safe, reliable and clean electricity supply as well as power-related technical advice. We also offered electricity-related technical support and free charging for EVs taking part in the event. The success of the event increased recognition for HK Electric's consistent support of EVs to curb roadside emissions.

MINIMISING OUR IMPACT ON THE ENVIRONMENT

We firmly believe that our long-term commercial success and our ability to preserve the environment and living conditions of our community go hand in hand. In our efforts to conserve the environment we educate, engage and empower our employees, promote public environmental awareness, provide a platform for green innovation, and strive to introduce positive environmental changes in the Hong Kong community.

Reservoir for recovered waste water and rain water at Lamma Power Station.

We run a green operation at every step of the energy value chain.

On the generation front, the reliability of the generation units stood at a very high level. Emissions were monitored and controlled by state-of-the-art pollution combating equipment, including flue gas desulphurisation plants, low NO_X burners and high-efficiency electrostatic precipitators. Data of flue gases' SO_2, NO_X and opacity were monitored and reported real-time to the Government.

Ash and gypsum are by-products of electricity generation and are reused for industrial use. More than 250 m^3 of garden waste was converted into nutrient-releasing mulch during the year and over 102,000 m^3 of rainwater and wastewater was reused, cutting down on water consumption. 93 LED lights were retrofitted and the heating, ventilation and air-conditioning systems were upgraded at LPS, saving about 404,360 kWh of electricity over the year.

Across the transmission and distribution network we once again achieved excellent performance under our Environmental Management System, which received ISO 14001:2015 certification. The implementation of 21 environmental management programmes including fuel savings and the Wastewi$e Scheme enabled savings of over HK$2 million in 2016 as compared with baseline figures.

We continued to provide free energy audit services to non-residential customers to help them identify energy-saving opportunities at their business premises. Over 50 audits were carried out in 2016, identifying opportunities to reduce energy consumption and cut costs.

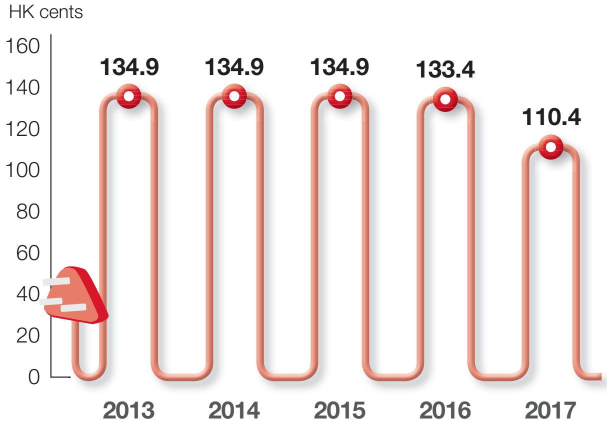
The Smart Power Fund was launched in 2014 to encourage and help improve the energy efficiency of Hong Kong's older buildings by offering subsidies to help implement energy efficiency projects. In 2016, eight applications for energy efficiency improvement were approved, including replacements of lift driving systems, public lightings and air-conditioners with more efficient types. This brings the

Improving old residential buildings' energy efficiency with the support of the Smart Power Fund.

total number of approved applications to 29 since fund inception. We have doubled the upper limit of the subsidy to HK$400,000 from 1 January 2017, in order to help more eligible premises implement energy efficiency initiatives.

As a result of a reduction in the fuel clause charge following lower than expected fuel costs as well as Government refunds on rents and rates, we are pleased to be in a position for the second year to reduce tariffs for all our 575,000 customers. With effect from 1 January 2017, net tariff has been reduced by 17.2% to reach 110.4 cents per unit of electricity. We have been steadily making electricity even more affordable for our customers over the past few years: tariffs were frozen for two years in 2014 and 2015, and successive reductions implemented in 2016 and 2017.

Net tariffs 2013-2017



Our top priorities in the immediate term are to engage with the Government to bring the Scheme of Control review to a successful conclusion, the smooth completion of our two major infrastructural projects, L10 and L11, and to secure an affordable alternative supply of natural gas. Over the longer term we will press ahead with a phased programme of replacement of ageing equipment at LPS.

Our strong financial footing, expertise, customer relationships and focus on delivering value, position us well for success in the coming years.

Construction in full swing for the new L10 gas-fired generating unit.

A SUSTAINABLE FUTURE

As a major player in Hong Kong's business scene whose activities touch the lives of half a million customers, HKEI is extremely sensitive to the effect its activities have on the community and the environment. With sustainability at the heart of our values, we take care not only of our SSU holders, but also of our employees, customers, the vulnerable in society as well as the environment, helping to create a better community for future generations.

Our values and efforts on this are spearheaded by the Corporate Social Responsibility (CSR) Committee, a body comprising the Chief Executive Officer and senior management representatives. We set objectives for ourselves, and measure and track our sustainability performance to facilitate continuous improvement.

ENGAGING WITH OUR STAKEHOLDERS

The Customer Liaison Group (CLG) is our primary channel for customer interaction. During the year, one meeting and one visit were held to inform members of the company's latest developments while forging stronger ties with them.

Communication with employees is formalised through the Joint Consultation Committee which held 20 meetings in 2016 for management to hear views and suggestions from employees. Besides, 54% of employees participated in an online employee engagement survey on a voluntary basis and 29 focus group meetings were held involving a total of 12% of employees to further understand their specific concerns and to gather their opinions.

Our five District Liaison Teams comprising representatives from various divisions in the company continued to lead our presence at the community level, participating in local activities organised by various District Councils, welfare organisations and stakeholder groups. We also engaged elected representatives to the Legislative Council and District Councils on an ongoing basis.

Filming in progress at LPS for a National Geographic documentary on climate change, with Mr. Wan (right) introducing to Hollywood actress Sigourney Weaver (3rd from right) HK Electric's plans to reduce emissions.

Our stakeholders appreciate the opportunity to visit our facilities to experience first-hand how electricity is generated and supplied to our customers. During the year, more than 250 visits were organised for various stakeholders including representatives from Government and NGOs, SSU holders, professional bodies, schools, community leaders and media. This included 24 visits to LPS, our primary generation facility, for more than 1,100 HKEI SSU holders and friends. These visits allowed us to share information about our operations and sustainability initiatives with our stakeholders.

OUR PEOPLE, CULTURE AND POLICIES

We are proud to be an equal opportunity employer. We recruit, recognise and reward individuals based only on merit, performance, skill and contribution.

We have 1,790 permanent employees across management and operational roles of which 17% are female. We are proud of the long average tenure of our employees, with a voluntary turnover rate of 3.4% in 2016.

HK Electric ranked seventh in Randstad's Top 10 Most Attractive Employers and was listed as one of the "Happy Companies" in Hong Kong. Apart from receiving the Caring Company Logo by The Hong Kong Council of Social Service, the company also received three awards under the 2015/16 Family-Friendly Employers Award Scheme organised by the Home Affairs Bureau and the Family Council as well as the Employer of Choice Award and the Employee Engagement Award from JobMarket of Sing Tao News Corporation Ltd.

Attracting the best talent

We strive to recruit candidates who are talented, passionate and share our values through a process that is fair and reflects our commitment to equality. Working with local universities we recruited 15 graduate trainees during the year, offering them not only employment but also well-rounded training and orientation. To better support their learning and development we initiated a new support mechanism comprising buddying and mentorship.

Our industrial placement and attachment schemes allow students of relevant degree and diploma courses to gain on-the-job experience to better prepare them for a career in the industry. The schemes offered opportunities to 20 students during the year. An internship programme was introduced to Form 5 students from secondary schools in Yuen Long to stimulate their interest in engineering.

Graduate trainees show off their creative skills.

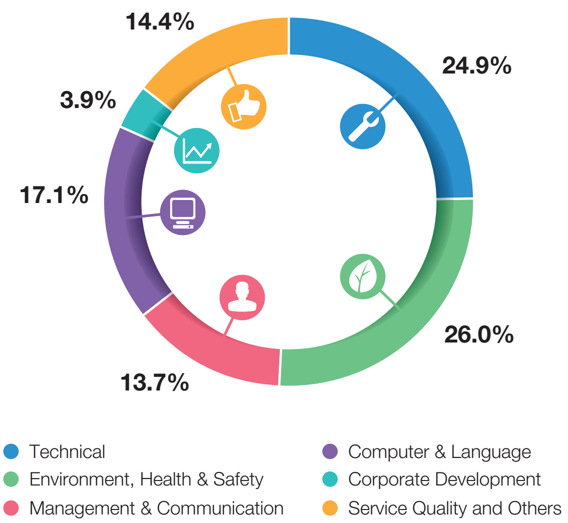
To remain an employer of choice, we review remuneration annually and benchmark against comparable organisations in relevant industries. In 2016, we continued our "pay-for-performance" policy that appraises and rewards our employees on the basis of overall performance including initiative, effort and achievements.

The opportunities we provide during recruitment, training, career progression, compensation, and benefits are completely indifferent to age, gender, physical or mental state, marital or family status, race, colour, nationality, religion, political affiliation or sexual orientation. Discrimination, harassment, vilification and victimisation are not tolerated under any circumstances.

Enhancing the skills and abilities of our team

We offer systematic and lifelong career development encompassing personal, professional and managerial skills. A range of development opportunities is offered to all staff, with an average of 43.1 training hours for each employee in 2016.

Type of employee training provided in 2016



Our successful trainee technician programme became the first such initiative to gain the accreditation of The Hong Kong Institution of Engineers, meeting the requirements of the Formal Training Scheme to Associate Membership of Electrical Engineering. The successful accreditation has enhanced the employer brand and is likely to attract more promising candidates in future.

HK Electric's trainee technician programme receives industry accreditation.

We offered learning and development opportunities to 37 young graduates under our graduate trainee and trainee technician programmes. These included technical training, team building, site visits, personal effectiveness and other soft skills.

Our workforce spans over five decades in age and young recruits have a different approach when compared to more senior staff members. To bridge the gap a multi-generation communication series was launched in 2016, including workshops for 256 managerial and supervisory staff as well as 120 trainees and young engineers to enable them to work in close partnership with one another.

Team building activities are part of soft skills training.

To fill the leadership pipeline, we have in place a programme which offers development initiatives for high-potential employees including project exposure, job rotation, coaching and mentorship as well as classroom training.

Subject experts share their knowledge with students of the HK Electric Institute.

HK Electric Institute: from strength to strength

2016 was another fruitful year for the HK Electric Institute. 46 training modules amounting to 5,652 training hours were delivered to 1,764 participants by subject experts including retired colleagues and other external and internal lecturers. 22 modules were delivered by overseas experts. Apart from technical topics, commercial topics were also covered. To further fine-tune course contents a comprehensive review of the syllabus of modules was conducted and new courses were introduced.

Following the Memorandum of Understanding between HK Electric Institute and The Hong Kong Polytechnic University in end 2015, lecturers from the two institutions jointly taught a subject on High Voltage Engineering in two consecutive semesters in 2016 to over 140 master degree students of the university. Encouraged by this success the HK Electric Institute will continue to explore opportunities with other educational institutions to prepare students for a possible career in the power industry.

The Institute further formalised its structure with the appointment of office bearers including the Chancellor, Steering Committee Chairman and Dean. The formal structure will add further weight to the curriculum and teaching of the Institute.

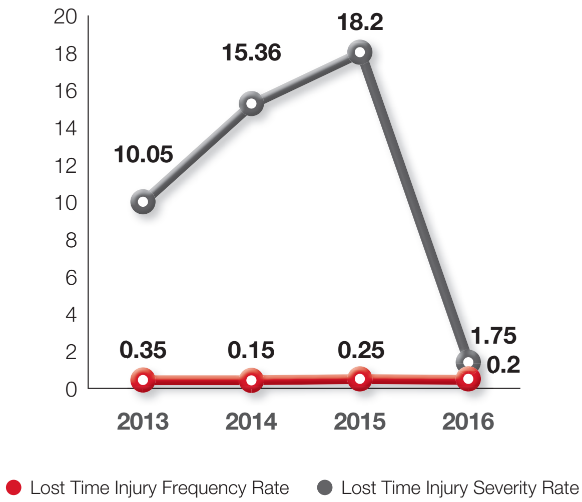
EMPLOYEE HEALTH, SAFETY AND WELLNESS

We take a whole-person perspective to employee welfare as happy, healthy individuals make productive, motivated employees. We make it a priority to ensure the well-being and safety of everyone working for us and with us. "Health and Happiness" formed the theme of our wellness campaigns in 2016, emphasising the importance of physical and emotional wellness through various approaches including a variety of seminars, health talks, physical fitness training and recreational activities.

LPS achieved 156 days of continuous operation without lost time injuries in the year. Employees working on the transmission and distribution network completed the entire year without lost time injuries and have now achieved a record six consecutive years with zero lost time injuries.

Lost Time Injury Frequency Rate and Lost Time Injury Severity Rate

(per 200,000 employee-hours)



LPS continued to identify areas to further improve workplace safety, broadening the scope of its on-site hard hat and safety goggles policy. Its annual "Health and Safety Week" was held in September 2016, with the participation of not only staff and management but also key contractors. During the year, LPS and the transmission and distribution unit secured the OHSAS 18001: 2007 Occupational Health and Safety Management System Certificates issued by the Hong Kong Quality Assurance Agency.

Employees participate in a "Health and Happiness" wellness campaign activity.

A range of health and safety training and promotion campaigns ran throughout the year in various parts of the company. A Health and Safety Forum was held in March 2016 to heighten the safety awareness of our employees. Safety Excellence Scheme awards were distributed to recognise and encourage employees' collective contribution to safety.

The findings of a 2015 company-wide survey to assess our Safety Climate Index formed the basis of an action plan to further enhance our safety culture. These were successfully implemented in 2016. We also conducted a review of the current health and safety policy in 2016 and had revised and further improved the policy.

We continued to follow the principles of the 5S Good Housekeeping programme for the workplace, expanding its scope within the company. The successful Work Safe Behaviour programme, which has been implemented since 2011, identified and rectified 31 safety observations in 2016 with "Electrical Work Safety" as one of the themes during the year covering both employees and contractors.

It is those who work with us every day who are most aware of our ups and downs. A Good Neighbour Club with over 100 employees received training and support to help colleagues cope with emotional or stress issues. Talks on physical and psychosocial well-being were conducted for more than 440 participants. "Let's Exercise", an initiative to get employees building their physical strengths was launched.

INVOLVEMENT IN THE COMMUNITY

We understand that meaningful changes cannot be brought about overnight, nor by the efforts of just a few. It is the result of patient, systematic efforts over the long term by a committed team of people. With this in mind we run a calendar of corporate social responsibility activities across the year, supporting selected causes over the long term.

In 2016, HK Electric's team of volunteers celebrated its 12th anniversary. The 1,120-strong team provided 5,647 service hours across 85 services supporting vulnerable groups and promoting environmental awareness. In its 12 years the team has provided 54,285 service hours in total.

GOOD NEIGHBOUR FUND PROGRAMME

The Good Neighbour Fund Programme encourages employees to reach out and care for the needy in the community with their own community initiatives. In 2016, funding was provided for two project teams. Under the Programme, home visits were paid and tea gatherings were organised by a project team for retired employees. This was also an opportunity for them to learn from the stories of their seniors. For another project team, "The Inspiration", initiated a collaborative project with a local NGO to support the stroke patients by creating short videos of their rehabilitation journeys. In addition, student volunteers were recruited to take wedding and family photos for the elderly couples and the underprivileged groups.

Participation in volunteering activities
(2016: 5,647 service hours)

We remain focused on our community efforts by caring for the environment and supporting the elderly, while diversifying our scope to serve the under-privileged and minority groups in mentorship and mock interview programmes; carnivals, sports and music events and camping activities.

Caring for the elderly

With more people living longer lives there is an increasing need for the community to support the frail and elderly who are less able to manage their daily lives independently, while also offering them opportunities to pursue meaningful activities.

Volunteers provide practical support to single elderly through CAREnJOY visits.

Thanks to the partnership from the four District Councils on Hong Kong Island, eight NGOs and two rural committees on Lamma Island the CAREnJOY programme entered its second year of service. CAREnJOY ambassadors visited about 1,000 elderly individuals living on their own, helping them out with shopping for bulky essentials. The programme expanded to offer talks on fire safety and tips on the safe and efficient use of electricity at home. Six sessions were held for more than 400 participants during the year.

Co-founded by HK Electric and The Hong Kong Council of Social Service, the University of 3rd Age (U3A) celebrated its 10th anniversary of bringing senior citizens together to pursue lifelong learning. Since its founding in 2006 the network has organised more than 5,000 courses, providing more than 86,000 learning opportunities. The network now comprises 48 self-learning centres throughout the territory.

In this milestone year U3A took the opportunity to evaluate its performance and achievements over the past decade and plan for improvements in the future. Overseas experts addressed the organisation at a seminar and shared their views on how retirees could continue serving the community through creative platforms.

WORLD ENVIRONMENT DAY – STEPPING UP TO THE CHALLENGE

HK Electric involved employees and their families in the 43rd anniversary of the United Nations' World Environment Day on 5 June 2016. A one-month campaign encouraged participants to take a pledge to go green concerning the four basic necessities of life: apparel, diet, living and transport. Employees were encouraged to take the stairs rather than elevators, and to use public transport as much as possible to cut carbon emissions. More than 1,000 colleagues participated in the event.

GREEN HONG KONG GREEN

The Green Hong Kong Green programme continued to provide monthly eco-tours of eight eco-heritage routes on Hong Kong and Lamma Islands, running 111 tours for about 1,400 participants. The tours aim to engender an appreciation for the wild flora and fauna of Hong Kong. A series of training activities were conducted for eco-tour leaders to enhance the standard of the tours, while conservation activities such as mikania removal, tree caring and "No Hill Fire" appeals were organised to protect the natural greenery. Green Hong Kong Green Eco-tour Festival 2016 was a day-long event with tours on all eight routes, as well as a carnival featuring workshops, performances and talks to enhance environmental awareness.

In May 2016, the Green Hong Kong Green programme was named an "Outstanding Partnership Project" by The Hong Kong Council of Social Service in recognition of its positive impacts on the environment and society.

HK Electric continued to promote energy efficiency and safety in the community with the support from Hong Kong Housing Authority and Hong Kong Housing Society, visiting vulnerable elderly to inspect fixed electrical installations and replace any substandard plugs, sockets and wirings. A half-day "Energy Efficiency" programme was conducted for the visually-impaired students of Ebenezer School in the Smart Power Centre and Home Management Centre (HMC) at Electric Centre.

ENVIRONMENTAL STEWARDSHIP

We are committed to protecting the environment and supporting sustainable development in every aspect of our day-to-day and major business activities. We comply fully with all applicable laws and regulations and endeavour to integrate environmental considerations into all aspects of our business operations. To do this, we put great emphasis on conservation and invest substantially to resolve, alleviate and minimise the impact arising from our operations on the environment.

As an energy consumer ourselves, we conducted carbon audits for our main office buildings to ensure responsible energy consumption. In accordance with our pledge in the Energy Saving Charter on Indoor Temperature, in 2016 we continued to maintain average indoor room temperature of our office buildings at 24-26°C in summer. Electricity consumption reduced by 2.2% in 2016 compared to 2015 levels.

We also consistently use the 4R (reduce, reuse, recover and recycle) model to minimise our use of resources. Initiatives in this area included promoting paperless billing and payment to reduce paper consumption, rainwater/wastewater reuse in power station, and recycling of industrial, commercial and office waste. Consumption of water and paper in our main office buildings reduced by 0.9% and 10.7% respectively from 2015 levels. LPS has been running an annual Environmental Management Programme (EMP) suggestion scheme for 12 years. In 2016, six EMPs suggested by employees were selected for implementation or follow-up.

We participate in Hong Kong wide initiatives to recycle waste, including the "Program on Source Separation of Commercial and Industrial Waste" and the "Hong Chi Jockey Club Glass Bottle Recycling Project". We reduce food waste at source in our canteens by a system of advance booking of meals. We also encourage waste separation and the use of food waste eliminators to minimise disposal volume.

Energy-smart and green campaigns

We continued to educate the public in particular younger generation on energy efficiency and low-carbon lifestyle under the annual Smart Power Campaign whose theme in 2016 was "Be Green, Be Happy". To engage Hong Kong's children the campaign reached out to about 350 schools under the "Happy Green School" scheme. Talks, visits to the HK Electric Smart Power Centre, LPS and the Lamma Winds, green reporters training classes and eco tours were offered during the year. A new "Happy Green Community Ambassador" programme was launched to offer selected students with opportunity to shadow our engineers in performing environmental protection work.

In 2016, a total of 45 mini energy efficiency workshops were conducted to promote smart and efficient use of electricity to various stakeholders including hospitals, professional institutions, business partners, financial institutions and academia. Four energy-efficiency and electrical safety talks were also conducted for community centres in the year.

Twelve proposals were selected to receive up to HK$50,000 in funding along with expert advice under the 2016 "Green Energy Dreams Come True" competition. The competition encouraged students to submit green energy project proposals to encourage energy efficiency and the application of renewable energy.

HK Electric supported various programmes organised by local green groups including WWF's Earth Hour 2016; Green Walk and Green Heroes 2016 organised by World Green Organisation, Green Power Hike organised by Green Power; Eco Rangers by The Conservancy Association and International Coastal Clean-up by Green Council.

Volunteers participating in "Clean Up the World in Hong Kong".

Smart Power talks help spread the green message to schools.

In its last year of operation, the HMC conducted 943 cooking and special interest courses for 10,108 students and arranged 7 school visits to promote electric living as a greener and healthier choice for consumers. The HMC suspended operation in end December 2016 in order to make better use of company resources.

SUSTAINABILITY PERFORMANCE AND DISCLOSURE

HKEI published its 2015 Sustainability Report on 6 April 2016. The report was prepared in accordance with GRI's G4 Sustainability Reporting Guidelines and the associated Electric Utilities Sector Disclosures as well as Hong Kong Stock Exchange's ESG Reporting Guide, with external independent assurance. HKEI was included in the Euronext Vigeo World 120 Index.

HK Electric implements proactive business strategies to combat climate change and enhance transparency in information disclosure. As a participant in the Carbon Disclosure Project, HK Electric has been reporting greenhouse gas emissions along with our efforts in reducing them on an annual basis.

We are encouraged by the results of our sustainability initiatives in past years but believe that sustained efforts are still needed to continue to effect meaningful change in the long term. We remain steadfast in our commitment to sustainable business practices going forward.

Wan Chi Tin
Chief Executive Officer
Hong Kong, 21 March 2017

AWARDS GALLERY

21 Awards
CORPORATE/COMMUNITY

- Caring Company Award
  - 5 Years Plus Caring Company Logo
- Caring Company Scheme 2015/16
  - Special Awards: Outstanding Partnership Project Award
- The Community Chest Corporate and Employee Contribution Programme 2015/16
  - Silver Award
  - 9th Top Fund-raiser Award
- Web Accessibility Recognition Scheme 2016 (Website Stream)
  - Gold Award
- 2016 ARC Awards International
  Annual Report 2015
  Traditional Annual Report (Electric Power Company Category)
  - Honors
  Sustainability Report 2015
  - The 100 Best Annual Reports of 2016
  Chairman's/President's Letter (Sustainability Report Category)
  - Gold
  Infographics (Sustainability Report Category)
  - Gold
  Illustrations (Sustainability Report Category)
  - Gold
  Specialised A.R. (Sustainability Report Category)
  - Silver
- Good MPF Employer Award 2015-16
  - The Good MPF Employer Award Logo
- Happiness-at-work Promotional Scheme
  - "Happy Company" Label
- ERB Manpower Developer Award Scheme
  - Manpower Developer (2016-18)
- Randstad Award 2016
  - Most Attractive Employers (Rank 7)
- Employer of Choice Award 2016
  Corporate Category
  - Employer of Choice Award
  - Employee Engagement Award
- Partner Employer Award 2016/17
  Corporate Category
  - Outstanding Enterprise
- 2015/16 Family-Friendly Employers Award Scheme
  Corporations Category
  - Family-Friendly Employers
  - Special Mention Award
  - Award for Breastfeeding Support

20 Awards
CUSTOMER SERVICE

- HKRMA Mystery Shopper Programme
  - 2016 Service Retailers of the Year – Excellence Award
  - 2016 Service Retailers of the Year – Retail (Services) Category Award
- HKRMA Mystery Shopper Programme (Oct 2015 to Dec 2015)
  - Retail (Services) Category: Service Category Leader
- HKRMA Mystery Shopper Programme (Jan 2016 to Mar 2016)
  - Retail (Services) Category: Service Category Leader
- HKRMA Mystery Shopper Programme (Apr 2016 to Jun 2016)
  - Service Industry Leader – Silver Award
  - Retail (Services) Category: Service Category Leader
- HKRMA Mystery Shopper Programme (Jul 2016 to Sep 2016)
  - Service Industry Leader – Bronze Award
- 2015 Customer Relationship Excellence Awards
  Corporate Category
  - Public Service of the Year (Public Utility)
  Individual Category
  - Customer Service Team Leader of the Year (Public Utilities – Contact Center)
  - Customer Service Professional of the Year (Public Utilities – Contact Center)
  - Customer Service Professional of the Year (Contact Center): Three Merits
- Hong Kong Star Brands Award 2016 (Enterprise)
- Hong Kong Call Centre Association Awards 2016
  Corporate Awards
  - Mystery Caller Assessment Award: Two Gold Awards (Commerce and Utilities)
  Individual Awards
  - Inbound Contact Centre Manager of the Year: Merit
  - Inbound Contact Centre Representative of the Year: Merit
- Best SME's Partner Award 2016
  Corporate Category
  - Best SME's Partner Award 2016
- Hong Kong Catering Year Book Enterprise Award For Promoting Green Catering Development

19 Awards
ENVIRONMENTAL

- Hong Kong Green Organisation Certification
  - Hong Kong Green Organisation
  - Excellence Level Energywi$e Certificate
  - Good Level Energywi$e Certificate
  - Two Excellence Level Wastewi$e Certificate
- Indoor Air Quality Certification Scheme
  - Excellent Class Certificate: Hongkong Electric Centre (Whole Building)
  - Excellent Class Certificate: Electric Centre (9/F Office Area)
  - Excellent Class Certificate: Electric Tower (Areas Equipped with MVAC System of the Whole Building)
  - Good Class Certificate: Electric Centre (Areas Equipped with MVAC System of the Whole Building)
  - Good Class Certificate: Lamma Power Station Administration and Control Building
  - Good Class Certificate: Lamma Power Station New Control Building
- Green Office Awards Labelling Scheme Spring 2016
  - 2016 "Green Office" Label
- CarbonCare® Label Scheme 2016
  - CarbonCare® Label (Level 2)
- BOCHK Corporate Environmental Leadership Awards 2015
  - Manufacturing Sector: Bronze Award
- Certificate of Wood Recycling and Tree Conservation Scheme
- Environmental Protection Department Food Wise Eateries Scheme
  - Gold Class
- FoodEver WasteNever Awards
  WasteNever Award
  - Diamond Class

  FoodEver Award
  - Diamond Class
- FoodWaste Lean and Green Label Scheme
  - Lean Label

24 Awards
STAFF

- The HKIE Professional Volunteers Service Accreditation Programme
  Individual Category
  - Two Grand Leadership Awards
  - Gold Award
  - 10 Silver Awards
- 2015 Outstanding Apprentices Award
  - Certificate of Merit
- The Hong Kong Institution of Engineers (HKIE)-HKIE Toastmasters Club
  Table Topic Impromptu Speech Competition
  - Second Place

  International Speech Competition
  - Third Place
- Qualifications Framework Award Scheme for Learning Experiences 2016-17, Electrical & Mechanical Services
  - 1 Award
- E&M Mini Movie Competition
  Vocational Training Group
  - Champion
  - 1st runner-up
  - Two Merits
  - Special Award
- Corporate Games 2016
  Badminton
  - Group A – Women's Doubles: 3rd Runner-up
- 28th Inter-Hong Lawn Bowls Tournament
  Corporate Category
  - 1st Runner-up

14 Awards
QUALITY, HEALTH/SAFETY

- Good Housekeeping Award 2015-16
  - Other Industries Category: Bronze Award
  - Good Housekeeping Best Performance Award: Gold Award
- Good Housekeeping Competition 2016-17
  - Other Industries Category: Gold Award
  - Good Housekeeping Best Performance Award: Gold Award
- Occupational Safety & Health Council Safety Quiz 2016
  Enterprise Group
  - Champion in Cup Final
  - 1st Runner-up in Cup Final
  - Champion in Plate Final
  - 2nd Runner-up in Plate Final
  - Highest Score Award
- The 15th Hong Kong Occupational Safety & Health Award
  - Other Industries: Safety Performance Award
  - Safety Promotion Award: Gold
  - Safety Culture Award: Gold
  - OSH Annual Report Award: Bronze
- The 8th Hong Kong Best OSH Employee Award
  - Meritorious Award

1 Award
OTHERS

- LEED (Leadership in Energy and Environmental Design) Certification
  - Gold Rating (Commercial Interiors)

LONG-TERM DEVELOPMENT STRATEGY

Over our long history we have consistently supported Hong Kong's economic journey by offering safe, reliable and affordable electricity while minimising the impact of our operation on the environment as we strive to deliver sustainable growth in long-term value to our investors.

To achieve our vision to excel in the power business in Hong Kong and continue our outstanding tradition of efficiency and sustainability performance going forward, we are guided by the following long-term strategies:

SERVE HONG KONG THROUGH WORLD-CLASS POWER PROVISION

A fail-safe supply of electricity is critical for Hong Kong's economic success. Our priority is maintaining world-class supply reliability, delivered with unrivalled customer service standards. We invest in Hong Kong's future by steadily increasing the proportion of green energy we generate. To conserve the environment, we deploy equipment and technology including renewables that allow us to minimise emissions.

SUSTAIN STEADY GROWTH IN OUR ASSET BASE

Pragmatic and long-term principles guide our investment in power generation, transmission and distribution facilities. All expenditure must support our goals of maintaining reliability, improving efficiency and customer service while minimising emissions. These investments will enable steady growth in our asset base which in turn generates stable and growing returns to our long-term investors.

RUN OUR BUSINESS ON PRUDENT FINANCIAL AND EFFICIENT PRINCIPLES

We embrace the values of prudent financial management and maintain an optimal capital structure with strong liquidity. We strive for operational efficiency and effectiveness and rigorously manage operating costs, including fuel costs. These principles enable us to deliver sustainable returns to our investors while allowing us to provide electricity to our customers at affordable prices.

RISK MANAGEMENT

Effective risk management and internal control systems are fundamental to the achievement of our strategic objectives.

RISK MANAGEMENT FRAMEWORK

The Group has in place an Enterprise Risk Management (ERM) framework to effectively identify, assess, mitigate and monitor key business, financial, operational and compliance risks. The framework enables us to adopt a proactive and structured approach to identifying and managing risks across the organisation with on-going monitoring and review in place.

GOVERNANCE AND OVERSIGHT

The Group is committed to fostering a risk aware and control conscious environment. Responsibility for risk management resides at all levels within the organisation. The Company Board, through the Company Audit Committee, oversees the overall management of risks. The Risk Management Committee, supported by Internal Audit, assists the Company Board and Company Audit Committee to review and monitor key risks of the Group. Management is responsible for identifying and assessing risks of strategic nature. Operating units are responsible for the identification and management of risks in their activities. The top-down and bottom-up approaches complement each other and enable us to identify and manage the Group's key risks in an effective manner, including material emerging risks at corporate and business unit levels.

Independent Assurance from Internal and External Auditors

"Top Down" Oversight by Company Board/ Company Audit Committee Assisted by Risk Management Committee and Management

Identify and Manage Risks at Corporate Level

"Bottom-up" Operating Units

Identify, Manage and Report Risks at Business Unit Level

Risk Management Framework Governance

Company Board (Through Company Audit Committee)	**Company Board/ Company Audit Committee Oversight** • Has overall responsibility for the Group's risk management and internal control systems • Determine and evaluate the nature and extent of the risks that the Group is willing to accept in pursuit of the Group's strategic and business objectives • Discuss the risk management and internal control systems with management to ensure management has performed its duty to have effective systems
Risk Management Committee (Chaired by the Chief Executive Officer)	**Risk Review, Communication and Confirmation to Board / Audit Committee** • Oversee the Group's risk profile and assess if key risks are appropriately mitigated • Ensure that an ongoing review of the effectiveness of the risk management and internal control systems have been conducted and provide such confirmation to the Board, via the Audit Committee
Management	**Risk & Control Monitoring** • Responsible for designing, implementing and monitoring the risk management and internal control systems • Identify and monitor key corporate risks • Provide confirmation to the Risk Management Committee on the effectiveness of the systems
Operating Units	**Front-Line Risk and Control Ownership** • Design, implement and monitor risks at business unit level, escalate promptly on relevant risk issues • Provide assurance to the Risk Management Committee on the effectiveness of risk management and internal control activities at business unit level • Seek continuous process improvement and re-assessment

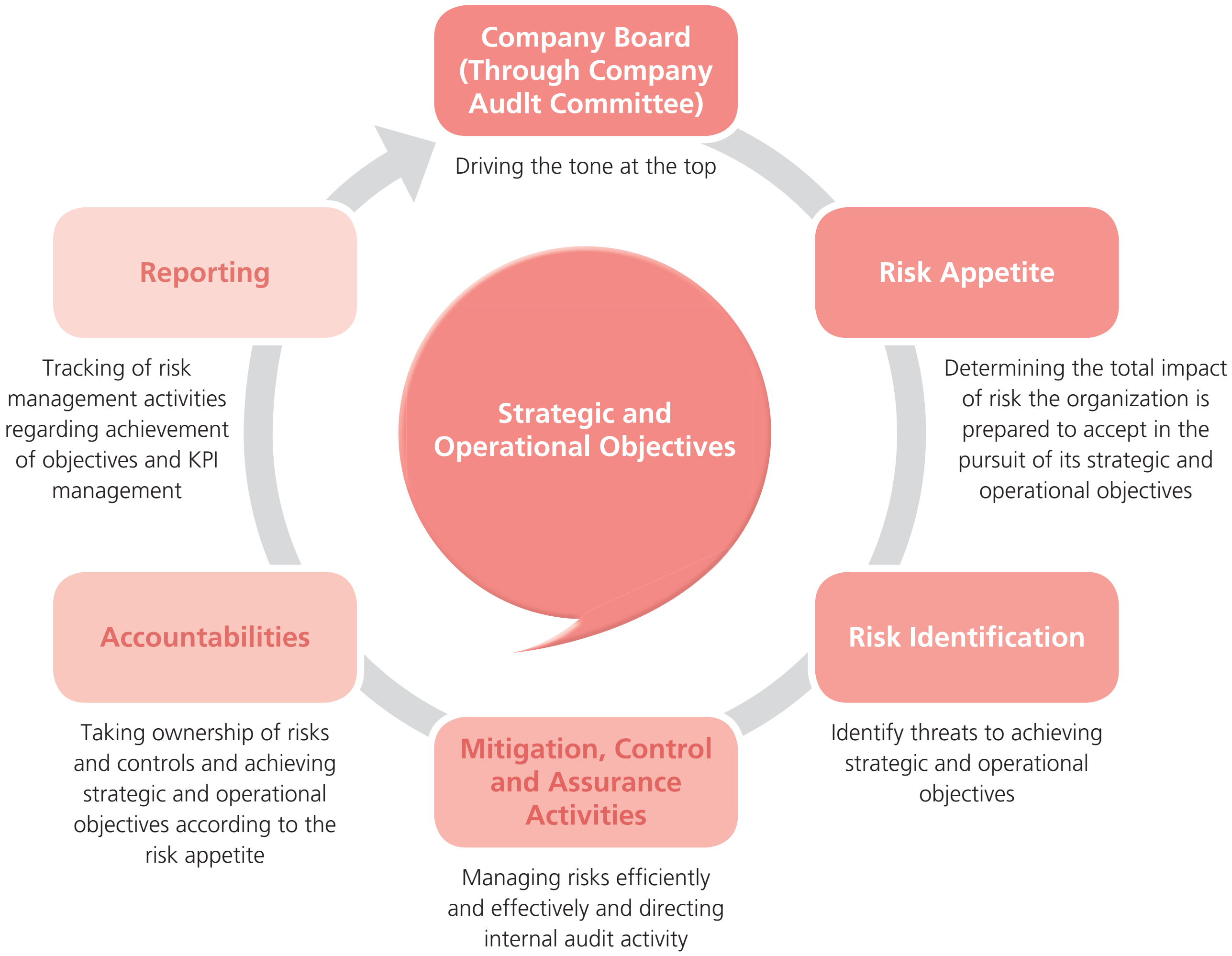
RISK MANAGEMENT PROCESS

The risk management process is integrated into our day-to-day activities and is an ongoing process involving all parts of the Group from the Company Board down to individual employees.

The risk identification process takes into account internal and external factors including economic, political, social, technological, environmental and new or updated Group strategy and new regulations, as well as our stakeholders' expectations in these aspects. Risks are grouped into different categories to facilitate analysis. Each risk identified is analysed on the basis of likelihood and impact in accordance with the risk appetite set by the Company Board. Action plans are in place to manage risks. The risk assessment process also includes a review of the control mechanisms for each risk and a rating of the effectiveness of each control. The Group compiles a risk register which is updated and monitored on an ongoing basis, taking into account emerging risks which may have a material impact on the Group.

A risk management report that highlights key corporate and business level risks and action plans is reviewed by the Risk Management Committee half-yearly and presented to the Company Audit Committee for reporting to the Company Board. Significant changes in key risks on a day-to-day basis are handled as they arise and reported to management.

Fundamental to the achievement of our business goals is how we can effectively manage existing and emerging risks in different economic, social and political environments. A description of the Group's risk factors is shown on page 29 of this Annual Report. The Group works to continually improve its risk management framework in order to keep pace with the changing business environment.



RISK FACTORS

Risks and uncertainties can affect the Group's business, financial condition, operating results or growth prospects leading to a divergence from expected or historical results. Key risk factors affecting the Group are outlined below. In dealing with these, the Group remains in touch with its stakeholders with the aim of understanding and addressing their concerns.

These factors are not exhaustive or comprehensive, and there may be other risks in addition to those shown below which are not known to the Group or which may not be material now but could become material in the future.

GLOBAL AND HONG KONG ECONOMIC ENVIRONMENT

Global economic growth remains slow with subdued demand in major economies. The outcomes of the UK referendum and the US presidential election heightened uncertainties in the world economy and global financial market. Growth in the Hong Kong economy remains modest with weak exports, slow retail sales and declines in visitor arrivals.

The prevailing global uncertainty may materially and adversely affect the business of customers or potential customers, or cause a slowdown in economic activities in Hong Kong, which, in turn, may lead to a lower demand for electricity and related services in Hong Kong. This may adversely affect the Group's financial position, potential income, asset value and liabilities.

To address uncertainty in the global and Hong Kong economies, the Group pursues prudent and pragmatic strategies in financial management and capital investment. The Group also strives for efficiency and cost effectiveness in all aspects of its operations to enhance its financial performance.

INTEREST RATES AND CURRENCY MARKETS

The Group is exposed to interest rate risk on its interest-bearing assets and liabilities. The US Federal Reserve ("FED") raised interest rate in its December 2016 FOMC meeting, presented a more hawkish view than anticipated and projected to have three hikes in 2017 although the new US presidency might create uncertainty on the deliberation of the targeted increases. The Group is exposed to currency risk that mainly arises from the import of fuel and capital equipment, and from its debt issuances in capital markets.

The Group's treasury policy guides the measures it undertakes to manage these exposures. Details of the Group's current practices to manage interest rate and currency risks are in the Financial Review on pages 55 to 57.

ELECTRICITY MARKET

The operations of the Group's electricity business in Hong Kong are subject to a Scheme of Control Agreement ("SCA") with the Government, which provides for a permitted level of earnings based principally on average net fixed assets for electricity-related operations.

The current SCA was renewed in 2008 for a term of ten years commencing 1 January 2009 with an option for the Government to extend it for a further term of five years. The implementation of the 2014-2018 Development Plan under the SCA, the structure and regulation of the power industry in Hong Kong upon the expiry of the current SCA, and the Government's policies on air quality, climate change mitigation, fuel mix and electricity market competition for the medium to long term are all factors affecting the Group's results and growth.

The Group has established a mechanism to review these factors on a regular basis and continuously engages in discussions with the Environment Bureau as well as various stakeholders on electricity market and regulatory issues.

HEALTH AND SAFETY

The nature of the Group's operations exposes it to a range of health and safety risks.

Major health and safety incidents resulting in fatalities or injuries to members of the public or employees could have significant consequences. These may include widespread distress and harm or significant disruption to the Group's operations, and could result in regulatory action, legal liability, material costs and damage to the Group's reputation.

The Group has in place a Health and Safety Management System to manage its exposure and protect its employees, customers, contractors and the public by conducting its business in a safe and socially responsible manner. Improvements are continually made to strengthen the organisation's culture and commitment to health and safety.

RELIABILITY OF SUPPLY

The Group can be exposed to risks in relation to supply interruptions. A severe earthquake, storm, flood, landslide, fire, sabotage, terrorist attack, failure of critical information and control systems that support the power system, extreme weather phenomena due to climate change or any other unplanned event could lead to a prolonged and extensive power outage.

The loss of cash flow resulting from supply interruption, and the cost of recovery from damage to network and generation assets could be considerable. Such an incident could damage customer goodwill and lead to claims and litigation. Substantial increases in the number or duration of supply interruptions could result in increases in the costs associated with the operation of the Group's supply networks, which could have an adverse effect on the business, financial condition and efficiency of operations as well as the reputation of the Group.

The Group conducts thorough risk assessment including the emerging risk of climate change, physical security and cybersecurity, adopts resilient designs, performs reliability centered maintenance and upgrades of its power supply equipment, undertakes reliability reviews, provides comprehensive training to operational staff and deploys sophisticated information technology control and asset management systems. It also conducts drills on contingency plans on a regular basis to ensure supply reliability standards are maintained.

ENVIRONMENTAL COMPLIANCE

In 2008, the Government stipulated emission allowances for the power sector up to 2010 and beyond through the Technical Memorandum for Allocation of Emission Allowances in respect of Specified Licences under the Air Pollution Control Ordinance. Five subsequent Technical Memoranda issued in 2010, 2012, 2014, 2015 and 2016 have further tightened the emission allowances starting from 2015, 2017, 2019, 2020 and 2021 respectively. The Government will also review later this year the emission allowances for 2022 and beyond based on updated information such as the availability of new gas-fired units of the power companies.

In addition, the Government currently links the rate of return to compliance with emission allowance requirements. Failure to comply with these requirements could result in financial penalties and other legal action against the Group.

The Group has in place an Environmental Management System with a monitoring and reporting mechanism run by a dedicated team to ensure compliance with relevant environmental regulations, address public concerns and closely monitor and control the emission of pollutants from the power plant.

CYBER SECURITY

The Group's critical utility and information assets are exposed to attack, damage or unauthorised access in the cyber world. The fact that cyber-attacks occur with greater frequency and intensity around the world has increased the risk posed by cybercrime to the Group. Failure to protect the Group's critical utility and information assets from targeted or non-targeted cyber-attacks can result in reputational damage, financial loss and disruptions in operations.

The Group has taken a risk-based and integrated approach to combating cyber security risks. A robust Cyber Security Management Framework has been established with the implementation of an Information Security Management System that enables the Group to proactively identify, prevent, detect, respond to and recover from cybersecurity attacks. Resources and development efforts are focused on the three pillars of cybersecurity management, namely people, process and technology, to ensure the confidentiality, integrity and availability of corporate information assets and critical infrastructure.

LAWS AND REGULATIONS

Our main operating company, HK Electric, engages in the generation, transmission, distribution and supply of electricity in Hong Kong, and is subject to strict compliance with Hong Kong laws and regulations relating to, amongst other things, development, construction, licensing and operation of our power facilities. Furthermore, we must comply with the conditions contained in our operational and construction licenses and permits. Failure to do so could expose us to prosecution and litigation and result in fines, sanctions, criminal penalties and/or the suspension, revocation or non-renewal of licenses or permits. Moreover, changes in laws and regulations may cause us to incur additional capital expenses or other obligations or liabilities in order to comply with such changes, or possibly materially and adversely impact our business, financial condition and operating results.

The Compliance Committee is responsible for overseeing the Group's compliance functions. A Compliance Framework is in place to manage its compliance obligations under a consistent and structured approach across the Group. As part of the Framework, a Regulatory Compliance and Monitoring Programme has been implemented to proactively monitor the Group's compliance obligations and status as well as any changes in laws and regulations and their implications.

FUEL SUPPLY

Our generating units in Lamma Power Station mainly rely on coal and natural gas as a fuel source. Any interruptions or shortage in the supply of coal or natural gas or substandard fuel quality may result in significant disruption to the operations of our generating units. This could have an adverse effect on the reliability of supply, business, financial condition as well as the reputation of the Group. Possible fuel price volatility is also a risk to the Group.

The Group has a fuel supply strategy and fuel quality control system in place to maintain reliable supply and sufficient high-quality stock to meet its generation requirements.

BOARDS OF DIRECTORS AND SENIOR MANAGEMENT

BOARDS OF DIRECTORS

EXECUTIVE DIRECTORS

FOK Kin Ning, Canning

Chairman

Aged 65. Appointed to the Boards of the Trustee-Manager and the Company, and as the Chairman of the Boards since December 2013. He is also the Chairman of HK Electric, a wholly-owned subsidiary of the Company. Mr. Fok is the Chairman of Power Assets. Mr. Fok is an Executive Director and Group Co-Managing Director of CKH Holdings and the Deputy Chairman of CKI. Mr. Fok is the Chairman of Hutchison Telecommunications (Australia) Limited ("HTAL"), Hutchison Telecommunications Hong Kong Holdings Limited ("HTHKH") and Hutchison Port Holdings Management Pte. Limited ("HPHMPL") which is the trustee-manager of Hutchison Port Holdings Trust ("HPH Trust"), and the Co-Chairman of Husky Energy Inc. ("Husky Energy"). Mr. Fok was previously an Alternate Director of HTHKH. All the companies mentioned above, except the Trustee-Manager, HK Electric and HPHMPL, are listed companies, and HPH Trust is a listed business trust. Mr. Fok acts as a Director of certain substantial Holders of Share Stapled Units within the meaning of Part XV of the SFO. He holds a Bachelor of Arts degree and a Diploma in Financial Management, and is a Fellow of Chartered Accountants Australia and New Zealand.

WAN Chi Tin

Chief Executive Officer

Aged 66. Appointed to the Boards of the Trustee-Manager and the Company since their incorporation in September 2013 and as Chief Executive Officer of the Company since December 2013. Mr. Wan is also Managing Director of HK Electric and a Director of all of the subsidiaries of the Company. He has worked for the Power Assets Group and the Group since 1978, holding various positions including Group Managing Director and Director of Engineering (Planning & Development) of Power Assets, a listed company, and Chief Executive Officer of Powercor Australia Limited and CitiPower Pty., associate companies of the Power Assets Group in Australia. Mr. Wan acts as an Executive Director and a Director of the substantial Holders of Share Stapled Units for the purpose of Part XV of the SFO, namely Power Assets and Quickview Limited respectively. Mr. Wan holds a Bachelor of Science degree in Electrical Engineering and is also a Chartered Engineer. He is an Honorary Fellow of the Energy Institute, a Fellow of the Institution of Engineering and Technology and a Fellow of The Hong Kong Institution of Engineers. He is the Vice Chairman of the Engineers Registration Board of Hong Kong and a member of the Audit Committee of The University of Hong Kong.

CHAN Loi Shun

Aged 54. Appointed to the Boards of the Trustee-Manager and the Company since their incorporation in September 2013. Mr. Chan is also a Director of all the subsidiaries of the Company including HK Electric. He is an Executive Director and Chief Financial Officer of CKI and an Executive Director of Power Assets. Mr. Chan joined Hutchison Whampoa Limited ("HWL") in January 1992 and has been with the Cheung Kong (Holdings) Limited ("Cheung Kong") Group since May 1994. All the companies mentioned above, except the Trustee-Manager, HK Electric, Cheung Kong and HWL, are listed companies. Mr. Chan acts as a Director of a number of substantial Holders of Share Stapled Units for the purpose of Part XV of the SFO, namely CKI, Power Assets and Quickview Limited. Mr. Chan is a fellow of the HKICPA and the Association of Chartered Certified Accountants, and is also a member of the Institute of Certified Management Accountants (Australia).

CHENG Cho Ying, Francis

Aged 60. Appointed to the Boards of the Trustee-Manager and the Company in December 2013. Mr. Cheng is also a Director of HK Electric and serves as its Operations Director. Mr. Cheng has worked for the Group since 1979. He holds a Bachelor's degree in Chemistry and is a Fellow of the Royal Society of Chemistry in the United Kingdom. He is also a member of The Hong Kong Institution of Engineers.

From left to right: CHENG Cho Ying, Francis; CHAN Loi Shun; WAN Chi Tin; SHAN Shewu

SHAN Shewu

Aged 49. Appointed to the Boards of the Trustee-Manager and the Company in January 2015. Mr. Shan is also a Director and the Co-General Manager (Transmission & Distribution) of HK Electric. He has around 25 years of experience in electrical technology development and management. Since 2008, Mr. Shan began involved in international operations of overseas power companies of State Grid Corporation of China ("State Grid") and was arranged to act as Assistant Chief Technical Officer, Board Director and Chief Executive Adviser of National Grid Corporation of the Philippines, Deputy Director General of State Grid Representative Office in the Philippines, as well as Chief Technical Officer and Vice Chairman of the Strategic Partnership Committee in Redes Energéticas Nacionais, SGPS, S.A., the national electric and gas grid corporation of Portugal. He has been appointed as a Director of State Grid International Development Limited since December 2016 and is also involved in the management of State Grid International Development Co., Limited. State Grid, State Grid International Development Co., Limited and State Grid International Development Limited are substantial Holders of Share Stapled Units for the purpose of Part XV of the SFO. Mr. Shan holds a Bachelor and a Master Degree in Electrical Engineering from Xi'an Jiaotong University.

NON-EXECUTIVE DIRECTORS

LI Tzar Kuoi, Victor

Deputy Chairman of the Company Board

Aged 52. Appointed to the Boards of the Trustee-Manager and the Company, and as Deputy Chairman of the Company Board in November 2014. Mr. Li is also a Director of HK Electric and a Non-executive Director of Power Assets. He is an Executive Director, Group Co-Managing Director and Deputy Chairman of CKH Holdings. Mr. Li is an Executive Director, Managing Director and Deputy Chairman, and the Chairman of the Executive Committee of Cheung Kong Property Holdings Limited ("CK Property"). Mr. Li is the Chairman of CKI and CK Life Sciences Int'l., (Holdings) Inc. ("CK Life Sciences") and the Co-Chairman of Husky Energy. All the companies mentioned above, except the Trustee-Manager and HK Electric, are listed companies. He is also the Deputy Chairman of Li Ka Shing Foundation Limited, Li Ka Shing (Overseas) Foundation and Li Ka Shing (Canada) Foundation, and a Director of The Hongkong and Shanghai Banking Corporation Limited. Mr. Li serves as a member of the Standing Committee of the 12th National Committee of the Chinese People's Political Consultative Conference of the People's Republic of China. He is a member of the Commission on Strategic Development of the Hong Kong Special Administrative Region ("HKSAR") and Vice Chairman of the Hong Kong General Chamber of Commerce (the "Chamber"). Mr. Li is also the Honorary Consul of Barbados in Hong Kong. He acts as a Director of certain substantial Holders of Share Stapled Units within the meaning of Part XV of the SFO, and a Director of certain companies controlled by certain substantial Holders of Share Stapled Units. He holds a Bachelor of Science degree in Civil Engineering, a Master of Science degree in Civil Engineering and an honorary degree, Doctor of Laws, honoris causa (LL.D.).

Fahad Hamad A H AL-MOHANNADI

Aged 61. Appointed to the Boards of the Trustee-Manager and the Company in June 2015. He is also a Director of HK Electric. Mr. Al-Mohannadi is the Managing Director and the General Manager of Qatar Electricity & Water Co. ("QEWC"), which is listed on the Qatar Stock Exchange. He has worked for QEWC since 1992 and, prior to joining QEWC, he worked at the Qatar Ministry of Electricity and Water. Mr. Al-Mohannadi is the Chairman of Board of Directors of each of Qatar Power Company, Ras Laffan Power Company, Nebras Power Q.S.C. and Umm Al Houl Power Co., and is also a Board Director of Siraj Solar Energy and a board member of Qatar Science & Technology Park. He holds a Bachelor's degree in Mechanical Engineering.

Ronald Joseph ARCULLI

Aged 78. Appointed to the Boards of the Trustee-Manager and the Company in December 2013. He is also a Director of HK Electric. Mr. Arculli is a practising solicitor and was a Member of the Legislative Council of Hong Kong from 1988 to 2000, representing the Real Estate and Construction functional constituency between 1991 and 2000. He was a non-official member of the Executive Council of the HKSAR from November 2005 to June 2012, and served as Convenor from October 2011 to June 2012. He has a distinguished record of public service and has served on numerous government committees and advisory bodies. Mr. Arculli is an Independent Non-executive Director of Hang Lung Properties Limited, and is a Non-executive Director of HKR International Limited, Sino Hotels (Holdings) Limited, Sino Land Company Limited and Tsim Sha Tsui Properties Limited. He was previously an Independent Non-executive Director of HKEX and SCMP Group Limited, and a Non-executive Director of Power Assets, a substantial Holder of Share Stapled Units for the purpose of Part XV of the SFO. All the companies mentioned above, except the Trustee-Manager and HK Electric, are listed companies.

DU Zhigang

Aged 60. Appointed to the Boards of the Trustee-Manager and the Company in January 2015. Mr. Du is also a Director of HK Electric. He is the Vice President of State Grid, Chairman of National Grid Corporation of the Philippines and Chairman of SGSP (Australia) Assets Pty Ltd. Mr. Du oversees State Grid's overseas business. He previously held the positions of Chairman of State Grid International Development Limited, Chief Economist, Director General of Department of Development and Planning and Director General of International Cooperation Department of State Grid, and Deputy Chief Engineer, Chief Engineer and Vice President of Shandong Electric Power Company. State Grid and State Grid International Development Limited are substantial Holders of Share Stapled Units for the purpose of Part XV of the SFO. Mr. Du holds a PhD Degree in Power System and Automation from Shandong University, and is Senior Member of The Institute of Electrical and Electronics Engineers of the United States.

JIANG Xiaojun

Aged 52. Appointed to the Boards of the Trustee-Manager and the Company in January 2015. Mr. Jiang is also a Director of HK Electric. He is the Senior-Vice President of State Grid International Development Co., Limited since 2008 and a Board Director of ElectraNet in South Australia since 2012. Mr. Jiang has 30 years of experience within the operation and corporate management of China power companies. Since 2000, Mr. Jiang has worked for State Power Corporation of China and subsidiaries of State Grid in charge of operation and corporate management and overseas asset acquisition and operation. State Grid and State Grid International Development Co., Limited are substantial Holders of Share Stapled Units for the purpose of Part XV of the SFO. Mr. Jiang holds an MBA degree from Shanghai University of Finance and Economics, and a Doctoral Degree in Business Management from Sun Yat-sen University.

Deven Arvind KARNIK

Aged 49. Appointed to the Boards of the Trustee-Manager and the Company in June 2015. He is also a Director of HK Electric. Mr. Karnik is the Head of Infrastructure at Qatar Investment Authority ("QIA"). Prior to joining QIA in 2013, Mr. Karnik worked for about 7 years in Hong Kong where he was a Managing Director at Morgan Stanley and a Managing Director at Dresdner Kleinwort. Mr. Karnik also serves as an alternative director of Heathrow Airport Holdings Limited. Mr. Karnik holds a Bachelor of Commerce degree and is a member of the Institute of Chartered Accountants in England and Wales.

INDEPENDENT NON-EXECUTIVE DIRECTORS

FONG Chi Wai, Alex

Aged 60. Appointed to the Boards of the Trustee-Manager and the Company in December 2013. Mr. Fong is also a Director of HK Electric. Mr. Fong was CEO of the Chamber from 2006 to 2011. Prior to joining the Chamber, he served in the civil service for over 25 years, holding various senior positions in the Government of Hong Kong. Mr. Fong has a long record of public service providing both operational and policy-formulation expertise. He was previously an Independent Non-executive Director of Power Assets, a listed company and a substantial Holder of Share Stapled Units for the purpose of Part XV of the SFO. Mr. Fong holds a Bachelor of Social Science degree in Business and Economics, a Master of Technology Management degree in Global Logistics Management and a Master of Science degree in Global Finance.

KWAN Kai Cheong

Aged 67. Appointed to the Boards of the Trustee-Manager and the Company in January 2015. Mr. Kwan is also a Director of HK Electric. He is President of Morrison & Company Limited, a business consultancy firm. Mr. Kwan is also the chairman of the board of Utopa Limited, a commercial property company in the People's Republic of China. Mr. Kwan worked for Merrill Lynch & Co., Inc. for over 10 years during the period from 1982 to 1993, with his last position as President for its Asia Pacific region. He was formerly Joint Managing Director of Pacific Concord Holding Limited. Mr. Kwan is an Independent Non-executive Director of Greenland Hong Kong Holdings Limited, Henderson Sunlight Asset Management Limited (as manager of Sunlight Real Estate Investment Trust), United Photovoltaics Group Limited, Win Hanverky Holdings Limited, Dynagreen Environmental Protection Group Co., Ltd. and CK Life Sciences and a Non-executive Director of China Properties Group Limited, all being listed companies (except Sunlight Real Estate Investment Trust being a listed real estate investment trust). He was previously an Independent Non-executive Director of Galaxy Resources Limited, a listed company. Mr. Kwan holds a Bachelor of Accountancy (Honours) degree and is a fellow of the HKICPA, The Institute of Chartered Accountants in Australia and The Hong Kong Institute of Directors Limited. He completed the Stanford Executive Program in 1992.

LEE Lan Yee, Francis

Aged 76. Appointed to the Boards of the Trustee-Manager and the Company in December 2013. Mr. Lee is also a Director of HK Electric. Mr. Lee was previously an Independent Non-executive Director of Power Assets, a listed company and a substantial Holder of Share Stapled Units for the purpose of Part XV of the SFO. He had served the Power Assets Group for over 40 years in various capacities and while being Director & General Manager (Engineering) from 1997 to 2008, Mr. Lee was responsible for all the engineering activities of the Power Assets Group, including the development and operation of power generation, transmission and distribution systems. He holds a Bachelor of Science degree and a Master of Science degree in Engineering. He is a Chartered Engineer and a Fellow of the Institute of Mechanical Engineers in Hong Kong and the United Kingdom.

George Colin MAGNUS

Aged 81. Appointed to the Boards of the Trustee-Manager and the Company in December 2013. Mr. Magnus is also a Director of HK Electric. He was previously the Chairman of Power Assets from 1993 to 2005, a Non-executive Director from 2005 to 2012 and an Independent Non-executive Director until January 2014. He is a Non-executive Director of CKH Holdings. He is also a Non-executive Director of CKI having served previously as Deputy Chairman of the company. He was previously Deputy Chairman and then a Non-executive Director of Cheung Kong and HWL. All of these companies mentioned above, except the Trustee-Manager, HK Electric, Cheung Kong and HWL, are listed companies. Mr. Magnus acts as a Director of a number of substantial Holders of Share Stapled Units for the purpose of Part XV of the SFO. Mr. Magnus is also a Director of Husky Energy, a listed company. He holds a Master's degree in Economics.

Donald Jeffrey ROBERTS

Aged 65. Appointed to the Boards of the Trustee-Manager and the Company in December 2013. Mr. Roberts is also a Director of HK Electric. Mr. Roberts joined the HWL Group in 1988 and was the Group Deputy Chief Financial Officer of HWL from 2000 until his retirement in 2011. HWL is a substantial Holder of Share Stapled Units for the purpose of Part XV of the SFO. Mr. Roberts is a Member of the Listing Committee of the Main Board and Growth Enterprise Market of the Stock Exchange. Mr. Roberts holds a Bachelor of Commerce degree. He is a Chartered Accountant with the Chartered Professional Accountants of Canada, Chartered Professional Accountants of Alberta and British Columbia, and also a fellow of the HKICPA.

Ralph Raymond SHEA

Aged 83. Appointed to the Boards of the Trustee-Manager and the Company in October 2015. Mr. Shea is also a Director of HK Electric. He is an Independent Non-executive Director of Power Assets, a listed company and a substantial Holder of Share Stapled Units for the purpose of Part XV of the SFO. He is a solicitor of England and Wales and of Hong Kong.

ALTERNATE DIRECTORS

CHOW WOO Mo Fong, Susan

Aged 63. Appointed Alternate Director to Mr. Fok Kin Ning, Canning, the Chairman of the Boards of the Trustee-Manager and the Company, in November 2014. She is also an Alternate Director of HK Electric. Mrs. Chow has been appointed as a Non-executive Director of CKH Holdings since January 2017, and is also an Alternate Director of CKI. Mrs. Chow was previously an Executive Director and Group Deputy Managing Director of CKH Holdings, an Executive Director of CKI, a Non-executive Director of HTHKH, a Director and an Alternate Director of HTAL, and an Alternate Director of TOM Group Limited ("TOM"). All the companies mentioned above, except the Trustee-Manager and HK Electric, are listed companies. CKH Holdings and CKI are substantial Holders of Share Stapled Units for the purpose of Part XV of the SFO. Mrs. Chow is a qualified solicitor and holds a Bachelor's degree in Business Administration.

Frank John SIXT

Aged 65. Appointed Alternate Director to Mr. Li Tzar Kuoi, Victor, the Deputy Chairman of the Company Board and Non-executive Director of the Trustee-Manager and the Company, in June 2015. He is also an Alternate Director of HK Electric. Mr. Sixt is an Executive Director, Group Finance Director and Deputy Managing Director of CKH Holdings, the Non-executive Chairman of TOM and an Executive Director of CKI. He is also a Director of HTAL and Husky Energy, and an Alternate Director of HTAL. Mr. Sixt was previously a Non-executive Director of HTHKH, HPHMPL which is the trustee-manager of HPH Trust and Power Assets. All the companies mentioned above, except the Trustee-Manager, HK Electric and HPHMPL, are listed companies, and HPH Trust is a listed business trust. Mr. Sixt acts as a Director of certain substantial Holders of Share Stapled Units within the meaning of Part XV of the SFO, and a Director of certain companies controlled by certain substantial Holders of Share Stapled Units. He holds a Master's degree in Arts and a Bachelor's degree in Civil Law, and is a member of the Bar and of the Law Society of the Provinces of Québec and Ontario, Canada.

SENIOR MANAGEMENT OF THE COMPANY

CHAN Ping Kee

Aged 59. General Manager (Transmission & Distribution), has been with the Group since October 1980. He has over 30 years of experience in electricity supply. He holds a Bachelor of Science degree in Electrical Engineering. He is a Chartered Engineer registered with the Engineering Council in the United Kingdom and a Fellow of The Hong Kong Institution of Engineers.

LAU Chi Kwong

Aged 60. General Manager (Projects), has been with the Group since August 1977. He has over 30 years of experience in project management. He holds an Associateship in Electrical Engineering. He is a Chartered Engineer and Registered Professional Engineer, and a member of The Hong Kong Institution of Engineers and the Institution of Engineering and Technology in the United Kingdom.

LEUNG Wing Hung

Aged 62. General Manager (Generation), has been with the Group since October 1978. He has over 35 years of experience in electricity generation. Mr. Leung holds a Bachelor of Science degree in Mechanical Engineering, an Associateship in Electrical Engineering, a Master of Science degree in Mechanical Engineer and an Engineering Doctorate degree in Engineering Management. He is a Chartered Engineer registered with the Engineering Council in the United Kingdom, a member of The Hong Kong Institution of Engineers, and a member of the Institution of Mechanical Engineers, the Institution of Engineering and Technology and the Institution of Gas Engineers and Managers in the United Kingdom.

WONG Kim Man

Aged 56. Chief Financial Officer, has been with the Group since September 2010. He has over 30 years of experience in financial management and accounting. He holds a Bachelor's and a Master's degree in Business Administration. He is also a member of the HKICPA and the American Institute of Certified Public Accountants. He is a Council member of the HKICPA.

WONG Yuk Keung, Arthur

Aged 59. General Manager (Group Commercial), has been with the Group since January 1982. He was engaged in the construction of Lamma Power Station upon joining the Power Assets Group and subsequently worked in and was promoted to the head of the various departments in the Group Commercial Division. He holds a Bachelor of Science degree in Engineering and a Master of Science degree in Engineering and a Master's degree in Business Administration.

WU Kwok Kwong, Dennis

Aged 52. General Manager (Human Resources), joined the Group in June 2014. He has over 25 years of experience in human resources management and administration gained from organisations in both private and public sectors in Hong Kong. He holds a Master of Science degree in Training and is a Professional Member of the Hong Kong Institute of Human Resource Management and a Member of the Institute of Hospitality (UK).

From left to right: WONG Yuk Keung, Arthur; WU Kwok Kwong, Dennis; YEUNG Yuk Chun, Mimi; LAU Chi Kwong; WONG Kim Man; CHAN Ping Kee; YEE Tak Chow; LEUNG Wing Hung; NG Wai Cheong, Alex

YEE Tak Chow

Aged 62. General Manager (Corporate Development), has been with the Group since August 1976. He had worked on a number of energy infrastructure projects both in and outside Hong Kong, including stationing in Saudi Arabia and Japan for three years. Between 2005 and 2008, he worked for the Power Assets Group's investments outside Hong Kong. He holds a Master's degree in Information Technology. He is a Chartered Engineer and Registered Professional Engineer, and a member of The Hong Kong Institution of Engineers, the Institution of Engineers in Australia, and the Institution of Engineering and Technology in the United Kingdom.

YEUNG Yuk Chun, Mimi

Aged 53. General Manager (Public Affairs), has been with the Group since July 2003. She has over 30 years of experience in journalism and corporate communications. She holds a Bachelor of Arts degree and a Master's degree in Public Administration.

TRUSTEE-MANAGER SECRETARY AND COMPANY SECRETARY

NG Wai Cheong, Alex

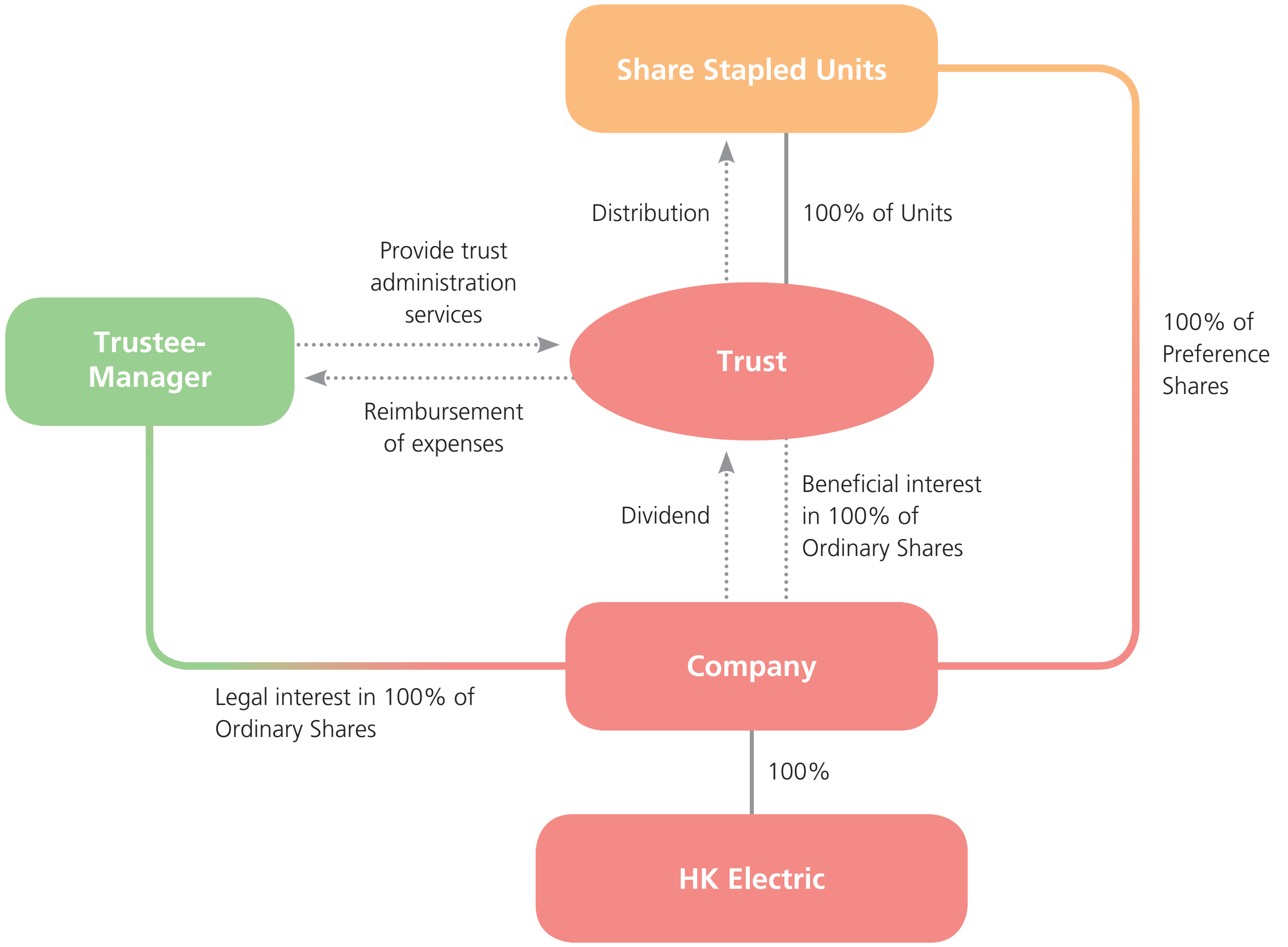
Aged 47. Group Legal Counsel and Company Secretary, has been with the Group since November 2008. He is also the Group Legal Counsel and Company Secretary of Power Assets. He has over 15 years of experience in legal, regulatory and compliance fields. Mr. Ng holds a Bachelor's degree in Science and a Bachelor's degree in Laws. He was admitted as a solicitor in Hong Kong and in England and Wales.

COMBINED CORPORATE GOVERNANCE REPORT

STRUCTURE OF THE TRUST GROUP AND THE SHARE STAPLED UNITS

The Trust, managed by the Trustee-Manager, was constituted under the laws of Hong Kong on 1 January 2014 by the Trust Deed. The Trustee-Manager, as the trustee-manager of the Trust, holds the legal interests in the ordinary shares of the Company whilst the beneficial interests in such ordinary shares form a component of the Share Stapled Units. Each Share Stapled Unit is jointly issued by the Trust and the Company and is a combination of: (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. The chart on page 39 is a simplified version of the structure of the Trust Group and the Share Stapled Units.

The Trust and the Company are both listed on the Main Board of the Stock Exchange, and are subject to the provisions of the Listing Rules. 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.



CORPORATE GOVERNANCE

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.

The Boards delegate their respective responsibility for performing corporate governance duties to the Trustee-Manager Audit Committee and the Company Audit Committee. The governance structure of the Trustee-Manager and the Group was reviewed by the Trustee-Manager Audit Committee and the Company Audit Committee reviewed at the meetings held in March and July 2016, together with the compliance status of the Corporate Governance Code for the year 2015 and the first six months of 2016, and the Corporate Governance disclosure in the 2015 Corporate Governance Report and the 2016 interim report. The Trust and the Company have complied with the applicable code provisions in the Corporate Governance Code throughout the year ended 31 December 2016, except as noted hereunder.

BOARDS OF DIRECTORS

Each of the Trustee-Manager Board and the Company Board, led by the Chairman, is responsible for approval and monitoring of strategies and policies, approval of annual budgets and business plans, evaluation of the performance, and oversight of management of the Trustee-Manager and the Company respectively. The Trust Deed requires that the directors of the Company and the directors of the Trustee-Manager shall at all times comprise the same individuals. Management is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer.

The current Directors and their biographical information are set out in the "Boards of Directors and Senior Management" section on pages 31 to 37 of the Annual Report. An updated list of Directors containing their biographical information and identifying the Independent Non-executive Directors is maintained on the website of the Company. The names of all Directors and their role and function are posted on the website of HKEX.

The Trustee-Manager Board and the Company Board hold meetings on a combined basis, and they meet at least four times a year. Additional board meetings will be held when warranted. Regular meetings of a year are scheduled during the last quarter of the preceding year providing Directors with adequate time to plan their schedules to attend. The Directors may attend meetings in person, by telephone or other electronic means or by their alternate directors in accordance with the articles of association of the Trustee-Manager and the Company. Throughout the year, the Directors also participate in the consideration and approval of matters by way of written resolutions, which are circulated to Directors together with supporting explanatory write-up and coupled with briefings from the Chief Executive Officer or the Company Secretary as required. Directors are required to declare their interests, if any, in the matters to be considered by them during board meetings and in the circular resolutions. During the year, the Boards held four meetings, and the Chairman had two meetings with the Non-executive Directors without the presence of Executive Directors.

Directors receive at least fourteen days prior written notice of a regular meeting and may propose matters for discussion to be included in the agenda. An agenda with supporting board papers is sent to the Directors no less than three days prior to a regular meeting. The Company Secretary assists the Chairman in seeing that Directors receive adequate information on each matter set out in the agenda and acts as co-ordinator for management in providing clarification sought by Directors. The minutes of Board meetings are prepared by the Company Secretary with details of the decisions reached, any concerns raised and dissenting views expressed. The draft minutes are sent to all Directors within a reasonable time after each meeting for their comments before being formally signed by the chairman of the meeting. Copies of the final versions of Board minutes are sent to Directors for their information and records. The signed minutes are kept in safe custody by the Company Secretary and are available for inspection by Directors.

During 2016 the number of board and committee meetings and the attendance of each Director at these meetings and the combined 2016 annual general meeting are as follows:

Directors	Company				Trustee-Manager			
	Board Meetings	Audit Committee Meetings	Remuneration Committee Meeting	Meetings between Chairman and Non-executive Directors	Board Meetings	Audit Committee Meetings	Meetings between Chairman and Non-executive Directors	Combined 2016 Annual General Meeting
Executive Directors								
Fok Kin Ning, Canning (Chairman)	4/4	–	1/1	2/2	4/4	–	2/2	√
Wan Chi Tin (Chief Executive Officer)	4/4	–	–	–	4/4	–	–	√
Chan Loi Shun	4/4	–	–	–	4/4	–	–	√
Cheng Cho Ying, Francis	4/4	–	–	–	4/4	–	–	√
Shan Shewu	4/4	–	–	–	4/4	–	–	√
Yuen Sui See (Note)	4/4	–	–	–	4/4	–	–	√
Non-executive Directors								
Li Tzar Kuoi, Victor (Deputy Chairman)	4/4	–	–	2/2	4/4	–	2/2	√
Fahad Hamad A H Al-Mohannadi	4/4	–	–	2/2	4/4	–	2/2	x
Ronald Joseph Arculli	3/4	3/3	–	2/2	3/4	3/3	2/2	√
Du Zhigang	4/4	–	–	2/2	4/4	–	2/2	√
Jiang Xiaojun	4/4	–	–	2/2	4/4	–	2/2	√
Deven Arvind Karnik	4/4	–	–	2/2	4/4	–	2/2	√
Independent Non-executive Directors								
Fong Chi Wai, Alex	4/4	–	1/1	2/2	4/4	–	2/2	√
Kwan Kai Cheong	4/4	–	–	2/2	4/4	–	2/2	√
Lee Lan Yee, Francis	4/4	3/3	–	2/2	4/4	3/3	2/2	√
George Colin Magnus	4/4	–	–	2/2	4/4	–	2/2	√
Donald Jeffrey Roberts	4/4	2/3	1/1	2/2	4/4	2/3	2/2	√
Ralph Raymond Shea	4/4	–	–	2/2	4/4	–	2/2	√

Note: Mr. Yuen Sui See retired from the position of Executive Director of the Trustee-Manager and the Company on 17 January 2017.

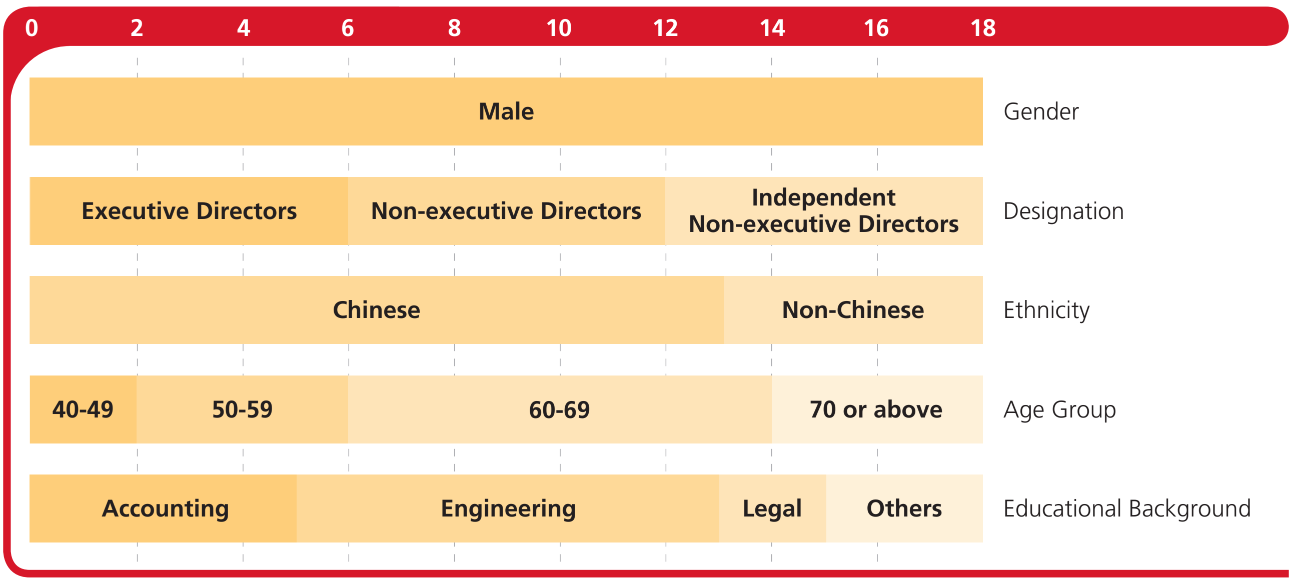
Directors at all times have full and timely access to information of the Trust Group. A financial summary outlining the Group's financial position and performance and containing the actual and budgeted results from different operations, with major variances explained, is sent to Directors each month for their information. Directors also have independent access to senior management for information on the Trust Group and unrestricted access to the services of the Company Secretary, who advises the Boards on governance matters and board procedures. There is a procedure for Directors to seek independent professional advice whenever deemed necessary by them at the expense of the Trustee-Manager or the Company, as appropriate. Insurance coverage in respect of Directors' liability has been arranged by the Trustee-Manager and the Company.

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, and 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 Chairman and the Chief Executive Officer may recommend candidates. Credentials of candidates are put forward to the Boards for consideration in respect of any proposed appointment of a new director or any proposed appointment of a director to an executive office, and the appointment is subject to the approval of the Boards. The principal consideration is to build an effective and complementary board with the expertise, skills and experience appropriate for the requirements of the businesses of the Group with due regard to the benefits of diversity on the Boards laid down in the board diversity policy which is available on the website of the Company. The policy sets out the approach in achieving board diversity, recognising that board appointment should be based on merit that complements and expands the skills, experience and expertise of the Boards as a whole, taking into account professional experience and qualifications, gender, age, cultural and educational background, and any other factors that the Boards might consider relevant and applicable from time to time towards achieving board diversity. In addition, potential candidates for Independent Non-executive Directors are also reviewed to determine whether they are independent according to the requirements of the Listing Rules, and are able to devote sufficient time to Boards and committee meetings.

The diversity profile of the Boards as at 31 December 2016 is as follows:

Board Diversity

No. of Directors



Newly appointed Directors receive briefings and a package of orientation materials on the operations and businesses of the Group, together with information relating to duties and responsibilities of directors under statutory regulations and the Listing Rules.

All Directors have been appointed on annual twelve-month basis (save for the initial period which is for a period up to 31 December in the year of appointment), subject to retirement from office by rotation and re-election at the annual general meeting once every three years pursuant to the Trust Deed and the articles of association of the Company.

Pursuant to the Trust Deed and the Company's articles of association, any director appointed by the Company Board either to fill a casual vacancy or as an addition shall also be appointed a director of the Trustee-Manager. Any Director appointed to fill the casual vacancy shall hold office only until the next following general meeting of the Company or the next following general meeting of the Trust, as the case may be, and shall be eligible for re-election at that meeting. In the case of an addition, the additional Director shall hold office only until the next following annual general meeting of the Company or the next following annual general meeting of the Trust, as the case may be, and shall be eligible for re-election at that meeting.

Directors retiring by rotation in accordance with clause 29.2(m) of the Trust Deed, article 16.21 of the Company's articles of association and code provision A.4.2 of the Corporate Governance Code and offering themselves for re-election at the forthcoming combined annual general meeting are Mr. Ronald Joseph Arculli, Mr. Cheng Cho Ying, Francis, Mr. Fong Chi Wai, Alex, Mr. Lee Lan Yee, Francis, Mr. George Colin Magnus and Mr. Donald Jeffrey Roberts. Information relating to these Directors required to be disclosed under the Listing Rules is contained in the circular to Holders of Share Stapled Units dated 31 March 2017. None of these Directors has a service contract which is not determinable by the Trustee-Manager or the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' TRAINING AND COMMITMENT

The Company Secretary updates Directors on the latest developments and changes to the Listing Rules and the applicable legal and regulatory requirements regarding subjects necessary in the discharge of their duties.

The Company also arranges and provides continuous professional development training and relevant materials to Directors to help ensure they are apprised of the latest changes in the commercial, legal and regulatory environment in which the Trust Group conducts its business and to refresh their knowledge and skills on the roles, functions and duties of a listed company director. In addition, attendances at external forums or briefing sessions and completion of courses organised by professional bodies on the relevant topics also count towards continuous professional development training. The Directors have provided to the Trustee-Manager and the Company their records of continuous professional development training during 2016, and they have participated in training activities in the following manner:

1. Reading materials and seminars on directors' duties, compliance issues for listed companies and/or legal and regulatory requirements

2. Reading materials and seminars on corporate governance and financial reporting

3. Reading materials and seminars on risk management, internal control and sustainable growth

	1	2	3
Executive Directors			
Fok Kin Ning, Canning	√	√	√
Wan Chi Tin	√	√	√
Chan Loi Shun	√	√	√
Cheng Cho Ying, Francis	√	√	√
Shan Shewu	√	√	√
Yuen Sui See *(Retired on 17 January 2017)*	√	√	√
Non-executive Directors			
Li Tzar Kuoi, Victor	√	√	√
Fahad Hamad A H Al-Mohannadi	√	√	√
Ronald Joseph Arculli	√	√	√
Du Zhigang	√	√	√
Jiang Xiaojun	√	√	√
Deven Arvind Karnik	√	√	√
Independent Non-executive Directors			
Fong Chi Wai, Alex	√	√	√
Kwan Kai Cheong	√	√	√
Lee Lan Yee, Francis	√	√	√
George Colin Magnus	√	√	√
Donald Jeffrey Roberts	√	√	√
Ralph Raymond Shea	√	√	√

The Directors have each confirmed that he has allocated sufficient time and attention to the affairs of the Trust Group, and have also disclosed their offices held in other public companies and organisations and updated the Company on any subsequent changes in a timely manner.

DIRECTORS' SECURITIES TRANSACTIONS

The Boards have adopted the Model Code as their code of conduct regarding directors' securities transactions. All Directors have confirmed following specific enquiry that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2016.

Senior managers, and other nominated managers and staff who, because of their respective positions in the Company, are likely to be in possession of inside information regarding the Trust Group and its securities are also required to comply with the Model Code.

Reminders are sent during each year to Directors, senior managers and other nominated managers and staff that they should not deal in the securities of the Trust and the Company during the "black-out period" specified in the Model Code.

The Trustee-Manager and the Company have established a policy relating to inside information and securities dealing explaining the meaning of unpublished inside information and the illegality of insider dealing, and setting out the restrictions in securities dealing, preventive controls and reporting mechanism for all employees of the Group to comply with when they are in possession of confidential or unpublished inside information in relation to the Trustee-Manager and the Trust Group. Such policy is available on the intranet of the Company.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING AND DISCLOSURE

Annual and Interim Reports and Financial Statements

The Directors of the Trustee-Manager and the Company acknowledge their responsibility to prepare financial statements for each half and full financial year which give a true and fair view of the state of affairs of the Trust Group, the Group and the Trustee-Manager, as appropriate. The interim and annual results of the Trust Group, the Group and the Trustee-Manager are published in a timely manner within the limits of two months and three months respectively after the end of the relevant periods.

Accounting Policies

The Directors consider that in preparing financial statements, the Trustee-Manager and the Company ensure statutory requirements are met and apply appropriate accounting policies that are consistently adopted and make judgments and estimates that are reasonable and prudent in accordance with the applicable accounting standards.

Accounting Records

The Directors of each of the Trustee-Manager and the Company are responsible for ensuring the Trustee-Manager and the Group, as appropriate, keep proper accounting records which disclose at any time the respective financial position of the Trust Group, the Group and the Trustee-Manager from which the respective financial statements of the Trust Group, the Group and the Trustee-Manager could be prepared in accordance with statutory requirements and the appropriate accounting policies.

Safeguarding Assets

The Directors of the Trustee-Manager and the Company are responsible for taking all reasonable and necessary steps to safeguard the assets of the Trust, the Trustee-Manager and the Group and to prevent and detect fraud and other irregularities within the Trust, the Trustee-Manager and the Group, as appropriate.

Going Concern

The Directors of the Trustee-Manager and the Company consider that the Trustee-Manager and the Group respectively have adequate resources to continue in operational existence for the foreseeable future and are not aware of material uncertainties relating to events or conditions that may cast significant doubt upon each of their abilities to continue as going concerns. The financial statements of the Trust Group, the Group and the Trustee-Manager have accordingly been prepared on a going concern basis.

Disclosure

The Boards are aware of the requirements under the applicable Listing Rules and statutory regulations with regard to the timely and proper disclosure of inside information, announcements and financial disclosures and authorises their publication as and when required.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The positions of the Chairman and the Chief Executive Officer of the Company are held by separate individuals. During 2016 the Chairman of the Boards was Mr. Fok Kin Ning, Canning and the Company's Chief Executive Officer was Mr. Wan Chi Tin. The Trustee-Manager does not appoint a Chief Executive Officer due to its specific and limited role to administer the Trust.

The Chairman is elected by members of the Boards for a term of one year until the conclusion of each annual general meeting whereupon the Chairman is subject to re-election. Both the Chairman and the Chief Executive Officer are subject to retirement from their directorship by rotation and re-election every three years at the annual general meeting.

The Chairman is responsible for providing leadership to, and overseeing the functioning and effective running of, the Boards to ensure that each Board acts in the best interests of the Trust and the Group, as appropriate. The Chairman approves board meeting agendas and ensures that meetings of the Boards are planned and conducted effectively and that all Directors are properly briefed on issues arising at board meetings. In addition to board meetings, the Chairman schedules two meetings annually with Non-executive Directors without the presence of Executive Directors. The Chairman also acts in an advisory capacity to the Chief Executive Officer in all matters covering the interests and management of the Group.

The Chief Executive Officer, working with the executive management team, is responsible for managing the businesses of the Group, attending to the formulation and successful implementation of Group policies and assuming full accountability to the Company Board for all Group operations. The Chief Executive Officer attends to developing strategic operating plans and is directly responsible for maintaining the operational performance of the Group. Working with other Executive Directors and the general managers, he ensures that the funding requirements of the businesses are met and closely monitors the operating and financial results of the businesses against plans and budgets, taking remedial action when necessary. He maintains an ongoing dialogue with the Chairman and all other Directors to keep them informed of all major business development and issues. He is also responsible for building and maintaining an effective team to support him in his role.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Boards must be satisfied that an Independent Non-executive Director does not have any material relationship with the Trust Group. They are guided by the criteria of independence as set out in the Listing Rules in determining the independence of Independent Non-executive Directors.

Mr. Kwan Kai Cheong, Mr. Donald Jeffrey Roberts and Mr. Ralph Raymond Shea, all Independent Non-executive Directors, have each provided a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Boards continue to consider Mr. Kwan, Mr. Roberts and Mr. Shea to be independent.

Mr. Fong Chi Wai, Alex, Mr. Lee Lan Yee, Francis and Mr. George Colin Magnus, all Independent Non-executive Directors, have each made a similar confirmation and stated that, during the two years immediately prior to his appointment on 5 December 2013, he was director of HK Electric, a wholly-owned subsidiary of the Company. In addition, Mr. Magnus has also stated that he had been a director (other than an Independent Non-executive Director) of Power Assets, a connected person of the Company, until he was re-designated as an Independent Non-executive Director of Power Assets on 28 September 2012. The Boards have considered these directorships and are satisfied with Mr. Fong's, Mr. Lee's and Mr. Magnus' independence having regard to all relevant factors including that all of them have not held any executive or management function or position in the Group since their appointment as Independent Non-executive Directors in December 2013 and that Mr. Lee and Mr. Magnus have not held any executive or management function or position in the Power Assets group since their designation as Non-executive Directors in August 2008 and November 2005 respectively.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARE STAPLED UNITS, UNDERLYING SHARE STAPLED UNITS AND DEBENTURES

As at 31 December 2016, the interests or short positions of the Directors and chief executives of the Trustee-Manager and the Company in the SSUs, underlying SSUs and debentures of the Trust and the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Trustee-Manager, the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executives of the Trustee-Manager and the Company were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to section 352 of the SFO, or as otherwise notified to the Trustee-Manager, the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long Positions in Share Stapled Units

Name of Director	Capacity	Nature of Interests	Number of SSUs Held	Approximate % of Issued SSUs
Li Tzar Kuoi, Victor	Interest of controlled corporations	Corporate	7,870,000 (Note 1)	0.08%
Fok Kin Ning, Canning	Interest of controlled corporation	Corporate	2,000,000 (Note 2)	0.02%
Donald Jeffrey Roberts	Interest of controlled corporation	Corporate	74,000 (Note 3)	≃0%
Ronald Joseph Arculli	Interest of controlled corporation	Corporate	502	≃0%

Notes:

(1) Such SSUs comprise:

(a) 2,700,000 SSUs held by Lankford Profits Limited, a wholly-owned subsidiary of Li Ka Shing (Overseas) Foundation ("LKSOF"). By virtue of the terms of the constituent documents of LKSOF, Mr. Li Tzar Kuoi, Victor may be regarded as having the ability to exercise or control the exercise of one-third or more of the voting power at general meetings of LKSOF; and

(b) 5,170,000 SSUs held by Li Ka Shing Foundation Limited ("LKSF"). By virtue of the terms of the constituent documents of LKSF, Mr. Li Tzar Kuoi, Victor may be regarded as having the ability to exercise or control the exercise of one-third or more of the voting power at general meetings of LKSF.

(2) Such SSUs are held by a company which is equally owned by Mr. Fok Kin Ning, Canning and his wife.

(3) Such SSUs are held by a company which is equally owned by Mr. Donald Jeffrey Roberts and his wife.

Save as disclosed above, as at 31 December 2016, none of the Directors or chief executives of the Trustee-Manager and the Company had any interests or short positions in the SSUs, underlying SSUs or debentures of the Trust and the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Trustee-Manager, the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors is interested in any businesses apart from the Group's business which competes or is likely to compete, either directly or indirectly, with the Group's business in the generation, transmission, distribution and supply of electricity in Hong Kong.

REMUNERATION COMMITTEE OF THE COMPANY

The Remuneration Committee of the Company is chaired by Mr. Donald Jeffrey Roberts (an Independent Non-executive Director), and the other members are Mr. Fok Kin Ning, Canning (the Chairman) and Mr. Fong Chi Wai, Alex (an Independent Non-executive Director).

The Remuneration Committee's principal responsibilities include the review and consideration of the Company's policy for remuneration of Directors and senior management, and the determination of their individual remuneration packages. It reports to the Company Board at the next board meeting after decisions and recommendations have been made. Committee members may seek independent professional advice at the expense of the Company to discharge their duties. The terms of reference of the Remuneration Committee are published on the Company's website and HKEX's website.

The Group's Human Resources Division assists the Remuneration Committee by providing relevant remuneration data and market conditions for the committee's consideration. The remuneration of Executive Directors and senior management is determined with reference to the Company's performance and profitability, industry remuneration benchmarks and prevailing market conditions. Remuneration is performance-based and, coupled with an incentive system, is competitive to attract and retain talented employees.

The Remuneration Committee held a meeting in December 2016 which was attended by all members. At that meeting it assessed the performance of the full time Executive Directors and senior management of the Group and considered and determined the performance-based bonus payable to them in respect of the 2016 financial year and their remuneration for the next year. The committee also considered and approved the remuneration package for each of Mr. Wan Chi Tin as Chief Executive Officer, Mr. Chan Loi Shun as Executive Director, Mr. Yuen Sui See (as Operations Director until 17 January 2017), Mr. Cheng Cho Ying, Francis (as General Manager (Generation) and, with effect from 17 January 2017, as Operations Director) and Mr. Shan Shewu as Co-General Manager (Transmission & Distribution). None of the Directors and senior management participated in the determination of their own remuneration. The committee, authorised by the Company Board, also reviewed and approved the 2017 wage and salary review proposal.

The emoluments paid to each Director of the Company for the 2016 financial year are shown in note 11 to the financial statements on page 89 of the Annual Report. The remuneration paid to members of the senior management for the 2016 financial year is disclosed by bands also in note 11 on page 90 of the Annual Report.

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.

TRUSTEE-MANAGER AUDIT COMMITTEE AND COMPANY AUDIT COMMITTEE

The Trustee-Manager and the Company established their respective audit committee, and the Trust Deed requires that the memberships of both committees must be the same.

Each of the Trustee-Manager Audit Committee and the Company Audit Committee is chaired by Mr. Donald Jeffrey Roberts (an Independent Non-executive Director) and the other members are Mr. Ronald Joseph Arculli (a Non-executive Director) and Mr. Lee Lan Yee, Francis (an Independent Non-executive Director). The Company Secretary acts as secretary to both committees. None of the committee members is a partner or former partner of KPMG, the external auditor of the Trust, the Trustee-Manager and the Company.

The Trustee-Manager Audit Committee and the Company Audit Committee report directly to the Trustee-Manager Board and the Company Board respectively. The principal responsibilities of the Audit Committees are to assist the Boards in fulfilling their audit duties through the review and supervision of financial reporting system and risk management and internal control systems, the review of financial information, and the consideration of issues relating to external auditor and their appointment. The Company Audit Committee also oversees the Company's whistle-blowing procedure under which employees can use in confidence to raise concerns about improprieties in matters related to the Group.

The respective terms of reference of the Trustee-Manager Audit Committee and the Company Audit Committee were amended in March 2016 to incorporate the amendments to the Corporate Governance Code relating to risk management and internal control published by the Stock Exchange in January 2016. The terms of reference of the Audit Committees are published on the Company's website and HKEX's website.

Each of the Trustee-Manager Audit Committee and the Company Audit Committee held three meetings on a combined basis in 2016. During the meetings, members reviewed and considered matters including the financial statements and Annual Report for the year ended 31 December 2015, the audit fee and auditor engagement letter for the 2015 financial statements, the re-appointment of auditor, the report of the auditor to the Audit Committees in relation to the audit of the 2015 financial statements, the Group's risk management report as of December 2015, the internal control assessment declaration for the year 2015 and the risk management and internal control assessment declaration for the half year to 30 June 2016 in respect of the effectiveness of the risk management and internal control systems, the effectiveness of the Company's internal audit function, the internal audit plan for 2016, the 4-year cycle audit plan for 2016 to 2019, the financial statements for the six months ended 30 June 2016, the corporate governance structure, the compliance of the Corporate Governance Code, the disclosure in the 2015 Corporate Governance Report, the corporate governance disclosure in the 2016 interim report, the continuous professional development activities undertaken by Directors and senior managers during 2015 and the six months ended 30 June 2016, KPMG's 2016 audit plan and all internal audit reports compiled during the year. In addition, the Company Audit Committee also reviewed and considered the Group's Cybersecurity Management Framework and the Group's outstanding litigation and claims as at 31 December 2015 and 30 June 2016, and reviewed and recommended the aforesaid amendments to the Audit Committees' terms of reference for approval by the Boards.

Representatives from KPMG were invited to attend two of the meetings of the Trustee-Manager Audit Committee and the Company Audit Committee and they discussed the 2015 audited financial statements, the 2016 audit plan and various accounting issues with the members of the committees.

COMPANY SECRETARY

The Company Secretary of the Trustee-Manager and the Company supports the Boards by ensuring good information flow within the Boards and that board policy and procedures are followed. The Company Secretary is responsible for advising the Boards through the Chairman and/or the Chief Executive Officer on governance matters and also facilitates induction and professional development of Directors.

The appointment and removal of the Company Secretary is subject to approval of the Boards. Although the Company Secretary reports to the Chairman and the Chief Executive Officer, all Directors have access for advice and service of the Company Secretary. Mr. Alex Ng, an employee of the Group, has been appointed as the Company Secretary of the Trustee-Manager and the Company since their incorporation in September 2013, and has day-to-day knowledge of the Group's affairs. During the year ended 31 December 2016, Mr. Ng has received no less than fifteen hours of relevant professional training to refresh his skills and knowledge.

RISK MANAGEMENT AND INTERNAL CONTROL

Introduction

The Trustee-Manager Board and the Company Board have overall responsibility for evaluating and determining the nature and extent of the risks they are willing to take in achieving the Trustee-Manager's and Company's strategic objectives, overseeing the risk management and internal control systems including reviewing their effectiveness through the Trustee-Manager Audit Committee and the Company Audit Committee to ensure appropriate and effective risk management and internal control systems are in place.

Each of the Trustee-Manager Audit Committee and the Company Audit Committee assists the Trustee-Manager Board and the Company Board respectively in meeting its responsibility for maintaining effective systems of risk management and internal control. The Audit Committees review all significant aspects of risk management and internal control, including financial, operational and compliance controls; the adequacy of resources, qualifications and experience, training programmes and budgets of the staff of the Company's accounting, internal audit, and financial reporting functions. They review the process by which the Trustee-Manager and the Company evaluate their control environment and their risk assessment process, and the way in which business and control risks are managed. The Audit Committees review the effectiveness of the internal audit function and its annual work plans, and consider the reports of the Chief Executive Officer and an Executive Director on the effectiveness of the systems of risk management and internal control. These reviews and reports are considered by the Audit Committees before they make their recommendation to the Trustee-Manager Board and the Company Board for approval of the annual financial statements.

At the meeting held in July 2016, the Trustee-Manager Audit Committee and the Company Audit Committee have reviewed the effectiveness of the risk management and internal control systems of the Trust, the Company and the Trustee-Manager for the half year ended 30 June 2016 and considered the systems are effective and adequate.

Risk Management and Internal Control Environment

Effective risk management is fundamental to the achievement of the Trustee-Manager's and the Company's strategic objectives, and an enterprise risk management framework is in place to provide top-down and bottom-up approaches to identify, assess, mitigate and monitor key risks in a pro-active and structured manner. More details are given in the Risk Management and Risk Factors on pages 27 to 30 of the Annual Report.

The management encourage a risk aware and control conscious environment, setting objectives, performance targets or policies for the management of key risks including strategic planning, business operations, investments, legal and regulatory compliance, expenditure control, treasury, environment, health and safety, and customer service. The Trustee-Manager and the Company have a well-established organisational structure with defined levels of responsibility and authority and reporting procedures. There are inherent limitations in any systems of risk management and internal control and accordingly the Trustee-Manager's and the Group's risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business of objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Executive Directors review operational and financial reports and key operating statistics of each division and hold regular meetings with division general managers to review their reports.

Budgets are prepared annually by the management of each division and are subject to review and approval firstly by the Chief Executive Officer and then by the Company Board. Re-forecasts of operating results for the current year are prepared on a quarterly basis, reviewed for differences to the budget and for approval by the Executive Directors.

The Group Finance Division has established guidelines and procedures for the approval and control of expenditure. Operating expenditure is subject to overall budget control, with approval levels being set by reference to the level of authority of each executive and officer. Capital expenditure is also subject to overall control within the approved budget of individual projects with more specific control and approval being required for overspending, unbudgeted expenditure and material expenditure within the approved budget. Monthly reports of actual versus budgeted and approved expenditure are also reviewed.

The Treasury Department, reporting to an Executive Director, is in charge of the treasury function overseeing investment and funding activities. It regularly reports on the Group's cash and liquid investments, borrowings, outstanding contingent liabilities and financial derivatives commitments. The Boards have approved and adopted a treasury policy governing the management of financial risks (including interest rate risk, foreign exchange risk and liquidity risk) and the operational risks associated with such risk management activities. The treasury policy is reviewed by the Audit Committees from time to time.

The Group Legal and Company Secretarial Department, reporting to the Chief Executive Officer, is in charge of legal and company secretarial functions, overseeing, among other things, the Trust Group's compliance of the Listing Rules and other legal and regulatory requirements.

The Internal Audit Department, reporting to an Executive Director and the Trustee-Manager Audit Committee and the Company Audit Committee, provides independent assurance as to the existence and effectiveness of the risk management activities and controls in business operations. Staff members of the department are from a wide range of disciplines including accounting, engineering and information technology. Using risk assessment methodology and taking into account the scope and nature of the Group's activities and changes in operating environment, the Internal Audit Department prepares its yearly audit plan which is reviewed and approved by the Audit Committees. Its internal audit reports on the Group's operations are also reviewed and considered by the Trustee-Manager Audit Committee and the Company Audit Committee. The scope of work performed includes financial and operations review, recurring and unscheduled audits, fraud investigation, productivity efficiency review and laws and regulations compliance review. The Internal Audit Department follows up audit recommendations on implementation by the operating units and the progress is reported to the Audit Committees.

With the assistance of Internal Audit Department, the Chief Executive Officer and an Executive Director review, among other things, the profile of the significant risks and how these risks have been identified, evaluated and managed, the changes since the last annual assessment in the nature and extent of significant risks, and the Company's ability to respond to changes in its business and the external environment, the scope and quality of management's ongoing monitoring of the risk management and internal control systems. In addition, they review the work of internal audit function and other assurance providers, the extent and frequency of communication of monitoring results to the Audit Committees which enables them to assess control of the Company and the effectiveness of risk management, any significant failing or weaknesses in internal control that have been reported, the necessary actions that are being taken promptly to remedy any significant failings or weaknesses, and the effectiveness of the Company's processes for financial reporting and Listing Rules compliance. They also review the results of the self-assessment on internal controls. The assessment of the effectiveness of entity-level controls is the first tier of the internal control self-assessment. Division general managers and department heads conduct surveys on entity-level controls self-assessment with reference to five components of internal control, namely, Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring Activities. The second tier of internal control self-assessment at key business process level is also conducted to assess the effectiveness of controls over the operations within their areas of accountability and compliance with applicable laws and regulations. These assessments form part of the bases on which the Chief Executive Officer and an Executive Director formulate their opinion on risk management and internal control systems and report their findings to the Audit Committees and the Boards.

The Chief Executive Officer and other Executive Directors also have the responsibility of developing and implementing risk mitigation strategies including the deployment of insurance to transfer the financial impact of risk. The Group Finance Division, working with each division, is responsible for arranging appropriate insurance coverage for the Trustee-Manager and the Trust Group.

Reports from the external auditor on material non-compliance with procedures and significant internal control weaknesses, if any, are presented to the Trustee-Manager Audit Committee and the Company Audit Committee. These reports are considered and reviewed and the appropriate action is to be taken if required.

There are also procedures including pre-clearance on dealing in the Group's securities by designated Directors, notification of regular blackout period and securities dealing restrictions to Directors and relevant employees, and dissemination of information for specified purpose and on a need-to-know basis have been implemented to guard against possible mishandling of inside information within the Group.

The Company entered into an agreement dated 14 January 2014 with Power Assets for sharing of support services, pursuant to which the Company shares the relevant financial and accounting, treasury and internal audit services with Power Assets to support risk management and internal control functions outlined above.

CODE OF CONDUCT

The Trustee-Manager and the Group recognise the need to maintain a culture of corporate ethics and place great emphasis on employees' ethical standards and integrity in all aspects of its operations. The Group's Code of Conduct, posted on the Company's intranet for reference by all employees, aims to give guidance in dealing with ethical issues, provides mechanisms to report unethical conduct and helps to foster a culture of honesty and accountability. Employees are required to adhere to the standards set out in the Code of Conduct.

The Trustee-Manager and the Group prohibit any form of bribery or corruption. Accepting or offering advantages in any manner from or to clients, suppliers, or any person in connection with the Trustee-Manager's and the Group's business is prohibited. An anti-bribery and anti-corruption control assessment is conducted biannually to evaluate the effectiveness of controls for managing bribery risks. A monitoring mechanism has been established to review compliance with anti-corruption laws and the Code of Conduct.

It is the responsibility of each Director and employee to avoid situations that may lead to or involve a conflict of interest. They should make full disclosure in case any of their dealings may have a conflict of interest with the activities of the Trustee-Manager and the Group. It is the responsibility of all Directors and employees who have access to and in control of the Trustee-Manager's and the Group's information to provide adequate safeguard to prevent any abuse or misuse of that information. The use of inside information to secure personal advantage is strictly prohibited.

The Trustee-Manager and the Group promote fair and open competition, and procurement of supplies and services are conducted in a manner of high ethical standards. There are procurement and tendering procedures in place to ensure impartial selection of suppliers and contractors, and that the hire of services and purchase of goods are based solely upon price, quality, suitability and need.

SUSTAINABILITY REPORTING

The Trustee-Manager and the Group are firmly committed to sustainable development and consider sustainability reporting to be one of the important platforms for stakeholder engagement. The Trust Group's Sustainability Report 2016 sets out its approach, commitments and strategy to sustainability, highlights its key achievements in 2016 with regard to its sustainability performance, outlines its plans and targets for the future, and addresses other concerns and comments raised by its stakeholders on its sustainability performance and reporting.

The Trust Group's Sustainability Report 2016 is available on the Company's website and HKEX's website.

EXTERNAL AUDITOR

Independence

KPMG, the external auditor, have confirmed that they have been, for the year ended 31 December 2016, independent of the Trustee-Manager, the Trust Group and the Group in accordance with the independence requirements of the HKICPA.

Rotation of Engagement Partner

KPMG adopt a policy of rotating the engagement partner servicing their client companies in accordance with the requirements under the HKICPA's Code of Ethics for Professional Accountants.

Reporting Responsibility

The reporting responsibilities of KPMG are stated in the Independent Auditor's Reports on pages 61 to 66 and pages 127 and 128 of the Annual Report.

Remuneration

An analysis of the fees of KPMG is shown in note 9 to the consolidated financial statements of the Trust and the Company on page 87 of the Annual Report and note 4 to the financial statements of the Trustee-Manager on page 135 of the Annual Report.

Re-appointment

A resolution for re-appointment of KPMG as auditor of the Trust, the Trustee-Manager and the Company will be proposed at the forthcoming annual general meeting. There has been no change in auditor since the respective dates of incorporation of the Trustee-Manager and the Company and the date of constitution of the Trust.

HOLDERS OF SHARE STAPLED UNITS

The Trustee-Manager and the Company have established a range of communication channels between themselves and Holders of Share Stapled Units and investors. These include the annual general meeting, the annual and interim reports, notices, letters, announcements and circulars, results highlights published in newspapers, news releases, the Company's website at www.hkei.hk and meetings with investors and analysts. All Holders of Share Stapled Units have the opportunity to put questions to the Boards at general meetings, and at other times by e-mailing or writing to the Company. The Boards have adopted a communication policy which provided a framework to promote effective communication with Holders of Share Stapled Units. The policy is available on the website of the Company.

Holders of Share Stapled Units may at any time notify the Company by mail or email of any change in their choice of language (English or Chinese or both) or means of receiving (printed copies or through the Company's website) corporate communications from the Trustee-Manager and the Company.

The Trustee-Manager and the Company handle registration of Share Stapled Units and related matters for Holders of Share Stapled Units through Computershare Hong Kong Investor Services Limited, the share stapled units registrar, whose contact details are set out on page 141 of the Annual Report.

Pursuant to the Company's articles of association, any two or more shareholders of the Company (or a shareholder of the Company if such shareholder is a recognised clearing house or its nominees) may requisite for the convening of an extraordinary general meeting, provided that such requisitionists hold as at the date of deposit of the requisition not less than, for as long as the Trust Deed remains in force, 5% or, thereafter, one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. The requisition stating the objects of the meeting should be signed by the requisitionists and deposited at the principal office of the Company in Hong Kong. Pursuant to the Trust Deed, the Trustee-Manager may (and the Trustee-Manager shall at the request in writing of registered holders of units of the Trust holding not less than 5% of the units (as a component of the Share Stapled Units) of the Trust for the time being in issue and outstanding) at any time convene an extraordinary general meeting of registered holders of units at such time or place in Hong Kong. The registered holders of units of the Trust and shareholders of the Company can also refer to the detailed requirements and procedures as set forth in the relevant sections of the Trust Deed and the articles of association of the Company when making any requisitions or proposals for transaction at the general meetings of the Trust and the Company.

2016 Annual General Meeting

The annual general meeting is a main channel of communication between Directors and Holders of Share Stapled Units. The 2016 annual general meeting was held at Harbour Grand Kowloon on 12 May 2016.

The notice of meeting, the annual report and the circular containing information on the proposed resolutions were sent to Holders of Share Stapled Units on 7 April 2016 which was more than 20 clear business days (as defined in the Listing Rules) and more than 21 clear days (as required by the Company's articles of association) prior to the meeting. The chairman and members of the Audit Committees and the Remuneration Committee respectively were available at the meeting to answer questions from the Holders of Share Stapled Units. Representatives from KPMG, the external auditor, also attended the meeting and were available to answer questions. A separate resolution was proposed by the Chairman in respect of each substantially separate issue, and voting on each resolution was conducted by way of a poll. The poll voting procedure was explained fully to Holders of Share Stapled Units during the meeting. Computershare Hong Kong Investor Services Limited, the share stapled units registrar, was appointed as scrutineer to monitor and count the poll votes cast at the meeting. The resolutions proposed were passed by Holders of Share Stapled Units at the meeting and the percentage of votes cast in favour of each of them is set out below:

Ordinary Resolutions

– Audited Financial Statements of the Trust and the Company and of the Trustee-Manager, the Combined Report of the Directors, and the Independent Auditor's Reports for the year ended 31 December 2015 (99.9998%);

– Election of Mr. Fok Kin Ning, Canning (98.9816%), Mr. Wan Chi Tin (99.8378%), Mr. Fahad Hamad A H Al-Mohannadi (99.3043%), Mr. Chan Loi Shun (99.6883%), Mr. Deven Arvind Karnik (99.6748%) and Mr. Ralph Raymond Shea (99.8815%) as Directors;

– Re-appointment of KPMG as auditor of the Trust, the Trustee-Manager and the Company and authorisation of Directors of the Trustee-Manager and the Company to fix auditor's remuneration (99.9878%); and

– General mandate to Directors of the Trustee-Manager and the Company to issue and deal with additional Share Stapled Units (88.7422%).

The results of the poll, which included the number of Share Stapled Units voted for and against each resolution, were posted on the Company's and HKEX's websites on the same day of the meeting.

Company's Website

The Company maintains a website at www.hkei.hk. It contains a wide range of information of interest to investors and other stakeholders. For the dissemination of published information, such information including financial results, notices of meetings, announcements required under the Listing Rules, circulars to Holders of Share Stapled Units, sustainability publication, press releases and other necessary announcements are uploaded onto the Company's website.

Trust Deed and Memorandum and Articles of Association

No changes were made to the Trust Deed and the memorandum and articles of association of each of the Trustee-Manager and the Company during the year ended 31 December 2016.

The current versions of the Trust Deed, and the memorandum and articles of association of each of the Trustee-Manager and the Company are available on the Company's website and HKEX's website.

Key Dates	
Announcement of 2016 interim results	26 July 2016
Payment of 2016 interim distribution (HK19.92 cents per Share Stapled Unit)	19 August 2016
Announcement of annual results for the year ended 31 December 2016	21 March 2017
Record date for 2016 final distribution	6 April 2017
Payment of 2016 final distribution (HK20.12 cents per Share Stapled Unit)	19 April 2017
Closure of registers (annual general meeting)	5 May 2017 to 10 May 2017 (both days inclusive)
2017 annual general meeting	10 May 2017

INTERESTS AND SHORT POSITIONS OF HOLDERS OF SHARE STAPLED UNITS

As at 31 December 2016, Holders of Share Stapled Units (other than Directors or chief executives of the Trustee-Manager and the Company) who had interests or short positions in the SSUs or underlying SSUs of the Trust and the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Trustee-Manager, the Company and the Stock Exchange were as follows:

Substantial Holders of Share Stapled Units
Long Positions in Share Stapled Units

Name	Capacity	Number of SSUs Held		Approximate % of Issued SSUs
Power Assets Holdings Limited	Interest of controlled corporation	2,948,966,418	(Note 1)	33.37%
Hyford Limited	Interest of controlled corporations	2,948,966,418	(Notes 1 and 2)	33.37%
Cheung Kong Infrastructure (BVI) Limited	Interest of controlled corporations	2,948,966,418	(Note 2)	33.37%
Cheung Kong Infrastructure Holdings Limited	Interest of controlled corporations	2,948,966,418	(Note 2)	33.37%
Hutchison Infrastructure Holdings Limited	Interest of controlled corporations	2,948,966,418	(Note 3)	33.37%
Hutchison International Limited	Interest of controlled corporations	2,948,966,418	(Note 3)	33.37%
Hutchison Whampoa Limited	Interest of controlled corporations	2,948,966,418	(Note 3)	33.37%
Cheung Kong (Holdings) Limited	Interest of controlled corporations	2,948,966,418	(Note 4)	33.37%
CK Hutchison Global Investments Limited	Interest of controlled corporations	2,948,966,418	(Note 4)	33.37%
CK Hutchison Holdings Limited	Interest of controlled corporations	2,948,966,418	(Note 4)	33.37%
State Grid Corporation of China	Interest of controlled corporations	1,855,602,000	(Note 5)	21.00%
State Grid International Development Co., Limited	Interest of controlled corporation	1,855,602,000	(Note 5)	21.00%
State Grid International Development Limited	Beneficial owner	1,855,602,000	(Note 5)	21.00%
Qatar Investment Authority	Interest of controlled corporation	1,758,403,800		19.90%

Notes:

(1) Power Assets is deemed to be interested in 2,948,966,418 SSUs which are beneficially owned by its direct wholly-owned subsidiary, Quickview Limited. Hyford Limited is deemed to be interested in 2,948,966,418 SSUs which interests are duplicated in the 2,948,966,418 SSUs in which Power Assets is interested, as Hyford Limited is entitled to exercise or control the exercise of more than one-third of the issued shares of Power Assets through its direct and indirect wholly-owned subsidiaries.

(2) CKI is deemed to be interested in the 2,948,966,418 SSUs as referred to in Note (1) above as it holds more than one-third of the issued share capital of Cheung Kong Infrastructure (BVI) Limited, which holds more than one-third of the issued share capital of Hyford Limited. Its interests are duplicated in the interest of Hutchison Whampoa Limited ("HWL") in HKEI described in Note (3) below.

(3) HWL is deemed to be interested in the 2,948,966,418 SSUs as referred to in Note (2) above as it holds more than one-third of the issued shares of Hutchison International Limited, which holds more than one-third of the issued share capital of Hutchison Infrastructure Holdings Limited ("HIH"). HIH holds more than one-third of the issued share capital of CKI.

(4) CKH Holdings is deemed to be interested in the 2,948,966,418 SSUs as referred to in Note (3) above as it holds more than one-third of the issued shares of Cheung Kong (Holdings) Limited and CK Hutchison Global Investments Limited respectively, each of which in turn holds more than one-third of the issued shares of HWL.

(5) State Grid International Development Limited is a direct wholly-owned subsidiary of State Grid International Development Co., Limited and an indirect wholly-owned subsidiary of State Grid Corporation of China ("State Grid"), and the interests of State Grid International Development Limited and State Grid International Development Co., Limited of 1,855,602,000 SSUs each are duplicated in the 1,855,602,000 SSUs held by State Grid.

Save as disclosed above, as at 31 December 2016, there was no other person (other than Directors or chief executives of the Trustee-Manager and the Company) who had interests or short positions in the SSUs or underlying SSUs of the Trust and the Company as recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Trustee-Manager, the Company and the Stock Exchange.

PUBLIC FLOAT

According to information that is available to the Trustee-Manager and the Company and within the knowledge of the Directors, the percentage of the Share Stapled Units which are in the hands of the public exceeds 25% of the total number of issued Share Stapled Units.

DISCLOSURE UNDER THE TRUST DEED

Pursuant to the Trust Deed, the Trustee-Manager Board confirms that:

(i) any charges paid and payable out of the trust property of the Trust to the Trustee-Manager for the year ended 31 December 2016 are in accordance with the Trust Deed;

(ii) the connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or obtained from independent third parties, with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Holders of Share Stapled Units as a whole; and

(iii) it is not aware of any violation of duties of the Trustee-Manager which would have a material adverse effect on the business of the Trust or on the interests of all Holders of Share Stapled Units as a whole.

CONFLICT OF INTERESTS

The Trustee-Manager and the Company have implemented the following measures to deal with potential conflict of interest issue between (1) the Trust; and (2) any unitholder holding 30% or more of the units in issue, or any Director or shareholder of the Trustee-Manager holding 30% or more of the issued shares in the Trustee-Manager:

(i) If a Director has a conflict of interest in a matter to be considered by the Trustee-Manager Board or the Company Board which the relevant board has determined to be material, the matter will be dealt with by a physical board meeting instead of a circulating written resolution and independent non-executive directors who, and whose associates, have no material interest in the transaction must be present at that board meeting;

(ii) Pursuant to clause 2.6 of the Trust Deed and article 90 of the articles of association of the Trustee-Manager, a Director of the Trustee-Manager must give priority to the interest of all the registered holders of units as a whole over the interest of the Company in the event of a conflict between the interest of all the registered holders of units as a whole and the interest of the Company; and

(iii) The Trustee-Manager Audit Committee and the Company Audit Committee comprising majority of Independent Non-executive Directors regularly review the internal control systems and internal audit reports of the Trustee-Manager and the Company.

The Company and Power Assets entered into a non-competition deed on 14 January 2014 (the "Non-Competition Deed") pursuant to which Power Assets agreed to the Company that save for the exceptions provided therein, Power Assets would not, and it would procure that none of its members would carry on, or be engaged in or interested in the business of generation, transmission, distribution and supply of electricity in Hong Kong. Power Assets has provided the Company with a written confirmation in respect of compliance by the Power Assets group with the terms of the Non-Competition Deed during the year ended 31 December 2016 and its consent to the inclusion of such confirmation in the Annual Report. A committee comprising all Independent Non-executive Directors has been formed with the responsibility to overseeing compliance by the Power Assets group with the Non-Competition Deed, and the committee has confirmed its view that Power Assets complied with the terms of the Deed during the year under review.

FINANCIAL REVIEW

FINANCIAL PERFORMANCE

The Trust Group's revenue and audited consolidated profit for the year ended 31 December 2016 were HK$11,420 million (2015: HK$11,210 million) and HK$3,599 million (2015: HK$3,591 million) respectively.

DISTRIBUTION

The Trustee-Manager Board has declared the payment of a final distribution by the Trust of HK20.12 cents (2015: HK20.12 cents) per SSU. In order to enable the Trust to pay that distribution, the Company Board has declared the payment of a second interim dividend in lieu of a final dividend in respect of the Company's ordinary shares held by the Trustee-Manager, of HK20.12 cents (2015: HK20.12 cents) per ordinary share in respect of the same period. This, together with the interim distribution of HK19.92 cents (2015: HK19.92 cents) per SSU, brings the total distribution to HK40.04 cents (2015: HK40.04 cents) per SSU for the year ended 31 December 2016.

	2016 HK$ million	2015 HK$ million
Audited consolidated profit attributable to SSU holders	**3,599**	3,591
After:		
(i) eliminating the effects of the Adjustments (see note (a) below)	**4,520**	4,532
(ii) adding/(deducting)		
– movement in Fuel Clause Recovery Account	**1,805**	1,652
– changes in working capital	**206**	52
– adjustment for employee retirement benefit schemes	**26**	18
– taxes paid	**(1,154)**	(918)
	883	804
(iii) capital expenditure payment	**(2,760)**	(2,237)
(iv) deducting		
– debt repayment	**(7,504)**	(779)
– net finance costs	**(1,105)**	(937)
	(8,609)	(1,716)
(v) deducting		
– reserve for future capital expenditure/debt service	**–**	(1,436)
Distributable income	**(2,367)**	3,538
(vi) adding discretionary amount as determined by the Company Board pursuant to clause 14.1(c) of the Trust Deed	**5,905**	–
Distributable income after adjustment of the discretionary amount	**3,538**	3,538
Interim distribution	**1,760**	1,760
Final distribution	**1,778**	1,778
Distribution amount	**3,538**	3,538
Distributions per SSU (see note (c) below)		
– Interim distribution per SSU	**HK19.92 cents**	HK19.92 cents
– Final distribution per SSU	**HK20.12 cents**	HK20.12 cents
Total distributions per SSU	**HK40.04 cents**	HK40.04 cents

In determining the distribution amount, the Company Board has taken into account the Group's financial performance achieved during the year and its stable cashflow from operations, and consider it appropriate to adjust the distributable income for the year ended 31 December 2016, 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.

(c) Interim distribution per SSU of HK19.92 cents (2015: HK19.92 cents) was calculated based on the interim distribution amount of HK$1,760 million (2015: HK$1,760 million) and 8,836,200,000 SSUs in issue as at 30 June 2016 (30 June 2015: 8,836,200,000 SSUs). Final distribution per SSU of HK20.12 cents (2015: HK20.12 cents) was calculated based on the final distribution amount of HK$1,778 million (2015: HK$1,778 million) and 8,836,200,000 SSUs in issue as at 31 December 2016 (31 December 2015: 8,836,200,000 SSUs).

CAPITAL EXPENDITURE, LIQUIDITY AND FINANCIAL RESOURCES

Capital expenditure during the year amounted to HK$2,799 million (2015: HK$2,516 million), which was primarily funded by cash from operations. Total external borrowings outstanding at 31 December 2016 were HK$39,679 million (2015: HK$47,217 million), comprising unsecured bank loans and debt securities in issue. In addition, the Trust Group at 31 December 2016 had undrawn committed bank facilities of HK$4,000 million (2015: HK$1,000 million) and bank deposits and cash of HK$316 million (2015: HK$6,157 million).

TREASURY POLICY, FINANCING ACTIVITIES, CAPITAL AND DEBT STRUCTURE

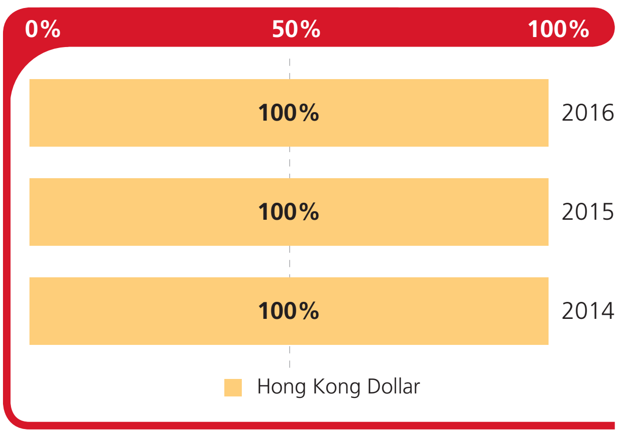
The Trust Group manages its financial risks in accordance with guidelines laid down in its treasury policy which is designed to manage the Trust Group's currency, interest rate and counterparty risks. Surplus funds, which arise mainly from provision for capital expenditure to be incurred and from electricity 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 31 December 2016, the net debt of the Trust Group was HK$39,363 million (2015: HK$41,060 million) with a net debt-to-net total capital ratio of 44% (2015: 46%). The Trust Group's financial profile remained strong during the year. On 23 February 2016, Standard & Poor's pronounced the long term credit ratings are "A-" with a stable outlook for the Company and HK Electric unchanged since September 2015 and January 2014, respectively.

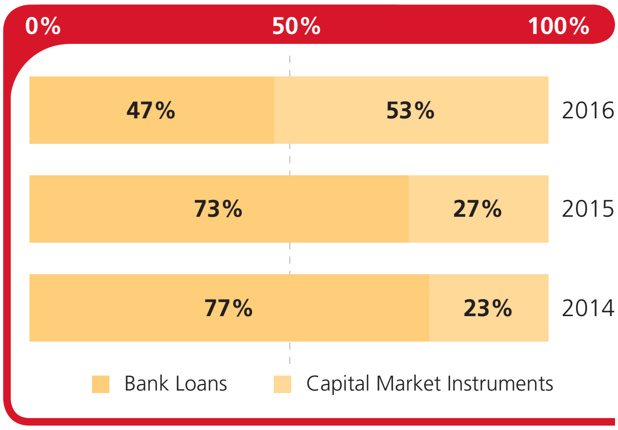
In 2016, the Trust Group took advantage of market liquidity to extend its debt maturity profile by issuing US$750 million 10 year notes in the public bond market as well as a total of HK$3,025 million notes with tenors ranging from 12 to 30 years in the Hong Kong dollar private placement market through its Medium Term Notes Programme. During the year, the Trust Group entered into new 5 year term loan facilities totalling HK$21,700 million with various financial institutions. The proceeds of these issues together with the new term loans and internal resources were used to fully prepay the balance of its term loan facilities maturing in February 2017.

The profile of the Trust Group's external borrowings as at 31 December 2016, after taking into account forward foreign exchange contracts, cross currency and interest rate swaps, was as follows:

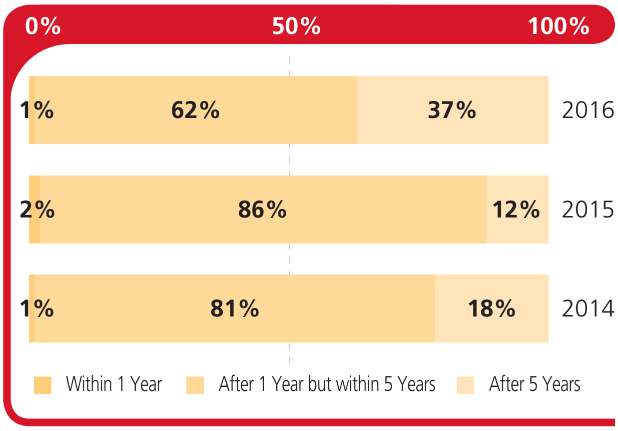
Debt Profile by Currency



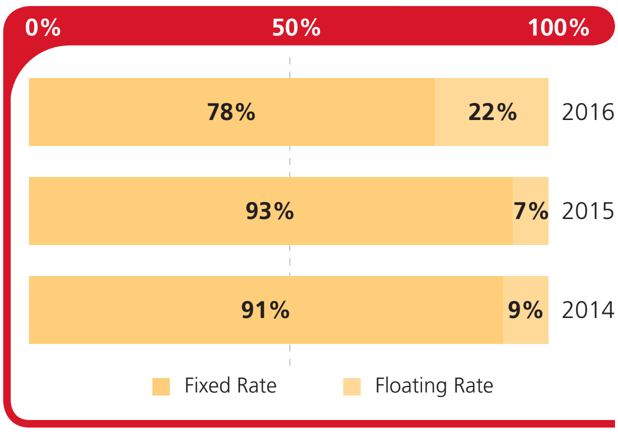
Debt Profile by Types of Borrowings



Debt Profile by Maturity



Debt Profile by Interest Rate Structure



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 31 December 2016, over 80% 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 31 December 2016 amounted to HK$65,367 million (2015: HK$54,267 million).

CHARGE ON ASSETS

At 31 December 2016, no assets of the Trust Group were pledged to secure its loans and banking facilities (2015: Nil).

CONTINGENT LIABILITIES

As at 31 December 2016, the Trust Group had no guarantee or indemnity to external parties (2015: 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 year ended 31 December 2016, excluding directors' emoluments, amounted to HK$1,113 million (2015: HK$1,074 million). As at 31 December 2016, the Trust Group employed 1,790 (2015: 1,800) permanent employees. No share option scheme is in operation.

COMBINED REPORT OF THE DIRECTORS

The Boards have pleasure in submitting the annual report together with the audited consolidated financial statements of the Trust and of the Company for the year ended 31 December 2016 (the "consolidated financial statements of the Trust and of the Company").

The Trustee-Manager Board also presents the audited financial statements of the Trustee-Manager for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The Trust is a fixed single investment trust, with its activities being limited to investing in securities and other interests in the Company.

The principal activity of the Company is investment holding, whilst the principal activities of the Group are the generation and supply of electricity in Hong Kong Island and Lamma Island. Particulars of the Company's subsidiaries are set out in note 17 to the consolidated financial statements of the Trust and of the Company.

The Trustee-Manager, an indirect wholly-owned subsidiary of Power Assets, has a specific and limited role to administer the Trust, and is not actively engaged in running the business managed by the Trust Group.

BUSINESS REVIEW

A review of the business of Trust Group (of which the Group forms part) during the year and an indication of likely future developments in the Trust Group's business are provided in the Chairman's Statement on pages 3 to 5, CEO's Report on pages 8 to 23, Financial Review on pages 55 to 57 and Performance Highlights on page 2.

The principal risks and uncertainties facing the Trust Group and how the Trust Group manages these risks and uncertainties are described in Risk Management and Risk Factors on pages 27 to 30.

The Trust Group's relationships with its key stakeholders, environmental policies and performance is discussed in the CEO's Report on pages 8 to 23, whilst its compliance with the relevant laws and regulations that have a significant impact on the Trust Group are included in Risk Factors on pages 29 and 30 and Combined Corporate Governance Report on pages 38 to 54.

These review and discussion form part of this Combined Report of the Directors.

RESULTS

The results for the year ended 31 December 2016 and the financial position as at that date of the Trust Group and the Group are set out in the consolidated financial statements of the Trust and of the Company on pages 67 to 126.

The results for the year ended 31 December 2016 and the financial position as at that date of the Trustee-Manager are set out in the financial statements of the Trustee-Manager on pages 129 to 136.

DISTRIBUTIONS AND DIVIDENDS

Distributable Income

Distributable income and distributable income per Share Stapled Unit are set out in note 13 to the consolidated financial statements of the Trust and of the Company.

Distribution per Share Stapled Unit

The Trustee-Manager Board has declared a final distribution by the Trust of HK20.12 cents (2015: HK20.12 cents) per Share Stapled Unit for the year ended 31 December 2016, payable on 19 April 2017 to Holders of Share Stapled Units whose names appear on the Share Stapled Units Register on 6 April 2017. This, together with the interim distribution of HK19.92 cents (2015: HK19.92 cents) per Share Stapled Unit, brings the total distribution to HK40.04 cents per Share Stapled Unit for the year ended 31 December 2016 (2015: HK40.04 cents).

In order to enable the Trust to pay the interim distribution and the final distribution, the Company Board declared the payments of a first interim dividend and a second interim dividend, in respect of each of the Company's ordinary shares held by the Trustee-Manager, of HK19.92 cents (2015: HK19.92 cents) and HK20.12 cents (2015: HK20.12 cents) respectively for the year ended 31 December 2016.

The Trustee-Manager Board does not recommend the payment of a dividend for the year ended 31 December 2016.

SHARE CAPITAL AND SHARE STAPLED UNITS

Share Capital

Details of the share capital of the Company are set out in note 27(b) to the consolidated financial statements of the Trust and of the Company. There was no movement during the year.

Details of the share capital of the Trustee-Manager are set out in note 8 to the financial statements of the Trustee-Manager. There was no movement during the year.

Share Stapled Units

There was no movement in the number of issued Share Stapled Units, or individually units in the Trust, or ordinary shares, or preference shares of the Company, during the year.

DONATIONS

Charitable and other donations made by the Trust Group during the year amounted to HK$1 million (2015: HK$1 million).

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Trust Group and the Group is set out on page 137.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the five largest customers combined was less than 30% of the Trust Group's total revenue for the years ended 31 December 2016 and 2015.

Purchases from the largest supplier of revenue items for the year represented 25.0% (2015: 33.8%) of the Trust Group's total purchases of revenue items, and purchases from the five largest suppliers combined accounted for 70.0% (2015: 66.6%) of the Trust Group's total purchases of revenue items for the year ended 31 December 2016.

At no time during the year have the Directors, their close associates or any Holders of Share Stapled Units (which to the knowledge of the Boards own more than 5% of the number of issued Share Stapled Units) had any interest in the above major customers and suppliers.

DIRECTORS

The Directors of the Trustee-Manager and the Company in office during the year ended 31 December 2016 and up to the date of this report were Mr. Fok Kin Ning, Canning, Mr. Li Tzar Kuoi, Victor, Mr. Wan Chi Tin, Mr. Fahad Hamad A H Al-Mohannadi, Mr. Ronald Joseph Arculli, Mr. Chan Loi Shun, Mr. Cheng Cho Ying, Francis, Mr. Du Zhigang, Mr. Fong Chi Wai, Alex, Mr. Jiang Xiaojun, Mr. Deven Arvind Karnik, Mr. Kwan Kai Cheong, Mr. Lee Lan Yee, Francis, Mr. George Colin Magnus, Mr. Donald Jeffrey Roberts, Mr. Shan Shewu, Mr. Ralph Raymond Shea and Mr. Yuen Sui See (retired on 17 January 2017).

During the same period, Mrs. Chow Woo Mo Fong, Susan served as the Alternate Director to Mr. Fok Kin Ning, Canning, and Mr. Frank John Sixt served as the Alternate Director to Mr. Li Tzar Kuoi, Victor.

PERMITTED INDEMNITY

Pursuant to the Trust Deed the Directors of the Trustee-Manager shall be entitled to be indemnified out of the Trust property or any part thereof against any actions, costs, claims, damages, expenses, penalties or demands to which they may be put as Directors of the Trustee-Manager of the Trust, save where occasioned by the fraud, wilful default or negligence of the Directors.

The articles of association of each of the Company and the Trustee-Manager provides that every Director shall be entitled to be indemnified out the assets of the Company or the Trustee-Manager (excluding, for the avoidance of doubt, the Trust property) respectively against any losses or liability incurred or sustained by him as a Director.

A Directors Liability Insurance is currently in place, and was in place during the year to protect the directors of the Trustee-Manager, the Company and their subsidiaries against potential costs and liabilities arising from claims brought against them.

DIRECTORS' MATERIAL INTEREST IN SIGNIFICANT TRANSACTION, ARRANGEMENT AND CONTRACT

No transaction, arrangement and contract of significance in relation to the Trust Group's business to which the Trustee-Manager, the Company or their parent companies, subsidiaries or fellow subsidiaries was a party, and in which a Director or his connected entity had, directly or indirectly, a material interest, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Trust Group were entered into or existed during the year.

ARRANGEMENT TO PURCHASE SHARE STAPLED UNITS, SHARES OR DEBENTURES

At no time during the year was the Trustee-Manager or the Company or any of their parent companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of Share Stapled Units, or shares in, or debentures of, the Trustee-Manager, the Company or any other body corporate.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Trust Group or the Trustee-Manager during the year or subsisted at the end of the year.

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 year ended 31 December 2016.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's amended and restated articles of association and the laws of the Cayman Islands which would oblige the Company to offer new Share Stapled Units on a pro-rata basis to existing Holders of Share Stapled Units.

On behalf of the Boards of
HK Electric Investments Manager Limited
and
HK Electric Investments Limited

FOK KIN NING, CANNING
Chairman
Hong Kong, 21 March 2017

INDEPENDENT AUDITOR'S REPORT

To the Holders of Share Stapled Units of HK Electric Investments and HK Electric Investments Limited

(HK Electric Investments is a trust constituted under the laws of Hong Kong; HK Electric Investments Limited is incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of HK Electric Investments (the "Trust"), HK Electric Investments Limited (the "Company") and its subsidiaries (together the "Trust Group") and of the Company and its subsidiaries (the "Group") set out on pages 67 to 126 (together referred to as the "consolidated financial statements of the Trust and of the Company"). As explained in note 2 to the consolidated financial statements of the Trust and of the Company, the consolidated financial statements of the Trust and of the Company together comprise the consolidated statement of financial position of the Trust Group and of the Group as at 31 December 2016, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement of the Trust Group and of the Group for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements of the Trust and of the Company give a true and fair view of the consolidated financial position of the Trust Group and of the Group as at 31 December 2016 and of the Trust Group's and the Group's consolidated financial performance and consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Trust Group and of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements of the Trust and of the Company in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the Trust and of the Company of the current period. These matters were addressed in the context of our audit of the consolidated financial statements of the Trust and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Existence and accuracy of property, plant and equipment

Refer to note 15 to the consolidated financial statements of the Trust and of the Company and the accounting policies 3(e), (f) and (g)(ii).

The key audit matter	How the matter was addressed in our audit
A wholly owned subsidiary of the Company, The Hongkong Electric Company, Limited ("HK Electric"), is engaged in the generation, transmission and distribution of electricity in Hong Kong (the "Hong Kong electricity business"), which requires substantial capital investment in property, plant and equipment. The Scheme of Control Agreement entered into by HK Electric and The Government of the HKSAR provides for HK Electric to earn a permitted return calculated based on 9.99% of average net fixed assets, except for renewable energy fixed assets for which the permitted return is 11.00%. The Development Plan under the Scheme of Control Agreement governs HK Electric's capital expenditure on the Hong Kong electricity business over the Scheme of Control Agreement period. HK Electric's property, plant and equipment is specialised in nature and certain items are self-constructed. The cost of self-constructed property, plant and equipment comprises, inter alia, the costs of materials and direct labour, overheads capitalised and borrowing costs. The Directors have implemented internal controls over the capitalisation of costs in property, plant and equipment. We identified assessing the existence and accuracy of property, plant and equipment as a key audit matter because property, plant and equipment is the most significant asset of the Trust Group and the Group and is critical to the operations of Hong Kong electricity business and because, due to the terms and conditions of the Scheme of Control Agreement, property, plant and equipment is a key focus of management and the users of the consolidated financial statements of the Trust and of the Company.	Our audit procedures to assess the existence and accuracy of property, plant and equipment included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls over the existence and accuracy of property, plant and equipment; • assessing the Trust Group's and the Group's capitalisation policy for expenditure relating to property, plant and equipment with reference to the requirements of the prevailing accounting standards; • selecting a sample items of property, plant and equipment acquired and capitalised during the year ended 31 December 2016 and inspecting relevant underlying documentation to assess whether these items met the criteria for capitalisation with reference to the requirements of the prevailing accounting standards and to evaluate the date on which costs were capitalised; • assessing whether the additions to property, plant and equipment for the year ended 31 December 2016 were consistent with the Development Plan agreed between HK Electric and The Government of HKSAR which governs the level of capital expenditure over a period of time; • forming an expectation of the value of costs capitalised for the current year based on the prior year's capitalisation ratio and the level of capital work undertaken during the current year, comparing our expectation with the actual costs capitalised for the current year and discussing with management the nature of and reasons for any significant variances; and • physically inspecting a sample of additions to property, plant and equipment during the current year.

Assessment of potential impairment of goodwill relating to the Hong Kong electricity business

Refer to note 16 to the consolidated financial statements of the Trust and of the Company and the accounting policies 3(d) and (g)(ii).

The key audit matter

The Company acquired the Hong Kong electricity business operated by HK Electric from Power Assets Holdings Limited in 2014. The goodwill arising on this acquisition amounted to HK$33.6 billion.

Management assessed goodwill for potential impairment as at 30 November 2016 by comparing the carrying amount of the cash-generating unit to which goodwill has been allocated with the recoverable amount determined by assessing the value-in-use ("VIU") by preparing a discounted cash flow forecast. Preparing a discounted cash flow forecast involves the exercise of significant management judgement, in particular in forecasting revenue growth and operating profit and in determining an appropriate discount rate.

We identified the assessment of potential impairment of goodwill relating to the Hong Kong electricity business as a key audit matter because the carrying value of the goodwill is material to the consolidated financial statements of the Trust and of the Company and also because management's assessment of the value of the future cash flows expected to be derived from the Hong Kong electricity business involves certain critical judgements in respect of the assumptions made which are inherently uncertain and could be subject to management bias.

How the matter was addressed in our audit

Our audit procedures to assess potential impairment of goodwill relating to the Hong Kong electricity business included the following:

- evaluating management's cash flow forecast by comparing the assumptions adopted by management with our understanding of the Hong Kong electricity business and by comparing key assumptions and estimates with relevant underlying documentation, which included comparing future revenue growth and operating profit with the Development Plan agreed between HK Electric and The Government of HKSAR and comparing components of the discount rate with market data and industry reports;

- evaluating management's rationale for adopting cash flow projections over a period greater than five years with reference to the guidance in the prevailing accounting standards;

- engaging our internal valuation specialists to assess whether the discount rate applied in the cash flow forecast was within the range adopted by other companies in the same industry;

- performing sensitivity analyses on the discount rate and terminal growth rate applied and the assumptions for revenue adopted by management in the cash flow forecast to assess the impact of changes in these key assumption on the conclusion reached in management's impairment assessment and considering whether there were any indicators of management bias in the assumption adopted; and

- comparing the actual results for the current year with management's forecasts for the previous year in order to assess the historical accuracy of the management's forecasting process.

Fuel Clause Recovery Account

Refer to note 22 to the consolidated financial statements of the Trust and of the Company and the accounting policy 3(p)(ii).

The key audit matter	How the matter was addressed in our audit
Under the Scheme of Control Agreement, any difference between the standard cost of fuel, as agreed with The Government of the HKSAR, and the actual cost of fuel consumed is transferred to the Fuel Clause Recovery Account as Fuel Costs Account Adjustments. Fuel Clause Charges (or Rebates) are charged (or given) to electricity 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 of 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 year, together with any balance brought forward from the prior year and interest thereon based on prevailing market interest rates. We identified the Fuel Clause Recovery Account as a key audit matter because it is a specific item in the Scheme of Control Agreement and is a key factor in the calculation of Fuel Clause Charges (or Rebates) which affect the Net Tariff payable by electricity customers and because the balance of the Fuel Clause Recovery Account is material as at 31 December 2016.	Our audit procedures to assess the balance of the Fuel Clause Recovery Account included the following: • engaging our internal Information Risk Management specialists to assess the design, implementation and operating effectiveness of the information technology automated controls that govern the interface between the Trust Group's and the Group's meter reading system which records units of electricity sold and the Trust Group's and the Group's accounting system; • forming an expectation of the amount of Fuel Clause Charges to electricity customers based on the units of electricity sold during the reporting period and comparing our expectation with the actual Fuel Clause Charges recorded by the Trust Group and the Group; • evaluating the actual cost of fuel for the year ended 31 December 2016 by inspecting supplier invoices, on a sample basis; • evaluating the accrued charges for unbilled fuel costs at 31 December 2016 by inspecting, on a sample basis, the amounts settled subsequent to 31 December 2016 and relevant underlying documentation; and • recalculating of the balance of the Fuel Clause Recovery Account as at 31 December 2016 taking into account the balance brought forward at the start of the financial year, Fuel Clause Charges, Fuel Costs Account Adjustments and interest.

Information other than the consolidated financial statements and auditor's report thereon

The Directors of HK Electric Investments Manager Limited (the "Trustee-Manager", in its capacity as the trustee-manager of the Trust) and the Directors of the Company are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements of the Trust and of the Company and our auditor's report thereon.

Our opinion on the consolidated financial statements of the Trust and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements of the Trust and of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements of the Trust and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the consolidated financial statements

The Directors of the Trustee-Manager and the Directors of the Company are responsible for the preparation of the consolidated financial statements of the Trust and of the Company that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements of the Trust and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements of the Trust and of the Company, the Directors are responsible for assessing the Trust Group's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Trust Group and the Group or to cease operations or have no realistic alternative but to do so.

The Directors are assisted by the Audit Committees of the Trustee-Manager and of the Company in discharging their responsibilities for overseeing the Trust Group's and the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements of the Trust and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements of the Trust and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust Group's and the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust Group's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements of the Trust and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Trust Group and the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements of the Trust and of the Company, including the disclosures, and whether the consolidated financial statements of the Trust and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Trust Group and the Group to express an opinion on the consolidated financial statements of the Trust and of the Company. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committees of the Trustee-Manager and of the Company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committees of the Trustee-Manager and of the Company with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committees of the Trustee-Manager and of the Company, we determine those matters that were of most significance in the audit of the consolidated financial statements of the Trust and of the Company of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yip Ka Ming, Alice.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

21 March 2017

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

For the year ended 31 December 2016
(Expressed in Hong Kong dollars)

	Note	2016 $ million	2015 $ million
Revenue	5	**11,420**	11,210
Direct costs		**(5,369)**	(5,189)
		6,051	6,021
Other revenue and other net income	7	**39**	78
Other operating costs		**(918)**	(811)
Operating profit		**5,172**	5,288
Finance costs	8	**(991)**	(1,025)
Profit before taxation	9	**4,181**	4,263
Income tax:	10		
Current		**(1,145)**	(1,059)
Deferred		**388**	309
		(757)	(750)
Profit after taxation		**3,424**	3,513
Scheme of Control transfers	12(b)	**175**	78
Profit for the year attributable to the holders of Share Stapled Units/shares of the Company		**3,599**	3,591
Earnings per Share Stapled Unit/share of the Company			
Basic and diluted	14	**40.73 cents**	40.64 cents

The notes on pages 72 to 126 form part of these consolidated financial statements.
As explained in note 2, the consolidated financial statements of the Trust and the consolidated 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 year are set out in note 13.

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

For the year ended 31 December 2016
(Expressed in Hong Kong dollars)

	2016 $ million	2015 $ million
Profit for the year attributable to the holders of Share Stapled Units/shares of the Company	**3,599**	3,591
Other comprehensive income for the year, after tax and reclassification adjustments		
Items that will not be reclassified to profit or loss		
Defined benefit retirement schemes:		
Remeasurement of net defined benefit asset/liability	**81**	(158)
Net deferred tax (charged)/credited to other comprehensive income	**(13)**	26
	68	(132)
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 year	**837**	(167)
Reclassification adjustments for amounts transferred to profit or loss	**71**	4
Amounts transferred to the initial carrying amount of hedged items	**7**	19
Net deferred tax (charged)/credited to other comprehensive income	**(151)**	23
	764	(121)
Total comprehensive income for the year attributable to the holders of Share Stapled Units/shares of the Company	**4,431**	3,338

The notes on pages 72 to 126 form part of these consolidated financial statements.
As explained in note 2, the consolidated financial statements of the Trust and the consolidated financial statements of the Company are presented together.

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

At 31 December 2016

(Expressed in Hong Kong dollars)

	Note	2016 $ million	2015 $ million
Non-current assets			
Property, plant and equipment		**64,432**	64,521
Interests in leasehold land held for own use under finance leases		**6,281**	6,472
	15	**70,713**	70,993
Goodwill	16	**33,623**	33,623
Derivative financial instruments	24	**1,034**	314
Employee retirement benefit scheme assets	25(a)	**454**	580
Deferred tax assets	26(b)	**–**	6
		105,824	105,516
Current assets			
Inventories	18	**985**	882
Trade and other receivables	19	**1,225**	1,160
Bank deposits and cash	20(a)	**316**	6,157
		2,526	8,199
Current liabilities			
Trade and other payables	21	**(2,735)**	(2,586)
Fuel Clause Recovery Account	22	**(4,088)**	(2,283)
Current portion of bank loans and other interest-bearing borrowings	23	**(335)**	(900)
Current tax payable	26(a)	**(351)**	(360)
		(7,509)	(6,129)
Net current (liabilities)/assets		**(4,983)**	2,070
Total assets less current liabilities		**100,841**	107,586
Non-current liabilities			
Bank loans and other interest-bearing borrowings	23	**(39,344)**	(46,317)
Derivative financial instruments	24	**(73)**	(207)
Customers' deposits		**(2,057)**	(2,001)
Deferred tax liabilities	26(b)	**(9,017)**	(9,247)
Employee retirement benefit scheme liabilities	25(a)	**(406)**	(587)
		(50,897)	(58,359)
Scheme of Control Fund and Reserve	12(c)	**(39)**	(215)
Net assets		**49,905**	49,012
Capital and reserves			
Share capital	27(b)	**8**	8
Reserves		**49,897**	49,004
Total equity		**49,905**	49,012

Approved and authorised for issue by the Boards on 21 March 2017.

Wan Chi Tin
Director

Chan Loi Shun
Director

The notes on pages 72 to 126 form part of these consolidated financial statements.

As explained in note 2, the consolidated financial statements of the Trust and the consolidated financial statements of the Company are presented together.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF THE TRUST AND OF THE COMPANY

For the year ended 31 December 2016
(Expressed in Hong Kong dollars)

	Attributable to holders of Share Stapled Units/shares of the Company					
$ million	Share capital (note 27(b))	Share premium (note 27(c))	Hedging reserve (note 27(d)(i))	Revenue reserve (note 27(d)(ii))	Proposed/ declared distribution/ dividend (note 13)	Total
Balance at 1 January 2015	8	47,472	(70)	24	1,757	49,191
Changes in equity for 2015:						
Profit for the year	–	–	–	3,591	–	3,591
Other comprehensive income	–	–	(121)	(132)	–	(253)
Total comprehensive income	–	–	(121)	3,459	–	3,338
Final distribution/second interim dividend in respect of previous year approved and paid (see note 13(c))	–	–	–	–	(1,757)	(1,757)
Interim distribution/first interim dividend paid (see note 13(b))	–	–	–	(1,760)	–	(1,760)
Proposed final distribution/second interim dividend (see note 13(b))	–	–	–	(1,778)	1,778	–
Balance at 31 December 2015 and 1 January 2016	**8**	**47,472**	**(191)**	**(55)**	**1,778**	**49,012**
Changes in equity for 2016:						
Profit for the year	**–**	**–**	**–**	**3,599**	**–**	**3,599**
Other comprehensive income	**–**	**–**	**764**	**68**	**–**	**832**
Total comprehensive income	**–**	**–**	**764**	**3,667**	**–**	**4,431**
Final distribution/second interim dividend in respect of previous year approved and paid (see note 13(c))	**–**	**–**	**–**	**–**	**(1,778)**	**(1,778)**
Interim distribution/first interim dividend paid (see note 13(b))	**–**	**–**	**–**	**(1,760)**	**–**	**(1,760)**
Proposed final distribution/second interim dividend (see note 13(b))	**–**	**–**	**–**	**(1,778)**	**1,778**	**–**
Balance at 31 December 2016	**8**	**47,472**	**573**	**74**	**1,778**	**49,905**

The notes on pages 72 to 126 form part of these consolidated financial statements.
As explained in note 2, the consolidated financial statements of the Trust and the consolidated financial statements of the Company are presented together.

CONSOLIDATED CASH FLOW STATEMENT OF THE TRUST AND OF THE COMPANY

For the year ended 31 December 2016
(Expressed in Hong Kong dollars)

	Note	**2016 $ million**	2015 $ million
Operating activities			
Cash generated from operations	20(b)	**10,162**	9,852
Interest paid		**(1,008)**	(919)
Interest received		**18**	49
Hong Kong Profits Tax paid		**(1,154)**	(918)
Net cash generated from operating activities		**8,018**	8,064
Investing activities			
Payment for the purchase of property, plant and equipment and capital stock		**(2,760)**	(2,237)
Capitalised interest paid		**(115)**	(67)
Proceeds from disposal of property, plant and equipment		**1**	–
Decrease in bank deposits with more than three months to maturity when placed		**180**	1,214
Net cash used in investing activities		**(2,694)**	(1,090)
Financing activities			
Proceeds from bank loans		**18,985**	–
Repayment of bank loans		**(34,432)**	(2,846)
Issuance of medium term notes		**8,843**	2,567
Redemption of medium term notes		**(900)**	(500)
New customers' deposits		**298**	283
Repayment of customers' deposits		**(242)**	(219)
Distributions/dividends paid		**(3,538)**	(3,517)
Net cash used in financing activities		**(10,986)**	(4,232)
Net (decrease)/increase in cash and cash equivalents		**(5,662)**	2,742
Cash and cash equivalents at 1 January		**5,977**	3,236
Effect of foreign exchange rate changes		**1**	(1)
Cash and cash equivalents at 31 December	20(a)	**316**	5,977

The notes on pages 72 to 126 form part of these consolidated financial statements.
As explained in note 2, the consolidated financial statements of the Trust and the consolidated financial statements of the Company are presented together.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

1. 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. The Company has established a principal place of business in Hong Kong at Hongkong Electric Centre, 44 Kennedy Road, Hong Kong. The principal activity of the Company is investment holding.

On 1 January 2014, HK Electric Investments (the "Trust") was constituted as a trust 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.

The Share Stapled Units structure comprises (1) a unit in the Trust; (2) a beneficial interest in a specifically identified ordinary share in the Company which is linked to the unit and held by Trustee-Manager as legal owner in its capacity as trustee-manager of the Trust; and (3) a specifically identified preference share in the Company which is "stapled" to the unit. The Share Stapled Units are jointly issued by the Trust and the Company and listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

2. Basis of presentation

Pursuant to the Trust Deed, the Trust and the Company are each required to prepare their own sets of financial statements on a consolidated basis. The consolidated financial statements of the Trust for the year ended 31 December 2016 comprise the consolidated financial statements of the Trust, the Company and its subsidiaries (together the "Trust Group"). The consolidated financial statements of the Company for the year ended 31 December 2016 comprise the consolidated 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 year ended 31 December 2016 was investing in the Company. Therefore, the consolidated results and financial position that would be presented in the consolidated financial statements of the Trust are identical to the consolidated 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 consolidated financial statements of the Trust and of the Company together. The consolidated financial statements of the Trust and the consolidated financial statements of the Company are presented together to the extent they are identical and are hereinafter referred as the "consolidated financial statements of the Trust and of the Company".

The consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated cash flow statement, significant accounting policies and the related explanatory information are common to the Trust and the Company. Information specific to the Company are disclosed separately in the relevant explanatory information in notes to the consolidated financial statements.

The Trust Group and the Group are referred as the "Groups".

3. Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term that includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Groups is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Groups. Note 4 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Groups for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis except as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 34.

3. Significant accounting policies (continued)

(c) Subsidiaries

Subsidiaries are 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. When assessing whether the Groups have power, only substantive rights (held by the Groups or other parties) are considered.

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 3(g)(ii)).

(d) 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 3(g)(ii)).

(e) Property, plant and equipment, interests in leasehold land and depreciation and amortisation

(i) Property, plant and equipment, other than assets under construction, are stated at cost less accumulated depreciation (see note 3(e)(viii)) and impairment losses (see note 3(g)(ii)).

(ii) Assets under construction are stated at cost less impairment losses (see note 3(g)(ii)), and are not depreciated. Assets under construction are transferred to appropriate class of property, plant and equipment when completed and ready for use.

(iii) 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 3(l)).

(iv) Subsequent expenditure to replace a component of an item of property, plant and equipment that is accounted for separately, or to improve its operational performance is included in the item's carrying amount or recognised as a separate item 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.

(v) Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(vi) Leasehold land held for own use under finance leases is stated at cost less accumulated amortisation (see note 3(e)(vii)) and impairment losses (see note 3(g)(ii)).

(vii) The cost of acquiring land held under a finance lease is amortised on a straight-line basis over the shorter of the estimated useful lives of the leased assets and the unexpired lease term.

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Significant accounting policies (continued)

(e) Property, plant and equipment, interests in leasehold land and depreciation and amortisation (continued)

(viii) Depreciation is calculated to write off the cost of items of property, plant and equipment 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 radio systems	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.

Where parts of an item of property, plant and equipment have different useful lives, the cost of the property, plant and equipment is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(f) 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 held 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 recognised as property, plant and equipment 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 3(e)(viii). Impairment losses are accounted for in accordance with the accounting policy as set out in note 3(g)(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.

(g) Impairment of assets

(i) Impairment of trade and other receivables and other financial assets

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 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. This assessment is made collectively where these 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.

3. Significant accounting policies (continued)

(g) Impairment of assets (continued)

(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:

- property, plant and equipment and interests in leasehold land;
- goodwill; and
- investments in subsidiaries in the Company's statement of financial position.

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 of disposal 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 of disposal (if measurable), 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 is not reversed.

  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 year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Groups are required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Groups apply the same impairment testing, recognition and reversal criteria as it would at the end of the financial year (see notes 3(g)(i) and 3(g)(ii)).

Impairment loss recognised in an interim period in respect of goodwill 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.

(h) 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.

(i) 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".

Where the calculation of the Groups' net obligation results in a negative amount, the asset recognised is limited to the present value of any future refunds from or reductions in future contributions to the defined benefit retirement scheme.

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 liability or asset by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability or asset, taking into account any changes in the net defined liabilities or assets during the year as a result of contributions and benefit payments.

3. Significant accounting policies (continued)

(i) Retirement scheme obligations (continued)

(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.

(j) Inventories

Inventories are carried at the lower of cost and net realisable value.

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.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

(k) 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 3(g)(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.

(l) 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 3(o)(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, subsequent to initial recognition, the interest-bearing borrowings are stated at fair value with the fair value changes that are attributable to the hedged risk recognised in profit or loss (see note 3(o)(i)).

A call option embedded in a host debt instrument is closely related to and not separated from the host debt instrument if the option's exercise price is approximately equal on each exercise date to the amortised cost of the host debt instrument.

(m) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 3(u), 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.

(n) 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 3(o)).

(o) 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 gain or loss on remeasurement of the derivative financial instrument to fair value is 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.

3. Significant accounting policies (continued)

(p) 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.

The Government has approved the 2014-2018 Development Plan covering the period from 1 January 2014 to 31 December 2018. 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 a financial year represents the difference between Fuel Clause Charges (or Rebates) and Fuel Cost Account Adjustments during the year, 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 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 year 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.

(q) Translation of foreign currencies

Foreign currency transactions during the year 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 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.

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in 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.

(s) Income tax

Income tax for the year 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, in which case the relevant amounts of tax are recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, 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 their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

3. Significant accounting policies (continued)

(s) Income tax (continued)

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.

(t) 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 that 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.

(u) 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 or the Company 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.

(v) Related parties

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

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

(b) has significant influence over the Groups; or

(c) 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:

(a) 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).

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

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

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

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

(f) The entity is controlled or jointly controlled by a person identified in note 3(v)(i).

(g) A person identified in note 3(v)(i)(a) 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).

(h) The entity, or any member of a group of which it is a part, provides a key management personnel services to the Groups.

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.

(w) 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.

4. 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 consolidated financial statements:

– Amendments to HKAS 1, *Disclosure initiative*
– Amendments to HKAS 16 and HKAS 38, *Clarification of acceptable methods of depreciation and amortisation*
– *Annual Improvements to HKFRSs 2012-2014 Cycle*

The adoption of these amendments to HKFRSs has no material impact on the Groups' results and financial position 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.

5. 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:

	2016 **$ million**	2015 $ million
Sales of electricity	**11,373**	11,165
Concessionary discount on sales of electricity	**(6)**	(6)
Electricity-related income	**53**	51
	11,420	11,210

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. Other revenue and other net income

	2016 $ million	2015 $ million
Interest income from financial assets not at fair value through profit or loss	**12**	46
Sundry income	**27**	32
	39	78

8. Finance costs

	2016 $ million	2015 $ million
Interest on borrowings and other finance costs	**1,125**	1,120
Less: interest expense and other finance costs capitalised to assets under construction	**(118)**	(78)
interest expense transferred to fuel costs	**(16)**	(17)
Total interest expense arising from financial liabilities not at fair value through profit or loss and other finance costs	**991**	1,025

Interest expense has been capitalised at an average rate of approximately 2.6% (2015: 2.1%) per annum for assets under construction.

9. Profit before taxation

	2016 $ million	2015 $ million
Profit before taxation is arrived at after charging:		
Depreciation	**2,683**	2,600
Amortisation of leasehold land	**191**	193
Costs of inventories	**3,138**	3,728
Write down of inventories	**11**	6
Staff costs	**652**	635
Net loss on disposal and written off of property, plant and equipment	**74**	77
Auditor's remuneration		
– audit and audit related work	**5**	4

10. Income tax in the consolidated statement of profit or loss

(a) Taxation in the consolidated statement of profit or loss represents:

	2016 **$ million**	2015 $ million
Current tax		
Provision for Hong Kong Profits Tax for the year	**1,145**	1,059
Deferred tax (see note 26(b))		
Origination and reversal of temporary differences	**(388)**	(309)
	757	750

The provision for Hong Kong Profits Tax for 2016 is calculated at 16.5% (2015: 16.5%) of the estimated assessable profits for the year.

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.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2016 **$ million**	2015 $ million
Profit before taxation	**4,181**	4,263
Notional tax on profit before taxation, calculated at the Hong Kong Profits Tax rate of 16.5% (2015: 16.5%)	**690**	703
Tax effect of non-deductible expenses	**71**	57
Tax effect of non-taxable income	**(4)**	(10)
Actual tax expense	**757**	750

11. Directors' emoluments and senior management remuneration

Directors' emoluments comprise payments to Directors by the Company and its subsidiaries in connection with the management of the affairs of the Company and its subsidiaries. The emoluments of each of the Directors of the Company are as follows:

Name of Directors	Fees $ million	Basic salaries, allowances and other benefits [6] $ million	Retirement scheme contributions $ million	Bonuses $ million	2016 Total emoluments $ million	2015 Total emoluments $ million
Executive Directors						
Fok Kin Ning, Canning [2]						
Chairman	0.12	0.79	–	–	**0.91**	0.86
Wan Chi Tin						
Chief Executive Officer	0.07	6.59	–	8.38	**15.04**	13.77
Chan Loi Shun	0.07	2.65	–	–	**2.72**	2.48
Cheng Cho Ying, Francis	0.07	3.22	0.46	1.67	**5.42**	5.23
Shan Shewu	0.07	2.56	0.02	0.52	**3.17**	2.62
Yuen Sui See [5]	0.07	4.21	–	3.20	**7.48**	7.27
Non-executive Directors						
Li Tzar Kuoi, Victor						
Deputy Chairman to the Company Board	0.07	0.35	–	–	**0.42**	0.44
Fahad Hamad A H Al-Mohannadi	0.07	–	–	–	**0.07**	0.04
Ronald Joseph Arculli [1]	0.14	0.07	–	–	**0.21**	0.20
Du Zhigang	0.07	–	–	–	**0.07**	0.07
Jiang Xiaojun	0.07	–	–	–	**0.07**	0.07
Deven Arvind Karnik	0.07	–	–	–	**0.07**	0.04
Independent Non-executive Directors						
Fong Chi Wai, Alex [2]	0.09	0.02	–	–	**0.11**	0.11
Kwan Kai Cheong	0.07	0.01	–	–	**0.08**	0.08
Lee Lan Yee, Francis [1]	0.14	0.02	–	–	**0.16**	0.16
George Colin Magnus	0.07	0.03	–	–	**0.10**	0.10
Donald Jeffrey Roberts [1] [2]	0.16	0.02	–	–	**0.18**	0.18
Ralph Raymond Shea	0.07	0.03	–	–	**0.10**	0.02
Alternate Directors						
Chow Woo Mo Fong, Susan [3]	–	0.08	–	–	**0.08**	0.08
Frank John Sixt [4]	–	0.03	–	–	**0.03**	0.03
Total for the year 2016	**1.56**	**20.68**	**0.48**	**13.77**	**36.49**	
Total for the year 2015	1.45	19.00	0.79	12.61		33.85

11. Directors' emoluments and senior management remuneration (continued)

Notes:

(1) Member of the Trustee-Manager Audit Committee and the Company Audit Committee.

(2) Member of the Remuneration Committee.

(3) An Alternate Director to Mr. Fok Kin Ning, Canning.

(4) An Alternate Director to Mr. Li Tzar Kuoi, Victor.

(5) Retired from the position of Executive Director and appointed as Adviser to HK Electric with effect from 17 January 2017.

(6) Other benefits include electricity allowances to Directors for residential use. For Directors who are employees of the Groups, other benefits also include insurance and medical benefits entitled by the employees of the Groups.

The five highest paid individuals of the Groups included three directors (2015: three) whose total emoluments are shown above. The remuneration of the other two individuals (2015: two) who comprise the five highest paid individuals of the Groups is set out below:

	2016 $ million	2015 $ million
Salary and other benefits	**8.51**	8.58
Retirement scheme contributions	**0.72**	0.60
	9.23	9.18

The total remuneration of senior management, excluding Directors, is within the following bands:

	2016 Number	2015 Number
$2,500,001-$3,000,000	**3**	4
$3,000,001-$3,500,000	**2**	2
$3,500,001-$4,000,000	**1**	–
$4,000,001-$4,500,000	**1**	–
$4,500,001-$5,000,000	**1**	2

The remuneration of Directors and senior management is as follows:

	2016 $ million	2015 $ million
Short-term employee benefits	**61**	57
Post-employment benefits	**3**	3
	64	60

At 31 December 2016 and 2015, there was no amount due from Directors and senior management.

12. Scheme of Control transfers

(a) The financial operations of HK Electric are governed by the SoCA agreed with the Government which provides for HK Electric to earn a Permitted Return (see note 3(p)(i)). Any excess or deficiency of the gross tariff revenue over the sum of total operating costs, Scheme of Control Net Return and Scheme of Control taxation charges is transferred to/(from) a Tariff Stabilisation Fund from/(to) the statement of profit or loss of HK Electric. When transfer from the Tariff Stabilisation Fund to the statement of profit or loss is required, the amount transferred shall not exceed the balance of the Tariff Stabilisation Fund. In addition, a charge calculated by applying the average one-month Hong Kong Interbank Offered Rate on the average balance of the Tariff Stabilisation Fund is transferred from the statement of profit or loss of HK Electric to a Rate Reduction Reserve.

Pursuant to 2013 mid-term review of Scheme of Control, 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 non-commercial buildings. Specifically, HK Electric consented to contribute to the Smart Power Fund each year during the period from 1 January 2014 to 31 December 2018 an amount being deducted from its financial incentive under the energy efficiency incentive mechanism in the SoCA for outperforming the energy audit and energy saving targets (if any) each year during the period from 1 January 2013 to 31 December 2017.

(b) Scheme of Control transfers (to)/from the consolidated statement of profit or loss represents:

	2016 $ million	2015 $ million
Tariff Stabilisation Fund	**(181)**	(84)
Rate Reduction Reserve	**1**	1
Smart Power Fund		
– Provisional sum to be injected in the following year	**5**	5
	(175)	(78)

A provisional sum of $4,990,000, representing deduction of HK Electric's 2016 financial incentive (2015: $4,952,000), was transferred from the consolidated statement of profit or loss and included in the trade and other payables for injection into the Smart Power Fund in the following year.

12. Scheme of Control transfers (continued)

(c) Movements in the Tariff Stabilisation Fund, Rate Reduction Reserve and Smart Power Fund are as follows:

$ million	Tariff Stabilisation Fund (see note below)	Rate Reduction Reserve (see note below)	Smart Power Fund	Total
At 1 January 2015	288	–	5	293
Transfer (to)/from the consolidated statement of profit or loss	(84)	1	–	(83)
Injection for the year	–	–	5	5
At 31 December 2015 and 1 January 2016	**204**	**1**	**10**	**215**
Transfer from Rate Reduction Reserve to Tariff Stabilisation Fund (see note below)	**1**	**(1)**	**–**	**–**
Transfer (to)/from the consolidated statement of profit or loss	**(181)**	**1**	**–**	**(180)**
Injection for the year (see note (b) above)	**–**	**–**	**5**	**5**
Disbursement for the year	**–**	**–**	**(1)**	**(1)**
At 31 December 2016	**24**	**1**	**14**	**39**

Pursuant to mid-term review of Scheme of Control, the year-end balance of the Rate Reduction Reserve of a year has to be transferred to the Tariff Stabilisation Fund in the following year starting from end 2013.

13. Distributions/dividends

(a) The distributable income for the year was as follows:

		2016 $ million	2015 $ million
Audited consolidated profit attributable to the holders of Share Stapled Units		**3,599**	3,591
After:			
(i)	eliminating the effects of the Adjustments (see note 1 below)	**4,520**	4,532
(ii)	adding/(deducting)		
	– movement in Fuel Clause Recovery Account	**1,805**	1,652
	– changes in working capital	**206**	52
	– adjustment for employee retirement benefit schemes	**26**	18
	– taxes paid	**(1,154)**	(918)
		883	804
(iii)	capital expenditure payment	**(2,760)**	(2,237)
(iv)	deducting		
	– debt repayment	**(7,504)**	(779)
	– net finance costs	**(1,105)**	(937)
		(8,609)	(1,716)
(v)	deducting		
	– reserve for future capital expenditure/debt service	**–**	(1,436)
Distributable income		**(2,367)**	3,538
(vi)	adding discretionary amount as determined by the Company Board pursuant to clause 14.1(c) of the Trust Deed (see note 4 below)	**5,905**	–
Distributable income after adjustment of discretionary amount		**3,538**	3,538

Note 1 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.

Note 2 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.

Note 3 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.

Note 4 In determining the distribution amount, the Company Board has taken into account the Group's financial performance achieved during the year and its stable cashflow from operations, and consider it appropriate to adjust the distributable income for the year ended 31 December 2016, as calculated pursuant to the Trust Deed, by the above discretionary amount, pursuant to clause 14.1(c) of the Trust Deed.

13. Distributions/dividends (continued)

(b) Distributions/dividends payable to holders of Share Stapled Units/shares of the Company attributable to the year

	2016 **$ million**	2015 $ million
Interim distribution/first interim dividend declared and paid of 19.92 cents (2015: 19.92 cents) per Share Stapled Unit/share	**1,760**	1,760
Final distribution/second interim dividend proposed after the end of the reporting period of 20.12 cents (2015: 20.12 cents) per Share Stapled Unit/share	**1,778**	1,778
	3,538	3,538

For the year ended 31 December 2016, the Company Board declared the payment of a second interim dividend of 20.12 cents per ordinary share (2015: 20.12 cents per ordinary share), amounting to $1,778 million (2015: $1,778 million), in lieu of a final dividend after the end of the reporting period and therefore no final dividend was proposed by the Company Board.

For the year ended 31 December 2016, the Trustee-Manager Board declared a final distribution of 20.12 cents per Share Stapled Unit (2015: 20.12 cents per Share Stapled Unit), amounting to $1,778 million (2015: $1,778 million), after the end of the reporting period.

The final distribution/second interim dividend declared after the end of the reporting period is based on the number of Share Stapled Units/ordinary shares of the Company of 8,836,200,000 as at 31 December 2016 (2015: 8,836,200,000). The final distribution/second interim dividend declared after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(c) Distributions/dividends payable to holders of Share Stapled Units/shares of the Company attributable to the previous financial year, approved and paid during the year

	2016 **$ million**	2015 $ million
Final distribution/second interim dividend in respect of the previous financial year, approved and paid during the year, of 20.12 cents (2015: 19.89 cents) per Share Stapled Unit/share	**1,778**	1,757

14. 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/ordinary shares of the Company of $3,599 million (2015: $3,591 million) and the weighted average of 8,836,200,000 Share Stapled Units/ordinary shares of the Company (2015: 8,836,200,000 Share Stapled Units/ordinary shares of the Company) in issue during the year.

15. 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
Cost							
At 1 January 2015	16,509	47,366	393	3,059	67,327	6,844	74,171
Additions	6	578	88	1,844	2,516	–	2,516
Transfer	37	1,016	41	(1,094)	–	–	–
Disposals	(5)	(308)	(15)	–	(328)	–	(328)
At 31 December 2015 and 1 January 2016	**16,547**	**48,652**	**507**	**3,809**	**69,515**	**6,844**	**76,359**
Additions	**18**	**403**	**82**	**2,296**	**2,799**	**–**	**2,799**
Transfer	**68**	**1,324**	**27**	**(1,419)**	**–**	**–**	**–**
Disposals	**(2)**	**(353)**	**(38)**	**–**	**(393)**	**–**	**(393)**
At 31 December 2016	**16,631**	**50,026**	**578**	**4,686**	**71,921**	**6,844**	**78,765**
Accumulated depreciation and amortisation							
At 1 January 2015	466	1,979	80	–	2,525	179	2,704
Written back on disposals	(2)	(217)	(15)	–	(234)	–	(234)
Charge for the year	510	2,114	79	–	2,703	193	2,896
At 31 December 2015 and 1 January 2016	**974**	**3,876**	**144**	**–**	**4,994**	**372**	**5,366**
Written back on disposals	**(1)**	**(257)**	**(38)**	**–**	**(296)**	**–**	**(296)**
Charge for the year	**511**	**2,193**	**87**	**–**	**2,791**	**191**	**2,982**
At 31 December 2016	**1,484**	**5,812**	**193**	**–**	**7,489**	**563**	**8,052**
Net book value							
At 31 December 2016	**15,147**	**44,214**	**385**	**4,686**	**64,432**	**6,281**	**70,713**
At 31 December 2015	15,573	44,776	363	3,809	64,521	6,472	70,993

The above are mainly electricity-related property, plant and equipment in respect of which financing costs capitalised during the year amounted to $118 million (2015: $78 million).

Depreciation charges for the year included $108 million (2015: $103 million), relating to assets utilised in development activities, which have been capitalised.

16. Goodwill

(a) Carrying amount of goodwill

	2016 **$ million**	2015 $ million
Cost		
At 1 January and 31 December	**33,623**	33,623

(b) Impairment test for goodwill

HK Electric is the Groups' only cash-generating unit ("CGU") to which the goodwill has been allocated.

In the case of triggering events and at least annually, the Groups test whether the goodwill has suffered any impairment. Recoverable amount of the CGU, to which the goodwill has been allocated, was determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a 10-year period. Projections for a period of greater than five years have been used on the basis that a longer projection period represents the long-lived nature of generation, transmission and distribution assets and a more appropriate reflection of future cash flows from anticipated legislative and regulatory regime of the industry. The cash flow projections are discounted using a pre-tax discount rate of 6.44% (2015: 6.31%). The discount rate used reflects specific risks relating to the relevant CGU. Cash flows beyond the 10-year period are extrapolated using the terminal growth rate of 0.5% (2015: 0.5%).

There was no indication of impairment arising from review on goodwill as at 30 November 2016.

If the discount rate rose to 6.88% (2015: 6.89%), the recoverable amount of the CGU would be approximately equal to its carrying amount. Except this, any reasonably possible changes in the other key assumptions used in the value-in-use calculation would not affect management's view on impairment test result as at 30 November 2016.

17. Investments in subsidiaries

Details of the subsidiaries at 31 December 2016 are as follows:

Name of subsidiary	Issued share capital and debt securities	Percentage of equity held by the Company	Place of incorporation/ operation	Principal activity
Century Rank Limited	US$1	100%	British Virgin Islands/ Hong Kong	Investment holding
Treasure Business Limited	US$1	100% (1)	British Virgin Islands/ Hong Kong	Investment holding
The Hongkong Electric Company, Limited	$2,411,600,000	100% (1)	Hong Kong	Electricity generation and supply
Hongkong Electric Finance Limited	US$1 HK$6,635 million Hong Kong dollar fixed rate notes US$1,500 million United States dollar fixed rate notes HK$1,056 million Hong Kong dollar zero coupon notes US$250 million United States dollar callable zero coupon notes (see note 23)	100% (1)	British Virgin Islands/ Hong Kong	Financing

(1) Indirectly held

18. Inventories

	2016 $ million	2015 $ million
Coal, fuel oil and natural gas	**624**	525
Stores and materials (see note below)	**361**	357
	985	882

Included in stores and materials is capital stock of $197 million (2015: $205 million) which was purchased for future maintenance of capital assets.

19. Trade and other receivables

	2016 $ million	2015 $ million
Trade debtors (see note (a) below)	**647**	678
Other receivables (see note below)	**499**	463
	1,146	1,141
Derivative financial instruments (see note 24)	**16**	2
Deposits and prepayments	**63**	17
	1,225	1,160

All of the trade and other receivables are expected to be recovered within one year.

Other receivables of the Groups include unbilled electricity charges of $416 million (2015: $408 million) to be received from electricity customers.

(a) Trade receivables ageing analysis

The ageing analysis of trade debtors based on invoice date, which are neither individually nor collectively considered to be impaired, is as follows:

	2016 $ million	2015 $ million
Current and within 1 month	**588**	625
1 to 3 months	**37**	36
More than 3 months but less than 12 months	**22**	17
	647	678

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.

Trade debtors for electricity charges that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Trade debtors for electricity charges that were past due but not impaired relate to a number of independent customers. HK Electric obtains collateral in the form of security deposits or bank guarantees from customers (see note 28(a)) and the balances are considered to be fully recoverable.

(b) Impairment of trade and other receivables

The Groups' trade debtors are individually assessed for impairment. Any impairment losses are written off against the trade debtors directly. No separate account is maintained for impairment losses. During the year ended 31 December 2016, impairment of trade and other receivables of $1,589,000 (2015: $1,364,000) was charged to profit or loss.

20. Bank deposits and cash

(a) Bank deposits and cash comprise:

	2016 $ million	2015 $ million
Deposits with banks and other financial institutions with 3 months or less to maturity when placed	**250**	5,712
Cash at bank and in hand	**66**	265
Cash and cash equivalents in the consolidated cash flow statement	**316**	5,977
Deposits with banks and other financial institutions with more than 3 months to maturity when placed	**–**	180
Bank deposits and cash in the consolidated statement of financial position	**316**	6,157

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

	Note	2016 $ million	2015 $ million
Profit before taxation		**4,181**	4,263
Adjustments for:			
Interest income	7	**(12)**	(46)
Finance costs	8	**991**	1,025
Interest expense transferred to fuel costs	8	**16**	17
Depreciation	9	**2,683**	2,600
Amortisation of leasehold land	9	**191**	193
Net loss on disposal and written off of property, plant and equipment	9	**74**	77
Net financial instrument revaluation and exchange losses		**2**	1
Smart Power Fund disbursement	12(c)	**(1)**	–
Changes in working capital:			
(Increase)/decrease in inventories		**(111)**	43
Decrease/(increase) in trade and other receivables		**13**	(28)
Movements in Fuel Clause Recovery Account		**1,805**	1,652
Increase in trade and other payables		**304**	37
Increase/decrease in net employee retirement benefit assets/liabilities		**26**	18
Cash generated from operations		**10,162**	9,852

21. Trade and other payables

	2016 $ million	2015 $ million
Creditors measured at amortised cost (see note below)	**2,717**	2,557
Derivative financial instruments (see note 24)	**18**	29
	2,735	2,586

All of the trade and other payables are expected to be settled within one year or are repayable on demand.

Creditors' ageing is analysed as follows:

	2016 $ million	2015 $ million
Due within 1 month or on demand	**813**	700
Due after 1 month but within 3 months	**445**	529
Due after 3 months but within 12 months	**1,459**	1,328
	2,717	2,557

22. Fuel Clause Recovery Account

The Fuel Clause Charges per unit for electricity sales was 27.9 cents from 1 January 2016 (2015: 32.3 cents). Movements in the Fuel Clause Recovery Account were as follows:

	2016 $ million	2015 $ million
At 1 January	**2,283**	631
Transferred to profit or loss	**(1,206)**	(1,861)
Fuel Clause Charges during the year	**3,011**	3,513
At 31 December	**4,088**	2,283

This account, inclusive of interest, has been and will continue to be used to stabilise electricity tariffs (see note 3(p)(ii)).

23. Bank loans and other interest-bearing borrowings

	2016 **$ million**	2015 $ million
Bank loans	**18,628**	34,057
Current portion	**(35)**	–
	18,593	34,057
Hong Kong dollar medium term notes		
Fixed rate notes (see note (a) below)	**6,588**	4,486
Zero coupon notes (see note (b) below)	**656**	633
	7,244	5,119
Current portion	**(300)**	(900)
	6,944	4,219
United States dollar medium term notes		
Fixed rate notes (see note (a) below)	**11,758**	6,087
Zero coupon notes (see note (b) below)	**2,049**	1,954
	13,807	8,041
Non-current portion	**39,344**	46,317

(a) The Hong Kong dollar fixed rate notes bear interest at rates ranging from 1.65% to 4.00% per annum (2015: 1.65% to 4.55% per annum).

The United States dollar fixed rate notes bear interest at rates ranging from 2.875% to 4.25% per annum (2015: 4.25% per annum).

(b) The Hong Kong dollar zero coupon notes which were issued at discount have nominal amount of $1,056 million (2015: $1,056 million) and accrual yield of 3.5% per annum (2015: 3.5% per annum).

The United States dollar zero coupon notes have nominal amount of US$250 million (2015: US$250 million) and accrual yields ranging from 4.6% to 4.8% per annum (2015: 4.6% to 4.8% per annum). These notes embed with issuer call options allowing issuer to early redeem the notes on 20 October 2020 and annually thereafter until the penultimate year to maturity.

(c) Details of the issuer of the Hong Kong dollar and United States dollar medium term notes are set out in note 17.

(d) Some banking facilities of the Groups are subject to the fulfilment of covenants relating to certain of the Groups' statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Groups were to breach the covenants, the drawn down facilities would become payable on demand and any undrawn amount will be cancelled. The Groups regularly monitors its compliance with these covenants. Further details of the Groups' management of liquidity risk are set out in note 28(b). As at 31 December 2016 and 2015, none of the covenants relating to drawn down facilities had been breached.

23. Bank loans and other interest-bearing borrowings (continued)

(e) None of the non-current interest-bearing borrowings is expected to be settled within one year. All the above borrowings are unsecured.

The non-current interest-bearing borrowings are repayable as follows:

	2016 $ million	2015 $ million
After 1 year but within 2 years	**–**	34,357
After 2 years but within 5 years	**24,931**	6,417
After 5 years	**14,413**	5,543
	39,344	46,317

24. Derivative financial instruments

	2016		2015	
	Assets $ million	**Liabilities $ million**	Assets $ million	Liabilities $ million
Derivative financial instruments used for hedging:				
Cash flow hedges:				
– Cross currency swaps	**27**	**(46)**	–	(69)
– Interest rate swaps	**682**	**(7)**	–	(88)
– Forward foreign exchange contracts	**110**	**(34)**	3	(67)
Fair value hedges:				
– Cross currency swaps	**220**	**–**	313	(5)
– Forward foreign exchange contracts	**–**	**(1)**	–	(1)
	1,039	**(88)**	316	(230)
Derivative financial instruments not qualifying as accounting hedges:				
– Cross currency swaps	**5**	**–**	–	–
– Interest rate swaps	**–**	**(3)**	–	(6)
– Forward foreign exchange contracts	**6**	**–**	–	–
	11	**(3)**	–	(6)
	1,050	**(91)**	316	(236)
Analysed as:				
Current	**16**	**(18)**	2	(29)
Non-current	**1,034**	**(73)**	314	(207)
	1,050	**(91)**	316	(236)

25. Employee retirement benefits

The Groups offer three retirement schemes which together cover all permanent staff.

One of the schemes (the "Pension Scheme") provides pension benefits based on the employee's final basic salary and length of service. This scheme is accounted for as a defined benefit retirement scheme.

Another scheme is defined contribution in nature and offers its members various investment funds in which they can invest. One of the investment funds provides a guaranteed return; the scheme is accounted for as a defined benefit retirement scheme in respect of this investment fund (the "Guaranteed Return Scheme"). In respect of other investment funds which do not offer a guaranteed return, the scheme is accounted for as a defined contribution retirement scheme (see note 25(b)).

Both these schemes are established under trust and are registered under the Hong Kong Occupational Retirement Schemes Ordinance. The assets of the schemes are held independently of the Groups' assets in separate trustee administered funds. The responsibility for the governance of the schemes – including investment and contribution decisions – lies with the independent trustees in accordance with the trust deeds of the schemes.

The Groups also participate in a master trust Mandatory Provident Fund Scheme (the "MPF Scheme") operated by an independent service provider under the Hong Kong Mandatory Provident Fund Schemes Ordinance. The MPF Scheme is a defined contribution retirement scheme with the employer and its employees each contributing to the scheme in accordance with the relevant scheme rules. The MPF Scheme rules provide for voluntary contributions to be made by the employer calculated as a percentage of the employees' basic salaries.

(a) Defined benefit retirement schemes ("the Schemes")

The funding policy in respect of the Pension Scheme is based on valuations prepared periodically by independent professionally qualified actuaries at Willis Towers Watson Hong Kong Limited. The policy for employer's contributions is to fund the scheme in accordance with the actuary's recommendations on an on-going basis. The principal actuarial assumptions used include discount rate, long term salary increase rate and future pension increase rate which are disclosed in note 25(a)(viii) together with appropriate provisions for mortality rates, turnover and adjustments to reflect the short-term market expectation of salary increases. The most recent actuarial valuation of the Pension Scheme was carried out by the appointed actuary, represented by Ms. Wing Lui, FSA, as at 31 December 2016. The valuation revealed that the assets of the Pension Scheme were sufficient to cover the aggregate vested liabilities as at the valuation date.

Both defined benefit retirement schemes expose the Groups to investment risk, interest rate risk and salary risk while the Pension Scheme also exposes the Groups to risks of longevity and inflation.

The retirement scheme expense/income recognised in profit or loss for the year ended 31 December 2016 was determined in accordance with HKAS 19 (2011), *Employee benefits*.

25. Employee retirement benefits (continued)

(a) Defined benefit retirement schemes ("the Schemes") (continued)

(i) The amounts recognised in the consolidated statement of financial position are as follows:

	2016 $ million	2015 $ million
Present value of defined benefit obligations	**3,798**	3,948
Fair value of assets of the Schemes	**(3,846)**	(3,941)
	(48)	7
Represented by:		
Employee retirement benefit scheme assets	**(454)**	(580)
Employee retirement benefit scheme liabilities	**406**	587
	(48)	7

A portion of the above asset/liability is expected to be realised/settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions.

(ii) Movements in the present value of defined benefit obligations of the Schemes are as follows:

	2016 $ million	2015 $ million
At 1 January	**3,948**	3,976
Current service cost	**81**	80
Interest cost	**66**	78
Employee contributions paid to the Schemes	**16**	16
Actuarial (gains)/losses due to:		
– liability experience	**(11)**	(37)
– change in financial assumptions	**(60)**	111
– change in demographic assumptions	**56**	–
Benefits paid	**(298)**	(276)
At 31 December	**3,798**	3,948

(iii) Movements in fair value of plan assets of the Schemes are as follows:

	2016 $ million	2015 $ million
At 1 January	**3,941**	4,145
Interest income on the Schemes' assets	**61**	78
Return on Schemes' assets, excluding interest income	**66**	(84)
Employer contributions paid to the Schemes	**60**	62
Employee contributions paid to the Schemes	**16**	16
Benefits paid	**(298)**	(276)
At 31 December	**3,846**	3,941

The Groups expect to contribute $61 million to the Schemes in 2017.

(iv) The expenses recognised in the consolidated statement of profit or loss, prior to any capitalisation of employment costs attributable to additions of property, plant and equipment, is as follows:

	2016 $ million	2015 $ million
Current service cost	**81**	80
Net interest cost on net defined benefit asset/liability	**5**	–
	86	80

(v) The expenses are recognised in the following line items in the consolidated statement of profit or loss:

	2016 $ million	2015 $ million
Direct costs	**58**	53
Other operating costs	**28**	27
	86	80

(vi) The cumulative amount of actuarial losses recognised in the consolidated statement of comprehensive income is as follows:

	2016 $ million	2015 $ million
At 1 January	**(109)**	49
Remeasurement of net defined benefit asset/liability recognised in the consolidated statement of comprehensive income during the year	**81**	(158)
At 31 December	**(28)**	(109)

25. Employee retirement benefits (continued)

(a) Defined benefit retirement schemes ("the Schemes") (continued)

(vii) The major categories of assets of the Schemes are as follows:

	2016 $ million	2015 $ million
Hong Kong equities	**354**	353
European equities	**194**	197
North American equities	**565**	500
Asia Pacific and other equities	**190**	134
Global bonds	**2,500**	2,638
Deposits, cash and others	**43**	119
	3,846	3,941

Strategic investment decisions are taken with respect to the risk and return profiles.

(viii) The principal actuarial assumptions used as at 31 December are as follows:

	2016	2015
Discount rate		
– The Pension Scheme	**2.1%**	2.1%
– The Guaranteed Return Scheme	**1.8%**	1.4%
Long term salary increase rate	**5.0%**	5.0%
Future pension increase rate	**2.5%**	2.5%

(ix) Sensitivity analysis

(a) The Pension Scheme

	2016 **$ million**	2015 $ million
Actuarial assumptions	**Increase/(decrease) in defined benefit obligations**	
Discount rate		
– increase by 0.25%	**(57)**	(56)
– decrease by 0.25%	**60**	59
Pension increase rate		
– increase by 0.25%	**56**	54
– decrease by 0.25%	**(53)**	(51)
Mortality rate applied to specific age		
– set forward one year	**(65)**	(64)
– set backward one year	**66**	65

(b) The Guaranteed Return Scheme

	2016 **$ million**	2015 $ million
Actuarial assumptions	**Increase/(decrease) in defined benefit obligations**	
Discount rate		
– increase by 0.25%	**(36)**	(42)
– decrease by 0.25%	**37**	43
Interest to be credited		
– increase by 0.25%	**36**	42

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit liability recognised within the consolidated statement of financial position. The analysis has been performed on the same basis as for 2015.

25. Employee retirement benefits (continued)

(a) Defined benefit retirement schemes ("the Schemes") (continued)

(x) The following table sets out the weighted average durations of the defined benefit obligations of the Schemes:

	2016	2015
The Pension Scheme	**14.0 Years**	14.1 Years
The Guaranteed Return Scheme	**6.9 Years**	7.4 Years

(b) Defined contribution retirement schemes

	2016 $ million	2015 $ million
Expenses recognised in profit or loss	**46**	43

Forfeited contributions of $475,000 (2015: $1,648,000) have been received during the year.

26. Income tax in the consolidated statement of financial position

(a) Current taxation in the consolidated statement of financial position

	2016 $ million	2015 $ million
Hong Kong Profits Tax		
Provision for Hong Kong Profits Tax for the year	**1,145**	1,059
Provisional Profits Tax paid	**(794)**	(699)
	351	360

(b) Deferred tax assets and liabilities

	2016 $ million	2015 $ million
Deferred tax assets	**–**	(6)
Deferred tax liabilities	**9,017**	9,247
Net deferred tax liabilities	**9,017**	9,241

(i) The components of deferred tax liabilities/(assets) recognised in the consolidated statement of financial position and the movements during the year are as follows:

$ million	**Depreciation allowances in excess of the related depreciation**	**Fuel Clause Recovery Account**	**Defined benefit retirement schemes**	**Others**	**Total**
At 1 January 2015	9,754	(104)	(35)	(16)	9,599
Charged/(credited) to profit or loss	(44)	(273)	8	–	(309)
Credited to other comprehensive income	–	–	(26)	(23)	(49)
At 31 December 2015 and 1 January 2016	**9,710**	**(377)**	**(53)**	**(39)**	**9,241**
Credited to profit or loss	**(60)**	**(298)**	**(30)**	**–**	**(388)**
Charged to other comprehensive income	**–**	**–**	**13**	**151**	**164**
At 31 December 2016	**9,650**	**(675)**	**(70)**	**112**	**9,017**

(ii) The Groups had no material unprovided deferred tax assets or liabilities as at 31 December 2016 and 2015.

27. Capital, reserves and dividends

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Groups' consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

$ million	Share capital (note 27(b))	Share premium (note 27(c))	Hedging reserve (note 27(d)(i))	Revenue reserve (note 27(d)(ii))	Proposed/ declared dividend (note 13)	Total
Balance at 1 January 2015	8	47,472	(13)	430	1,757	49,654
Changes in equity for 2015:						
Profit for the year	–	–	–	4,172	–	4,172
Other comprehensive income	–	–	(16)	–	–	(16)
Total comprehensive income	–	–	(16)	4,172	–	4,156
Second interim dividend in respect of previous year approved and paid (see note 13(c))	–	–	–	–	(1,757)	(1,757)
First interim dividend paid (see note 13(b))	–	–	–	(1,760)	–	(1,760)
Proposed second interim dividend (see note 13(b))	–	–	–	(1,778)	1,778	–
Balance at 31 December 2015 and 1 January 2016	**8**	**47,472**	**(29)**	**1,064**	**1,778**	**50,293**
Changes in equity for 2016:						
Profit for the year	**–**	**–**	**–**	**4,173**	**–**	**4,173**
Other comprehensive income	**–**	**–**	**27**	**–**	**–**	**27**
Total comprehensive income	**–**	**–**	**27**	**4,173**	**–**	**4,200**
Second interim dividend in respect of previous year approved and paid (see note 13(c))	**–**	**–**	**–**	**–**	**(1,778)**	**(1,778)**
First interim dividend paid (see note 13(b))	**–**	**–**	**–**	**(1,760)**	**–**	**(1,760)**
Proposed second interim dividend (see note 13(b))	**–**	**–**	**–**	**(1,778)**	**1,778**	**–**
Balance at 31 December 2016	**8**	**47,472**	**(2)**	**1,699**	**1,778**	**50,955**

All of the Company's share premium and revenue reserve is available for distribution. The Company Board declared the payment of a second interim dividend of 20.12 cents (2015: 20.12 cents) per ordinary share, amounting to $1,778 million (2015: $1,778 million), in lieu of a final dividend and therefore no final dividend was proposed by the Company Board.

(b) Share capital

The Company

	2016	
	Number of Shares	**Nominal value**
		$
Authorised:		
Ordinary shares of $0.0005 each		
At 1 January and 31 December	**20,000,000,000**	**10,000,000**
Preference shares of $0.0005 each		
At 1 January and 31 December	**20,000,000,000**	**10,000,000**
Issued and fully paid:		
Ordinary shares of $0.0005 each		
At 1 January and 31 December	**8,836,200,000**	**4,418,100**
Preference shares of $0.0005 each		
At 1 January and 31 December	**8,836,200,000**	**4,418,100**

	2015	
	Number of Shares	Nominal value
		$
Authorised:		
Ordinary shares of $0.0005 each		
At 1 January and 31 December	20,000,000,000	10,000,000
Preference shares of $0.0005 each		
At 1 January and 31 December	20,000,000,000	10,000,000
Issued and fully paid:		
Ordinary shares of $0.0005 each		
At 1 January and 31 December	8,836,200,000	4,418,100
Preference shares of $0.0005 each		
At 1 January and 31 December	8,836,200,000	4,418,100

27. Capital, reserves and dividends (continued)

(c) Share premium

Share premium represents the excess of Share Stapled Unit issuing price over the nominal values of ordinary and preference shares, after deducting underwriting commissions and listing expenses pursuant to global offering that have been charged to equity. The application of share premium is governed by Section 34 of Cayman Companies Law and the provisions of Company's amended and restated Memorandum and Articles of Association.

(d) Nature and purpose of reserves

(i) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges (net of any deferred tax effect) pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges in note 3(o)(ii).

(ii) Revenue reserve

The revenue reserve comprises the accumulated profits retained by the Company and its subsidiaries and accumulated actuarial losses on remeasurement of net defined benefit asset/liability of HK Electric.

(e) Capital management

The Groups' primary objectives when managing capital are:

– to safeguard the Groups' ability to continue as a going concern, so that the Groups can continue to provide returns for holders of Share Stapled Units and benefits for other stakeholders;

– to provide returns to holders of Share Stapled Units by securing access to finance at a reasonable cost;

– to support the Groups' stability and future growth; and

– to provide capital for the purpose of strengthening the Groups' risk management capability.

The Groups actively and regularly review and manage the capital structure, taking into consideration the future capital requirements of the Groups and capital efficiency, forecast profitability, forecast operating cash flows, forecast capital expenditure and projected investment opportunities.

The Groups monitor the capital structure on the basis of a net debt-to-net total capital ratio. For this purpose the Groups define net debt as interest-bearing borrowings (as shown in the consolidated statement of financial position) less bank deposits and cash. Net total capital includes net debt and equity which comprises all components of equity (as shown in the consolidated statement of financial position).

During 2016, the Groups' strategy, which was unchanged from 2015, was to control the Groups' level of debt in order to secure access to finance at a reasonable cost. In order to maintain or adjust the level of debt, the Groups may adjust the amount of distributions paid to holders of Share Stapled Units in accordance with the Trust Deed, issue new Share Stapled Units, raise new debt financing or sell assets to reduce debt.

The net debt-to-net total capital ratio at 31 December 2016 and 2015 was as follows:

	2016 $ million	2015 $ million
Bank loans and other interest-bearing borrowings	**39,679**	47,217
Less: Bank deposits and cash	**(316)**	(6,157)
Net debt	**39,363**	41,060
Total equity	**49,905**	49,012
Net debt	**39,363**	41,060
Net total capital	**89,268**	90,072
Net debt-to-net total capital ratio	**44%**	46%

28. Financial risk management and fair values of financial instruments

The Groups are exposed to credit, liquidity, interest rate and currency risks in the normal course of its business. In accordance with the Groups' treasury policy, derivative financial instruments are only used to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. The Groups do not hold or issue derivative financial instruments for trading or speculative purposes.

(a) Credit risk

The Groups' credit risk is primarily attributable to trade and other receivables relating to electricity customers, bank deposits and over-the-counter derivative financial instruments entered into for hedging purposes. The Groups have a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables relating to electricity customers, HK Electric obtains collateral in the form of security deposits or bank guarantees from customers in accordance with the Supply Rules. The collateral covered $421 million of trade and other receivables at 31 December 2016 (2015: $445 million). The credit policy is set out in note 19.

The Groups have defined minimum credit rating requirements and transaction limits for counterparties when dealing in financial derivatives or placing deposits to minimise credit exposure. The Groups do not expect any counterparty to fail to meet its obligations.

The Groups have no significant concentrations of credit risk in respect of trade and other receivables relating to electricity customers, as the five largest customers combined did not exceed 30% of the Groups' total revenue.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the consolidated statement of financial position.

Further quantitative disclosures in respect of the Groups' exposure to credit risk arising from trade and other receivables are set out in note 19.

28. Financial risk management and fair values of financial instruments (continued)

(a) Credit risk (continued)

Offsetting financial assets and financial liabilities

The Groups' derivative transactions are executed with financial institutions and governed by either International Swaps and Derivatives Association Master Agreements ("ISDA") or the general terms and conditions of these financial institutions, with a conditional right of set off under certain circumstances that would result in all outstanding transactions being terminated and net settled.

As these financial institutions currently have no legal enforceable right to set off the recognised amounts and the Groups do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously, all such financial instruments are recorded on gross basis at the end of the reporting period.

The following table presents the recognised financial instruments that are subject to enforceable master netting arrangements but are not offset at the end of the reporting period.

		2016			2015		
$ million	Note	**Gross amounts of financial instruments in the consolidated statement of financial position**	**Related financial instruments that are not offset**	**Net amount**	Gross amounts of financial instruments in the consolidated statement of financial position	Related financial instruments that are not offset	Net amount
Financial assets							
Cross currency swaps	28(e)(i)	**252**	**(16)**	**236**	313	(101)	212
Interest rate swaps	28(e)(i)	**682**	**(64)**	**618**	–	–	–
Forward foreign exchange contracts	28(e)(i)	**116**	**(9)**	**107**	3	(2)	1
Total		**1,050**	**(89)**	**961**	316	(103)	213
Financial liabilities							
Cross currency swaps	28(e)(i)	**46**	**(46)**	**–**	74	(3)	71
Interest rate swaps	28(e)(i)	**10**	**(8)**	**2**	94	(76)	18
Forward foreign exchange contracts	28(e)(i)	**35**	**(35)**	**–**	68	(24)	44
Total		**91**	**(89)**	**2**	236	(103)	133

(b) Liquidity risk

The Groups operate a central cash management system in order to achieve a better control of risk and minimise the costs of funds. The Groups' policy is to regularly monitor current and expected liquidity requirements and compliance with loan covenants, to ensure that the Groups maintain sufficient reserves of cash and adequate committed lines of funding to meet liquidity requirements in the short and longer term. The Groups had undrawn committed bank facilities of $4,000 million at 31 December 2016 (2015: $1,000 million).

The following tables show the remaining contractual maturities at the end of the reporting period of the Groups' non-derivative financial liabilities and derivative financial instruments, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Groups can be required to pay.

	2016					
	Contractual undiscounted cash outflows/(inflows)					
$ million	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount at 31 December
Non-derivative financial liabilities						
Bank loans and other borrowings and interest accruals	1,215	879	27,065	21,395	50,554	39,803
Creditors and accrued charges	2,503	–	–	–	2,503	2,503
	3,718	879	27,065	21,395	53,057	42,306
Derivative financial instruments						
Net settled						
Interest rate swaps and related interest accruals	65	50	142	228	485	(657)
Gross settled						
Cross currency swaps and related interest accruals						(191)
– outflow	360	314	799	765	2,238	
– inflow	(441)	(415)	(997)	(754)	(2,607)	
Forward foreign exchange contracts held as cash flow hedging instruments:						(75)
– outflow	2,539	633	–	3,609	6,781	
– inflow	(2,535)	(549)	–	(3,763)	(6,847)	
Other forward foreign exchange contracts:						(6)
– outflow	2,019	–	–	–	2,019	
– inflow	(2,025)	–	–	–	(2,025)	

28. Financial risk management and fair values of financial instruments (continued)

(b) Liquidity risk (continued)

	2015					
	Contractual undiscounted cash outflows/(inflows)					
$ million	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount at 31 December
Non-derivative financial liabilities						
Bank loans and other borrowings and interest accruals	1,721	34,913	7,221	10,966	54,821	47,295
Creditors and accrued charges	2,413	–	–	–	2,413	2,413
	4,134	34,913	7,221	10,966	57,234	49,708
Derivative financial instruments						
Net settled						
Interest rate swaps and related interest accruals	179	35	–	–	214	117
Gross settled						
Cross currency swaps and related interest accruals						(225)
– outflow	360	166	352	–	878	
– inflow	(437)	(269)	(741)	–	(1,447)	
Forward foreign exchange contracts held as cash flow hedging instruments:						64
– outflow	3,148	1,611	–	2,305	7,064	
– inflow	(3,143)	(1,609)	–	(2,438)	(7,190)	
Other forward foreign exchange contracts:						1
– outflow	88	–	–	–	88	
– inflow	(88)	–	–	–	(88)	

(c) Interest rate risk

The Groups are exposed to cash flow interest rate risk on its interest-bearing assets and liabilities. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

(i) Hedging

The Groups' policy is to maintain a balanced combination of fixed and variable rate debt to reduce its interest rate exposure. The Groups also use cross currency swaps and interest rate swaps to manage the exposure in accordance with the Groups' treasury policy. At 31 December 2016, the Groups had cross currency swaps with a total notional amount of $27,062 million (2015: $21,244 million) and interest rate swaps with a total notional amount of $29,500 million (2015: $25,872 million).

The Groups classify cross currency swaps and interest rate swaps as cash flow or fair value hedges and states them at fair value in accordance with the policy set out in note 3(o).

The fair values of cross currency swaps entered into by the Groups at 31 December 2016 were recognised as derivative financial instrument assets and liabilities amounting to $252 million (2015: $313 million) and $46 million (2015: $74 million) respectively. The fair values of interest rate swaps entered into by the Groups at 31 December 2016 were recognised as derivative financial instrument assets and liabilities amounting to $682 million (2015: Nil) and $10 million (2015: $94 million).

(ii) Interest rate profile

The following table details the interest rate profile of the Groups' net interest-bearing assets and liabilities at the end of the reporting period, after taking into account the effect of cross currency swaps and interest rate swaps designated as cash flow or fair value hedging instruments (see (i) above).

	2016		2015	
	Weighted average interest rate %	**$ million**	Weighted average interest rate %	$ million
Net fixed rate assets/(liabilities)				
Deposits with banks and other financial institutions	**1.00**	**250**	0.69	5,892
Bank loans and other borrowings	**2.58**	**(30,827)**	2.25	(44,120)
		(30,577)		(38,228)
Net variable rate assets/(liabilities)				
Cash at bank and in hand	**–***	**66**	–*	265
Bank loans and other borrowings	**1.54**	**(8,852)**	1.05	(3,097)
Customers' deposits	**–***	**(2,057)**	–*	(2,001)
		(10,843)		(4,833)

* Less than 0.01%

(iii) Sensitivity analysis

At 31 December 2016, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Groups' profit after taxation and revenue reserve by approximately $73 million (2015: $24 million). Other components of consolidated equity would have increased/decreased by approximately $504 million (2015: $342 million) in response to the general increase/decrease in interest rates.

28. Financial risk management and fair values of financial instruments (continued)

(c) Interest rate risk (continued)

(iii) Sensitivity analysis (continued)

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The analysis has been performed on the same basis as for 2015.

(d) Currency risk

(i) Committed and forecast transactions

The Groups are exposed to currency risk primarily through purchases that are denominated in a currency other than the functional currency of the Groups. The currencies giving rise to this risk are primarily United States dollars and Japanese Yen.

The Groups use forward foreign exchange contracts to manage currency risk and classify these as cash flow hedges. At 31 December 2016, the Groups had forward foreign exchange contracts hedging committed and forecast transactions with a net fair asset value of $18 million (2015: net fair liability value of $20 million) recognised as derivative financial instruments.

(ii) Recognised assets and liabilities

The net fair value of forward foreign exchange contracts used by the Groups as economic hedges of monetary assets and liabilities including Groups' borrowings in foreign currencies at 31 December 2016 was a net asset of $57 million (2015: net liability of $45 million) recognised as derivative financial instruments.

The Groups' borrowings are either hedged into Hong Kong dollars by ways of forward foreign exchange contracts and cross currency swaps or are denominated in Hong Kong dollars. Given this, the management does not expect that there would be any significant currency risk associated with the Groups' borrowings.

(iii) Exposure to currency risk

The following table details the Groups' exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the Groups.

'million (expressed in original currencies)	2016 USD	2016 JPY
Bank deposits and cash	**2**	**1**
Trade and other payables	**(59)**	**(297)**
Bank loans and other borrowings	**(1,764)**	**–**
Gross exposure arising from recognised assets and liabilities	**(1,821)**	**(296)**
Notional amounts of forward foreign exchange contracts designated as hedging instruments	**119**	**83**
Notional amounts of cross currency swaps designated as hedging instruments	**1,652**	**–**
Net exposure arising from recognised assets and liabilities	**(50)**	**(213)**

'million (expressed in original currencies)	2015 USD	2015 JPY
Bank deposits and cash	–	2
Trade and other payables	(47)	(1,895)
Bank loans and other borrowings	(2,837)	–
Gross exposure arising from recognised assets and liabilities	(2,884)	(1,893)
Notional amounts of forward foreign exchange contracts designated as hedging instruments	102	1,183
Notional amounts of cross currency swaps designated as hedging instruments	2,736	–
Net exposure arising from recognised assets and liabilities	(46)	(710)

28. Financial risk management and fair values of financial instruments (continued)

(d) Currency risk (continued)

(iv) Sensitivity analysis

The following table indicates that a 10 percent strengthening in the following currency against Hong Kong dollars at the end of the reporting period would have increased/(decreased) the Groups' profit after taxation (and revenue reserve) and other components of consolidated equity.

	2016		2015	
$ million	**Effect on profit after taxation and revenue reserve Increase/ (decrease)**	**Effect on other components of equity Increase/ (decrease)**	Effect on profit after taxation and revenue reserve Increase/ (decrease)	Effect on other components of equity Increase/ (decrease)
Japanese Yen	**–**	**68**	(2)	8

A 10 percent weakening in the above currency against Hong Kong dollars at the end of the reporting period would have had an equal but opposite effect on the Groups' profit after taxation (and revenue reserve) and other components of consolidated equity.

This sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Groups which expose the Groups to currency risk at the end of the reporting period, and that all other variables, in particular interest rates, remain constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies. The analysis has been performed on the same basis as for 2015.

(e) Fair value measurement

The following table presents the fair value of the Groups' financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13: *Fair Value Measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical financial assets or liabilities at the measurement date

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data is not available

– Level 3 valuations: Fair value measured using significant unobservable inputs

(i) Recurring fair value measurements

		Level 2	
		2016	2015
	Note	**$ million**	$ million
Financial assets			
Derivative financial instruments:			
– Cross currency swaps	28(a)	**252**	313
– Interest rate swaps	28(a)	**682**	–
– Forward foreign exchange contracts	28(a)	**116**	3
		1,050	316
Financial liabilities			
Derivative financial instruments:			
– Cross currency swaps	28(a)	**46**	74
– Interest rate swaps	28(a)	**10**	94
– Forward foreign exchange contracts	28(a)	**35**	68
Medium term notes subject to fair value hedges		**4,470**	4,554
Bank loans subject to fair value hedges		**–**	3,097
		4,561	7,887

28. Financial risk management and fair values of financial instruments (continued)

(e) Fair value measurement (continued)

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

Trade and other receivables, trade and other payables and external borrowings are carried at cost or amortised cost which are not materially different from their fair values as at 31 December 2016 and 2015.

(iii) Valuation techniques and inputs in Level 2 fair value measurements

The fair values of forward foreign exchange contracts are determined using forward exchange market rates at the end of the reporting period. The fair values of cross currency swaps and interest rate swaps are determined by discounting the future cash flows of the contracts at the current market interest rates.

The fair values of medium term notes are estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

The fair values of bank loans are estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

29. Capital commitments

The Groups' capital commitments outstanding at 31 December and not provided for in the financial statements were as follows:

	2016 **$ million**	2015 $ million
Contracted for:		
Capital expenditure for property, plant and equipment	**4,140**	2,248
Authorised but not contracted for:		
Capital expenditure for property, plant and equipment	**10,638**	9,588

30. Contingent liabilities

At 31 December 2016, the Groups had no guarantee or indemnity to external parties (2015: Nil).

31. Material related party transactions

The Groups had the following material transactions with related parties during the year:

(a) Holder of Share Stapled Units

Support service charge recovered from Power Assets group

Other operating costs included support service charge recovered from Power Assets group amounting to $37 million (2015: $37 million) for provision of the support services and office facilities to Power Assets group. The support service charge was based on the total costs incurred in the provision or procurement of the provision of the services and facilities and allocated to Power Assets group on a fair and equitable basis, taking into account the time spent by the relevant personnel when providing such services.

At 31 December 2016, the total outstanding balance receivable from Power Assets group was $4 million (2015: $4 million).

(b) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of 31(a) above constitutes continuing connected transactions as defined in Chapter 14A of the Listing Rules. However, the transaction is exempt from the disclosure requirements in Chapter 14A of the Listing Rules.

32. Statement of financial position of the Company

	Note	**2016 $ million**	2015 $ million
Non-current assets			
Investments in subsidiaries		**59,610**	59,016
Deferred tax assets		**–**	6
		59,610	59,022
Current assets			
Trade and other receivables		**7**	5
Bank deposits and cash		**6**	2
		13	7
Current liabilities			
Trade and other payables		**(24)**	(26)
Net current liabilities		**(11)**	(19)
Total assets less current liabilities		**59,599**	59,003
Non-current liabilities			
Bank loans		**(8,644)**	(8,671)
Derivative financial instruments		**–**	(39)
		(8,644)	(8,710)
Net assets		**50,955**	50,293
Capital and reserves	27(a)		
Share capital		**8**	8
Reserves		**50,947**	50,285
Total equity		**50,955**	50,293

Approved and authorised for issue by the Boards on 21 March 2017.

Wan Chi Tin
Director

Chan Loi Shun
Director

33. Substantial holders of Share Stapled Units of the Trust Group

The Share Stapled Units of the Trust Group are listed on the Main Board of the Stock Exchange and are widely held by the public. Power Assets, State Grid Corporation of China and Qatar Investment Authority hold approximately 33.37%, 21.00% and 19.90% of the issued Share Stapled Units respectively as at 31 December 2016 and are considered substantial holders of Share Stapled Units of the Trust Group.

34. Critical accounting judgements and estimates

The methods, estimates and judgements the Directors used in applying the Groups' accounting policies have a significant impact on the Groups' financial position and operating results. Some of the accounting policies require the Groups to apply estimates and judgements on matters that are inherently uncertain. In addition to notes 25 and 28 which contain information about the assumptions and their risk factors relating to valuation of defined benefit retirement scheme assets and liabilities and financial instruments, certain critical accounting judgements in applying the Groups' accounting policies are described below.

(a) Depreciation and amortisation

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives after taking into account the estimated residual value. The Groups review annually the useful life of an asset and its residual value, if any. Interests in leasehold land held for own use under finance leases are amortised on a straight-line basis over the shorter of the estimated useful lives of the leased assets and the unexpired lease term. Both the period and methods of amortisation are reviewed annually. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

(b) Impairment

The Groups review at the end of each reporting period to identify any indication that the Groups' property, plant and equipment and interests in leasehold land may be impaired and test annually whether goodwill has suffered any impairment in accordance with the accounting policy (see note 3(g)(ii)).

In considering the impairment losses that may be required for the property, plant and equipment, interests in leasehold land and goodwill of the Groups, their recoverable amounts need to be determined. The recoverable amount is the greater of the fair value less costs of disposal and the value in use. It is difficult to precisely estimate the fair value less costs of disposal because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the assets or CGU to which the goodwill has been allocated are discounted to their present value, which requires significant judgement. The Groups use all readily available information in determining an amount that is a reasonable approximation of the recoverable amount.

Any increase or decrease in impairment losses, recognised as set out above, would affect the net profit in future years.

See note 16 for key assumptions used in goodwill impairment test for the year ended 31 December 2016.

(Expressed in Hong Kong dollars unless otherwise indicated)

35. Possible impact of amendments, new standards and interpretation issued but not yet effective for the year ended 31 December 2016

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements.

	Effective for accounting periods beginning on or after
• Amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*	1 January 2017
• Amendments to HKAS 12, *Income taxes: Recognition of deferred assets for unrealised losses*	1 January 2017
• HKFRS 9, *Financial instruments*	1 January 2018
• HKFRS 15, *Revenue from contracts with customers*	1 January 2018
• HKFRS 16, *Leases*	1 January 2019

The Groups are in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the above developments are relevant to the Groups' financial statements but the adoption of them is unlikely to have a significant impact on the Groups' results of operations and financial position. Further details are discussed below:

HKFRS 9, Financial Instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, *Financial instruments: Recognition and measurement*. HKFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities.

HKFRS 15, Revenue from Contracts with Customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specifies the accounting for revenue from construction contracts.

HKFRS 16, Leases

HKFRS 16 no longer distinguished between finance leases and operating leases. Subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting.

INDEPENDENT AUDITOR'S REPORT

To the sole member of HK Electric Investments Manager Limited

(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the financial statements of HK Electric Investments Manager Limited (the "Company") set out on pages 129 to 136, which comprise the statement of financial position as at 31 December 2016, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2016 and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the financial statements and auditor's report thereon

The Directors of the Company (in its capacity as the trustee-manager of HK Electric Investments) and of HK Electric Investments Limited are responsible for the other information. The other information comprises all the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

21 March 2017

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

For the year ended 31 December 2016
(Expressed in Hong Kong dollars)

	Note	**2016** **$**	2015 $
Revenue		**–**	–
Administrative expenses		**–**	–
Profit before taxation	4	**–**	–
Income tax	5	**–**	–
Profit and total comprehensive income for the year		**–**	–

The notes on pages 133 to 136 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

At 31 December 2016

(Expressed in Hong Kong dollars)

	Note	**2016** **$**	2015 $
Current assets			
Amount due from immediate holding company	7	**1**	1
Net assets		**1**	1
Capital and reserves			
Share capital	8	**1**	1
Reserves		**–**	–
Total equity		**1**	1

Approved and authorised for issue by the Board of Directors on 21 March 2017.

Wan Chi Tin
Director

Chan Loi Shun
Director

The notes on pages 133 to 136 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

For the year ended 31 December 2016
(Expressed in Hong Kong dollars)

	Share capital $	Reserves $	Total $
Balance at 1 January 2015	1	–	1
Changes in equity for 2015:			
Profit and total comprehensive income for the year	–	–	–
Balance at 31 December 2015 and 1 January 2016	**1**	**–**	**1**
Changes in equity for 2016:			
Profit and total comprehensive income for the year	–	–	–
Balance at 31 December 2016	**1**	**–**	**1**

The notes on pages 133 to 136 form part of these financial statements.

CASH FLOW STATEMENT OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

For the year ended 31 December 2016
(Expressed in Hong Kong dollars)

	2016 **$**	2015 $
Operating activities		
Net cash generated from operating activities	**–**	–
Investing activities		
Net cash used in investing activities	**–**	–
Financing activities		
Net cash used in financing activities	**–**	–
Net change in cash and cash equivalents	**–**	–
Cash and cash equivalents at 1 January	**–**	–
Cash and cash equivalents at 31 December	**–**	–

The notes on pages 133 to 136 form part of these financial statements.

1. 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, which is incorporated in Hong Kong with its shares listed on The Stock Exchange of Hong Kong Limited and traded in the form of American Depositary Receipts on the OTC Markets Group Inc. in the United States. The address of the registered office and the principal place of business of the Company is Hongkong Electric Centre, 44 Kennedy Road, Hong Kong.

The principal activity of the Company is administering HK Electric Investments (the "Trust"), in its capacity as trustee-manager of the Trust. The Trust was constituted as a trust on 1 January 2014 by a Hong Kong law governed Trust Deed entered into between the Company, as the trustee-manager of the Trust, and HK Electric Investments Limited.

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.

2. Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term that includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Company is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Company for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation and presentation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

2. Significant accounting policies (continued)

(b) Basis of preparation and presentation of the financial statements (continued)

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 13 to the consolidated financial statements of the Trust and of HK Electric Investments Limited on page 93, no distributions statement is therefore presented in these financial statements.

(c) Cash flow statement

The Company did not have any cash flows during the current and prior years nor did it have any cash or cash equivalents at any point throughout the current and prior years.

(d) Related parties

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

(a) has control or joint control over the Company;

(b) has significant influence over the Company; or

(c) is a member of the key management personnel of the Company or the Company's parent.

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

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

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

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

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

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

(f) The entity is controlled or jointly controlled by a person identified in note 2(d)(i).

(g) A person identified in note 2(d)(i)(a) 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).

(h) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the Company's parent.

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.

3. 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 standards does not have any material impact on the Company's financial statements.

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

4. Profit before taxation

Auditor's remuneration of $55,000 (2015: $55,000) and all other expenses of the Company which were incurred for the administering of the Trust of $466,223 (2015: $503,448) for the year 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 year (2015: Nil).

5. Income tax

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

6. Directors' emoluments

No fees or other emoluments were paid or payable by the Company to the Directors for the current and prior years.

7. Amount due from immediate holding company

Amount due from immediate holding company is unsecured, interest-free and repayable on demand.

8. Share capital

	2016		2015	
	Number of shares	**$**	Number of shares	$
Ordinary shares, issued and fully paid:				
At 1 January and 31 December	**1**	**1**	1	1

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Company do not have a par value.

9. Capital management

The primary objectives of the Company when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for the sole member and benefits for other stakeholders. As the Company is part of a larger group, the Company's sources of additional capital and policies for distribution of excess capital may also be affected by the group's capital management objectives.

The Company defines "capital" as including all components of equity. The Company actively and regularly reviews and manages its capital structure to support its future capital requirements and operations. The Company has a specific and limited role to administer the Trust. All its capital requirements are fully supported by the ultimate holding company.

The Company was not subject to externally imposed capital requirements during the current and prior years.

10. Immediate and ultimate controlling parties

At 31 December 2016, the Directors consider the immediate and ultimate holding companies of the Company to be Sure Grade Limited and Power Assets which are incorporated in the British Virgin Island and Hong Kong, respectively. Power Assets produces financial statements available for public use.

11. Financial risk management

The Company was not exposed to any significant credit, liquidity, interest rate and currency risks in the normal course of its business during the current and prior years.

12. Material related party transactions

Except for the transactions and balances disclosed elsewhere in the financial statements, the Company did not enter into material related party transactions.

13. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2016

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements.

The Company is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far, it has concluded that the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position.

FINANCIAL SUMMARY OF THE GROUPS

(Expressed in Hong Kong dollars)

Consolidated Statement of Profit or Loss

$ million	**2016**	2015	2014
Revenue	**11,420**	11,210	10,504
Operating profit	**5,172**	5,288	5,027
Finance costs	**(991)**	(1,025)	(938)
Profit before taxation	**4,181**	4,263	4,089
Income tax	**(757)**	(750)	(709)
Profit after taxation	**3,424**	3,513	3,380
Scheme of Control transfers	**175**	78	(179)
Profit for the year attributable to the holders of Share Stapled Units/shares of the Company	**3,599**	3,591	3,201

Consolidated Statement of Financial Position

$ million	**2016**	2015	2014
Property, plant and equipment and interests in leasehold land	**70,713**	70,993	71,467
Goodwill	**33,623**	33,623	33,623
Other non-current assets	**1,488**	900	1,023
Net current (liabilities)/assets	**(4,983)**	2,070	2,840
Total assets less current liabilities	**100,841**	107,586	108,953
Non-current liabilities	**(50,897)**	(58,359)	(59,469)
Scheme of Control Fund and Reserve	**(39)**	(215)	(293)
Net assets	**49,905**	49,012	49,191
Share Capital	**8**	8	8
Reserves	**49,897**	49,004	49,183
Total equity	**49,905**	49,012	49,191

Note:

1. The Share Stapled Units were jointly issued by the Trust and the Company and were listed on the Stock Exchange on 29 January 2014. On the same day, the Company's subsidiary, Treasure Business Limited, completed the acquisition of the entire issued share capital of HK Electric.

THE HONGKONG ELECTRIC COMPANY, LIMITED
TEN-YEAR SCHEME OF CONTROL STATEMENT

(a) Scheme of Control

The activities of HK Electric are subject to a Scheme of Control Agreement ("SoCA") agreed with the Hong Kong SAR Government with a term of 10 years commencing 1 January 2009 and a Government option to extend the agreement for a further term of 5 years.

The agreement provides for HK Electric to earn a Permitted Return of 9.99% of average net fixed assets other than for renewable energy fixed assets for which the Permitted Return is 11%. The Permitted Return is determined after any excess capacity adjustment, in accordance with the Annex to the SoCA. An excess capacity adjustment of HK$21 million was made in 2016 (2015: HK$24 million). Any excess or deficiency of the gross tariff revenue over the sum of total operating costs, Scheme of Control Net Return and Scheme of Control taxation charges is transferred to/(from) a Tariff Stabilisation Fund from/(to) the statement of profit or loss of HK Electric. When transfer from the Tariff Stabilisation Fund to the statement of profit or loss is required, the amount transferred shall not exceed the balance of the Tariff Stabilisation Fund. In calculating the Scheme of Control net revenue, interest relating to the acquisition of fixed assets (whether it has been charged to revenue or capitalised) up to 8% per annum, is added to, and a tax adjustment is made against, net revenue after taxation. In addition, each year a charge calculated by applying the average of one-month Hong Kong Interbank Offered Rate on the average balance of the Tariff Stabilisation Fund is transferred from the statement of profit or loss of HK Electric to a Rate Reduction Reserve.

(b) Ten-Year Scheme of Control Statement for the year ended 31 December

HK$ million	**2016**	2015	2014	2013	2012	2011	2010	2009	2008	2007
Sales of electricity	**11,373**	11,165	11,165	10,176	10,364	10,140	10,338	10,331	12,704	12,452
Transfer from Fuel Clause Recovery Account	**1,206**	1,861	2,994	3,510	3,867	3,755	2,794	2,329	1,802	413
Other Scheme of Control revenue	**79**	74	63	67	74	100	62	63	36	455
Gross tariff revenue	**12,658**	13,100	14,222	13,753	14,305	13,995	13,194	12,723	14,542	13,320
Fuel costs	**(3,105)**	(3,697)	(4,818)	(5,271)	(5,673)	(5,538)	(4,570)	(4,104)	(3,597)	(2,167)
Operating costs	**(1,460)**	(1,277)	(1,143)	(995)	(1,040)	(1,040)	(1,097)	(1,158)	(1,283)	(1,260)
Interest	**(811)**	(838)	(789)	(285)	(264)	(248)	(112)	(91)	(166)	(369)
Depreciation and amortisation	**(2,127)**	(2,054)	(1,988)	(1,982)	(1,919)	(1,836)	(1,793)	(1,623)	(1,516)	(2,025)
Net revenue before taxation	**5,155**	5,234	5,484	5,220	5,409	5,333	5,622	5,747	7,980	7,499
Scheme of Control taxation	**(1,209)**	(1,140)	(1,009)	(988)	(856)	(794)	(930)	(1,025)	(1,218)	(1,331)
Net revenue after taxation	**3,946**	4,094	4,475	4,232	4,553	4,539	4,692	4,722	6,762	6,168
Interest on borrowed capital	**821**	729	690	288	271	239	118	103	154	307
Interest on incremental customers' deposits	**–**	–	–	–	–	–	–	–	1	9
Scheme of Control net revenue	**4,767**	4,823	5,165	4,520	4,824	4,778	4,810	4,825	6,917	6,484
Transfer from/(to) Tariff Stabilisation Fund	**181**	84	(249)	389	72	46	(58)	(174)	(297)	(14)
Permitted return	**4,948**	4,907	4,916	4,909	4,896	4,824	4,752	4,651	6,620	6,470
Interest on borrowed capital	**(821)**	(729)	(690)	(288)	(271)	(239)	(118)	(103)	(154)	(307)
Interest on incremental customers' deposits	**–**	–	–	–	–	–	–	–	(1)	(9)
Transfer to Smart Power Fund	**(5)**	(5)	(10)	–	–	–	–	–	–	–
Transfer to Rate Reduction Reserve	**(1)**	(1)	–	(1)	(1)	(1)	(1)	–	(13)	(1)
Net return	**4,121**	4,172	4,216	4,620	4,624	4,584	4,633	4,548	6,452	6,153

THE HONGKONG ELECTRIC COMPANY, LIMITED
TEN-YEAR STATEMENT OF FINANCIAL POSITION

At 31 December

HK$ million	**2016**	2015	2014	2013	2012	2011	2010	2009	2008	2007
Non-current assets										
Property, plant and equipment and interests in leasehold land	**49,971**	49,482	49,198	49,137	49,345	48,848	47,976	47,523	46,550	46,123
Employee retirement benefit scheme assets	**454**	580	668	615	216	271	796	456	–	1,033
Derivative financial instruments	**1,034**	314	352	241	646	433	21	31	29	8
	51,459	50,376	50,218	49,993	50,207	49,552	48,793	48,010	46,579	47,164
Current assets										
Coal, fuel oil and natural gas	**624**	525	572	592	763	780	433	629	375	255
Stores and materials	**361**	357	361	356	351	335	314	301	283	281
Trade and other receivables	**1,218**	1,155	1,129	1,104	1,183	1,078	1,118	1,035	1,104	1,071
Fuel Clause Recovery Account	**–**	–	–	1	820	1,035	569	551	998	336
Bank deposits and cash	**310**	6,155	4,629	1,060	8	24	9	92	11	4
	2,513	8,192	6,691	3,113	3,125	3,252	2,443	2,608	2,771	1,947
Current liabilities										
Bank loans and other borrowings	**(335)**	(900)	(520)	(503)	(5,317)	(617)	(52)	–	(1,687)	(1,405)
Fuel Clause Recovery Account	**(4,088)**	(2,283)	(631)	–	–	–	–	–	–	–
Trade and other payables	**(6,263)**	(5,519)	(4,740)	(2,081)	(2,305)	(2,565)	(1,577)	(1,487)	(1,009)	(860)
Current taxation	**(351)**	(360)	(219)	(340)	(330)	(218)	(157)	(236)	(187)	(410)
	(11,037)	(9,062)	(6,110)	(2,924)	(7,952)	(3,400)	(1,786)	(1,723)	(2,883)	(2,675)
Net current assets/(liabilities)	**(8,524)**	(870)	581	189	(4,827)	(148)	657	885	(112)	(728)
Total assets less current liabilities	**42,935**	49,506	50,799	50,182	45,380	49,404	49,450	48,895	46,467	46,436
Non-current liabilities										
Bank loans and other borrowings	**(30,700)**	(37,646)	(38,703)	(29,574)	(21,893)	(26,691)	(25,727)	(24,909)	(10,037)	(9,796)
Derivative financial instruments	**(73)**	(168)	(63)	–	–	(10)	(132)	(15)	(14)	(7)
Customers' deposits	**(2,057)**	(2,001)	(1,937)	(1,900)	(1,839)	(1,801)	(1,747)	(1,676)	(1,634)	(1,585)
Deferred tax liabilities	**(5,595)**	(5,698)	(5,927)	(5,955)	(5,912)	(5,883)	(5,763)	(5,622)	(5,479)	(5,426)
Employee retirement benefit scheme liabilities	**(406)**	(587)	(499)	(443)	(821)	(827)	(587)	(722)	(1,267)	(423)
	(38,831)	(46,100)	(47,129)	(37,872)	(30,465)	(35,212)	(33,956)	(32,944)	(18,431)	(17,237)
Tariff Stabilisation Fund (note 1)	**(24)**	(204)	(288)	(36)	(425)	(497)	(543)	(485)	(311)	(14)
Rate Reduction Reserve (note 2)	**(1)**	(1)	–	(3)	(2)	(1)	(4)	(14)	(14)	(1)
Smart Power Fund (note 3)	**(14)**	(10)	(5)	–	–	–	–	–	–	–
Net assets	**4,065**	3,191	3,377	12,271	14,488	13,694	14,947	15,452	27,711	29,184
Capital and reserves										
Share capital	**2,411**	2,411	2,411	2,411	2,411	2,411	2,411	2,411	2,411	2,411
Reserves	**597**	921	1,002	1,000	–	4	–	6	22	6
Hedging reserves	**1,057**	(141)	(36)	15	3	(4)	8	(6)	(22)	(6)
Proposed dividend	**–**	–	–	–	3,229	2,438	3,683	4,196	3,455	4,928
	4,065	3,191	3,377	3,426	5,643	4,849	6,102	6,607	5,866	7,339
Loan capital	**–**	–	–	8,845	8,845	8,845	8,845	8,845	21,845	21,845
Total equity	**4,065**	3,191	3,377	12,271	14,488	13,694	14,947	15,452	27,711	29,184

Notes:

1. The Tariff Stabilisation Fund is not part of shareholders' funds.
2. The purpose of this reserve is to reduce, by means of rebates, electricity tariffs to customers. Pursuant to 2013 mid-term review of Scheme of Control, the year-end balance of the reserve of a year has to be transferred to the Tariff Stabilisation Fund in the following year starting from end 2013.
3. Pursuant to 2013 mid-term review of Scheme of Control, 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 of non-commercial buildings.

THE HONGKONG ELECTRIC COMPANY, LIMITED
TEN-YEAR OPERATING STATISTICS

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Units sold (millions of kWh)										
Commercial	**7,893**	8,012	8,015	8,011	8,164	8,081	8,124	8,084	8,082	8,109
Residential	**2,584**	2,541	2,610	2,437	2,541	2,482	2,472	2,495	2,416	2,394
Industrial	**315**	326	330	325	331	334	337	342	367	388
Total (millions of kWh)	**10,792**	10,879	10,955	10,773	11,036	10,897	10,933	10,921	10,865	10,891
Annual increase/(decrease) (%)	**(0.8)**	(0.7)	1.7	(2.4)	1.3	(0.3)	0.1	0.5	(0.2)	1.1
Average Net Tariff per Tariff Review (HK cents per kWh)										
Basic Tariff	**105.5**	102.6	101.8	94.7	94.1	93.1	94.5	94.5	116.9	114.3
Fuel Clause Charge	**27.9**	32.3	33.1	40.2	37.0	30.2	25.4	25.4	10.5	5.9
Net Tariff (HK cents per kWh)	**133.4**	134.9	134.9	134.9	131.1	123.3	119.9	119.9	127.4	120.2
Number of customers (000's)	**575**	572	570	569	567	567	566	564	563	561
Installed capacity (MW)										
Gas turbines and standby units	**555**	555	555	555	555	555	555	555	555	920
Coal-fired units	**2,500**	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Gas-fired combined cycle unit	**680**	680	680	680	680	680	680	680	680	335
Wind turbine and photovoltaic system (note 1)	**2**	2	2	2	2	1	1	1	1	1
Total (MW)	**3,737**	3,737	3,737	3,737	3,737	3,736	3,736	3,736	3,736	3,756
System maximum demand (MW)	**2,428**	2,427	2,460	2,453	2,494	2,498	2,510	2,537	2,589	2,552
Annual increase/(decrease) (%)	**0.0**	(1.3)	0.3	(1.6)	(0.2)	(0.5)	(1.1)	(2.0)	1.4	(1.7)
Annual load factor (%)	**56.7**	57.3	56.9	56.1	56.6	55.9	55.8	55.4	53.9	54.8
Thermal efficiency (%)	**35.9**	36.2	36.1	36.3	36.0	36.2	36.2	36.2	35.8	36.4
Plant availability (%)	**85.6**	85.5	88.4	85.7	84.6	84.4	85.6	83.4	85.5	83.8
Number of switching stations	**24**	24	24	24	25	25	25	24	24	23
Number of zone substations	**27**	27	27	27	27	27	27	26	26	26
Number of consumer substations	**3,848**	3,818	3,793	3,776	3,755	3,741	3,710	3,667	3,648	3,632
Number of employees	**1,790**	1,801	1,814	1,826	1,820	1,848	1,851	1,862	1,841	1,857
Capital expenditure (HK$ million)	**2,799**	2,516	2,252	1,973	2,613	2,887	2,427	2,751	2,084	1,747

Notes:

1. The 800 kW wind turbine was commissioned in 2005; the 550 kW thin film photovoltaic system was commissioned in 2010 and was expanded to 1MW in March 2013.

CORPORATE INFORMATION

HK Electric Investments Manager Limited（港燈電力投資管理人有限公司）

(Incorporated in Hong Kong with limited liability, the trustee-manager of HK Electric Investments)

and

HK Electric Investments Limited（港燈電力投資有限公司）

(Incorporated in the Cayman Islands with limited liability)

Board of Directors

Executive Directors

FOK Kin Ning, Canning *(Chairman)*
(CHOW WOO Mo Fong, Susan as his alternate)
WAN Chi Tin *(Chief Executive Officer)*
CHAN Loi Shun
CHENG Cho Ying, Francis
SHAN Shewu
YUEN Sui See
(Retired with effect from 17 January 2017)

Non-executive Directors

LI Tzar Kuoi, Victor *(Deputy Chairman)*
(Frank John SIXT as his alternate)
Fahad Hamad A H AL-MOHANNADI
Ronald Joseph ARCULLI
DU Zhigang
JIANG Xiaojun
Deven Arvind KARNIK

Independent Non-executive Directors

FONG Chi Wai, Alex
KWAN Kai Cheong
LEE Lan Yee, Francis
George Colin MAGNUS
Donald Jeffrey ROBERTS
Ralph Raymond SHEA

Trustee-Manager Audit Committee

Donald Jeffrey ROBERTS *(Chairman)*
Ronald Joseph ARCULLI
LEE Lan Yee, Francis

Company Audit Committee

Donald Jeffrey ROBERTS *(Chairman)*
Ronald Joseph ARCULLI
LEE Lan Yee, Francis

Remuneration Committee

Donald Jeffrey ROBERTS *(Chairman)*
FOK Kin Ning, Canning
FONG Chi Wai, Alex

Company Secretary

Alex NG

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited
Mizuho Bank, Ltd.
The Bank of Tokyo-Mitsubishi UFJ, Ltd.

Auditor

KPMG

Company Website

www.hkei.hk

Trustee-Manager Registered Office

44 Kennedy Road, Hong Kong

Company Registered Office

Codan Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive,
P.O. Box 2681, Grand Cayman, KY1-1111,
Cayman Islands

Company Head Office and Principal Place of Business in Hong Kong

44 Kennedy Road, Hong Kong
Telephone: 2843 3111
Facsimile: 2810 0506
Email: mail@hkei.hk

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
Website: www.computershare.com
Email: hkinfo@computershare.com.hk

Principal Share Registrar

Codan Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive,
P.O. Box 2681, Grand Cayman, KY1-1111,
Cayman Islands

Hong Kong Branch Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712–1716,
17th Floor, Hopewell Centre,
183 Queen's Road East,
Wanchai, Hong Kong
Website: www.computershare.com
Email: hkinfo@computershare.com.hk

ADR (Level 1 Programme) Depositary

Deutsche Bank Trust Company Americas
60 Wall Street, New York, NY 10005
Website: www.adr.db.com
Email: adr@db.com

Investor Relations

For institutional investors, please contact:
CHAN Loi Shun *(Executive Director)* or
WONG Kim Man *(Chief Financial Officer)*

For other investors, please contact:
Alex NG *(Company Secretary)*

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Telephone: 2843 3111
Facsimile: 2810 0506
Postal Address: G.P.O. Box 915, Hong Kong
Address: 44 Kennedy Road, Hong Kong

FINANCIAL CALENDAR AND SHARE STAPLED UNIT INFORMATION

Financial Calendar

Interim Results Announcement	26 July 2016
Annual Results Announcement	21 March 2017
Annual Report Despatch Date	On or before 31 March 2017
Ex-distribution Date	5 April 2017
Record Date for Final Distribution	6 April 2017
Distribution per Share Stapled Unit Interim : HK19.92 cents Final : HK20.12 cents	 19 August 2016 19 April 2017
Closure of Registers – Annual General Meeting	5 May 2017 to 10 May 2017 (both days inclusive)
Annual General Meeting	10 May 2017

Share Stapled Unit Information

Board Lot	500 Share Stapled Units
Market Capitalisation as at 31 December 2016	HK$56,552 million
Share Stapled Unit to American Depositary Share Ratio	10:1

Stock Codes

The Stock Exchange of Hong Kong Limited	2638
Bloomberg	2638 HK
Thomson Reuters	2638.HK
ADR Ticker Symbol	HKVTY
CUSIP Number	40422B101

GLOSSARY

In this Annual Report, unless the context otherwise requires, the following expressions shall have the following meanings:

Term(s)	Definition
"Annual General Meeting"	The annual general meeting of unitholders of the Trust and shareholders of the Company, as convened by the Trustee-Manager and the Company held on a combined basis as a single meeting characterised as the annual general meeting of Holders of Share Stapled Units
"Boards" or "Boards of Directors"	Trustee-Manager Board and Company Board
"CKH Holdings"	CK Hutchison Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1)
"CKI"	Cheung Kong Infrastructure Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1038)
"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
"Government"	HKSAR Government
"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
"HKASs"	Hong Kong Accounting Standards
"HKEI"	The Trust and the Company
"HKEX"	Hong Kong Exchanges and Clearing Limited
"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
"Holder(s) of Share Stapled Units" or "SSU holder(s)"	Person(s) who holds Share Stapled Units issued by HKEI

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 (電能實業有限公司), 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)
"Registers"	The Share Stapled Units Register, the Units Register, the Principal and Hong Kong Branch Registers of Members and the Register of Beneficial Interests
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
"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 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 (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
"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

This Annual Report has been printed in both the English and Chinese languages. If Holders of Share Stapled Units who have received an English copy of this Annual Report wish to obtain a Chinese copy, or vice versa, they may request for it by writing to the Share Stapled Units Registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

This Annual Report has been posted in both the English and Chinese languages on the Company's website at www.hkei.hk. If, for any reason, Holders of Share Stapled Units who have chosen (or are deemed to have consented) to receive corporate communications through the Company's website have difficulty in gaining access to the Annual Report, they may request that a printed copy of this Annual Report be sent to them free of charge by mail.

Holders of Share Stapled Units may at any time change their choice of language of all future corporate communications, or choose to receive all future corporate communications either in printed form or through the Company's website, by writing to the Company at 44 Kennedy Road, Hong Kong or to the Share Stapled Units Registrar, Computershare Hong Kong Investor Services Limited at the address above-mentioned or by emailing to the Company's email address at mail@hkei.hk.

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港燈電力投資
HK Electric Investments