港燈電力投資
HK Electric Investments

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

# Interim Report 2014

# FINANCIAL HIGHLIGHTS

| | |
|---|---|
| Distributable income from the Listing Date to 30 June 2014 | **HK$1,461 million** |
| Distribution per Share Stapled Unit | **HK16.53 cents** |

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This Interim 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 Interim Report, they may request that a printed copy of this Interim 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 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong or by emailing to the Company's email address at mail@hkei.hk.

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# 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)*
WAN Chi Tin *(Chief Executive Officer)*
CHAN Loi Shun
CHENG Cho Ying, Francis
CHOW WOO Mo Fong, Susan
YUEN Sui See *(Director of Operations)*

**Non-executive Directors**
TSO Kai Sum *(Deputy Chairman and Senior Adviser to the Company Board)*
Ronald Joseph ARCULLI

**Independent Non-executive Directors**
FONG Chi Wai, Alex
LEE Lan Yee, Francis
George Colin MAGNUS
Donald Jeffrey ROBERTS

### 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

Goldman Sachs (Asia) L.L.C.
The Hongkong and Shanghai Banking Corporation Limited

### Solicitors

Mayer Brown JSM
Woo, Kwan, Lee & Lo

### Auditor

KPMG

### 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

### Company Website

www.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

## 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)*

Email: mail@hkei.hk
Telephone: 2843 3111
Facsimile: 2810 0506
Postal Address: G.P.O. Box 915, Hong Kong
Address: 44 Kennedy Road, Hong Kong

# KEY DATES AND SHARE STAPLED UNIT INFORMATION

## Key Dates

| | |
|---|---|
| **Interim Results Announcement** | 21 July 2014 |
| **Ex-distribution Date** | 5 August 2014 |
| **Record Date for Interim Distribution** | 6 August 2014 |
| **Payment of Interim Distribution (HK16.53 cents per Share Stapled Unit)** | 15 August 2014 |
| **Financial Year End** | 31 December 2014 |

## Share Stapled Unit Information

| | |
|---|---|
| **Board Lot** | 500 Share Stapled Units |
| **Market Capitalisation as at 30 June 2014** | HK$46,390 million |
| **Stock Codes** | |
| The Stock Exchange of Hong Kong Limited | 2638 |
| Bloomberg | 2638 HK |
| Thomson Reuters | 2638.HK |

# CHAIRMAN'S STATEMENT

## A New Chapter of Excellence

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

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

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

## Half Year Results

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

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

## Interim Distribution

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

## Key Industry Developments

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

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

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

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

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

## Performance Review

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

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

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

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

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

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

## Strategic Long-term Programmes

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

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

## Outlook

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

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

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

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

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

**Fok Kin Ning, Canning**
*Chairman*

Hong Kong, 21 July 2014

# FINANCIAL REVIEW

## Financial Performance and Distribution

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

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

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

*Note:*

*(a) Pursuant to clause 1.1 of the Trust Deed, "Adjustments" includes, but not limited to (i) transfers to/from the Tariff Stabilisation Fund and the Rate reduction Reserve under the Scheme of Control; (ii) unrealised revaluation gains/losses, including impairment provisions and reversals of impairment provisions; (iii) impairment of goodwill/recognition of negative goodwill; (iv) material non-cash gains/losses; (v) costs of any public offering of Share Stapled Units that are expensed through the consolidated statement of profit or loss but are funded by proceeds from the issuance of such Share Stapled Units; (vi) depreciation and amortisation; (vii) tax charges as shown in the consolidated statement of profit or loss; and (viii) net finance income/costs as shown in the consolidated statement of profit or loss.*

*(b) The Board of Directors of the Trustee-Manager has confirmed, in accordance with the Trust Deed, that (i) the auditors of the Trust Group have reviewed and verified the Trustee-Manager's calculation of the above distribution entitlement per Share Stapled Unit and (ii) having made all reasonable enquiries, immediately after making the above distribution to the registered unit holders of the Trust, the Trustee-Manager will be able to fulfill, from the Trust Property (as defined in the Trust Deed), the liabilities of the Trust as they fall due.*

## Capital Expenditure, Liquidity and Financial Resources

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

## Treasury Policy, Financing Activities, Capital and Debt Structure

The Trust Group manages its financial risks in accordance with guidelines laid down in its treasury policy which is designed to manage the Trust Group's currency, interest rate and counterparty risks. The Trust Group aims to ensure that adequate financial resources are available for refinancing and business growth whilst maintaining a prudent capital structure.

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

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

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

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

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

(1) 100% were in Hong Kong dollars;

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

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

(4) 91% were in fixed rate and 9% were in floating rate.

The Trust Group's policy is to maintain a portion of its debt at fixed interest rates taking into consideration business and operational needs. Interest rate risk is managed by either securing fixed rate borrowings or by using interest rate derivatives.

# FINANCIAL REVIEW *(Continued)*

Currency and interest rate risks are actively managed in accordance with the Trust Group's treasury policy. Derivative financial instruments are used primarily for managing interest rate and foreign currency risks and not for speculative purposes. Treasury transactions are only executed with counterparties with acceptable credit ratings to control counterparty risk exposure.

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

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

## Charge on Assets

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

## Contingent Liabilities

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

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

## Employees

The Trust Group maintains a policy of pay-for-performance and the pay levels are monitored to ensure competitiveness is maintained. The Trust Group's total remuneration costs for the six months ended 30 June 2014, excluding directors' emoluments, amounted to HK$448 million. As at 30 June 2014, the Trust Group employed 1,814 permanent employees (31 December 2013: Nil). The increase in the remuneration costs and the number of permanent employees are due to the acquisition of HK Electric. No share option scheme is in operation.

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

*For the six months ended 30 June 2014*

*(Expressed in Hong Kong dollars)*

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

The notes on pages 19 to 49 form part of these unaudited consolidated interim financial statements.

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

Details of distributions/dividend payable to holders of Share Stapled Units/shares of the Company attributable to the profit for the period are set out in note 22.

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

*For the six months ended 30 June 2014*
*(Expressed in Hong Kong dollars)*

| | 2014<br>$ million |
|---|---|
| **Profit for the period attributable to the holders of Share Stapled Units/shares of the Company** | 967 |
| **Other comprehensive income for the period, after tax and reclassification adjustments** | |
| **Items that may be reclassified subsequently to profit or loss** | |
| Cash flow hedges: | |
| Effective portion of changes in fair value of hedging instruments recognised during the period | (105) |
| Amounts transferred to the initial carrying amount of hedged items | (5) |
| Net deferred tax credited to other comprehensive income | 18 |
| | (92) |
| **Total comprehensive income for the period attributable to the holders of Share Stapled Units/shares of the Company** | 875 |

The notes on pages 19 to 49 form part of these unaudited consolidated interim financial statements.

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

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

*At 30 June 2014*

*(Expressed in Hong Kong dollars)*

| | Note | (Unaudited) 30 June 2014 $ million | (Audited) 31 December 2013 $ million |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed assets | | | |
| — Property, plant and equipment | | 61,819 | — |
| — Assets under construction | | 2,893 | — |
| — Interests in leasehold land held for own use under finance leases | | 6,762 | — |
| | 11 | 71,474 | — |
| Goodwill | 12 | 33,623 | — |
| Derivative financial instruments | 18 | 311 | — |
| Employee retirement benefit scheme assets | | 596 | — |
| Deferred tax assets | | 4 | — |
| | | 106,008 | — |
| **Current assets** | | | |
| Inventories | | 1,016 | — |
| Deferred expenses | 13 | — | 69 |
| Trade and other receivables | 14 | 1,643 | — |
| Bank deposits and cash | 15 | 3,575 | — |
| | | 6,234 | 69 |
| **Current liabilities** | | | |
| Amount due to a fellow subsidiary | | — | (6) |
| Trade and other payables | 16 | (2,023) | (63) |
| Fuel Clause Recovery Account | | (381) | — |
| Current portion of bank loans and other interest-bearing borrowings | 17 | (1,000) | — |
| Current tax payable | | (540) | — |
| | | (3,944) | (69) |
| **Net current assets** | | 2,290 | — |
| **Total assets less current liabilities** | | 108,298 | — |
| **Non-current liabilities** | | | |
| Bank loans and other interest-bearing borrowings | 17 | (47,235) | — |
| Derivative financial instruments | 18 | (136) | — |
| Customers' deposits | | (1,918) | — |
| Deferred tax liabilities | | (9,695) | — |
| Employee retirement benefit scheme liabilities | | (469) | — |
| | | (59,453) | — |
| **Scheme of Control Fund and Reserve** | 19 | (490) | — |
| **Net assets** | | 48,355 | — |
| **Capital and reserves** | | | |
| Share capital | 20 | 8 | — |
| Reserves | | 48,347 | — |
| **Total equity** | | 48,355 | — |

The notes on pages 19 to 49 form part of these unaudited consolidated interim financial statements.

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

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

*For the six months ended 30 June 2014*
*(Expressed in Hong Kong dollars)*

| | Attributable to holders of Share Stapled Units/shares of the Company | | | | | |
|---|---|---|---|---|---|---|
| $ million | Share capital | Share premium | Hedging reserve | Revenue reserve | Proposed/ declared distribution/ dividend | Total |
| **Balance at 1 January 2014** | – | – | – | – | – | – |
| Changes in equity for the six months ended 30 June 2014: | | | | | | |
| Profit for the period | – | – | – | 967 | – | 967 |
| Other comprehensive income | – | – | (92) | – | – | (92) |
| Total comprehensive income | – | – | (92) | 967 | – | 875 |
| Issue of Share Stapled Units as part of purchase consideration of HK Electric *(see note 20(b))* | 4 | 24,027 | – | – | – | 24,031 |
| Issue of Share Stapled Units pursuant to global offering *(see note 20(c))* | 4 | 24,122 | – | – | – | 24,126 |
| Transaction costs attributable to issue of Share Stapled Units | – | (677) | – | – | – | (677) |
| Interim distribution/dividend *(see note 22)* | – | – | – | (1,461) | 1,461 | – |
| **Balance at 30 June 2014** | 8 | 47,472 | (92) | (494) | 1,461 | 48,355 |

The notes on pages 19 to 49 form part of these unaudited consolidated interim financial statements.

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

# UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT OF THE TRUST AND OF THE COMPANY

*For the six months ended 30 June 2014*
*(Expressed in Hong Kong dollars)*

| | 2014<br>$ million |
|---|---|
| Net cash generated from operating activities | 2,697 |
| Net cash used in investing activities | (32,156) |
| Net cash generated from financing activities | 33,034 |
| Net increase in cash and cash equivalents | 3,575 |
| Cash and cash equivalents at 1 January | — |
| Effect of foreign exchange rate changes | — |
| Cash and cash equivalents at 30 June | 3,575 |

The notes on pages 19 to 49 form part of these unaudited consolidated interim financial statements.

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

## 1. Review of unaudited interim financial statements

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

## 2. General information

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

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

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

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

## 3. Basis of presentation

Pursuant to the Trust Deed, the Trust and the Company are each required to prepare their own sets of interim financial statements on a consolidated basis. The unaudited consolidated interim financial statements of the Trust for the period ended 30 June 2014 comprise the unaudited consolidated interim financial statements of the Trust, the Company and its subsidiaries (together the "Trust Group"). The unaudited consolidated interim financial statements of the Company for the period ended 30 June 2014 comprise the unaudited consolidated interim financial statements of the Company and its subsidiaries (together the "Group").

## 3. Basis of presentation *(Continued)*

The Trust controls the Company and the sole activity of the Trust during the six months period ended 30 June 2014 was investing in the Company. Therefore, the consolidated results and financial position that would be presented in the unaudited consolidated interim financial statements of the Trust are identical to the consolidated financial results and financial position of the Company with the only differences being disclosures of share capital of the Company. The Trustee-Manager and directors of the Company believe that it is clearer to present the unaudited consolidated interim financial statements of the Trust and of the Company together. The unaudited consolidated interim financial statements of the Trust and the unaudited consolidated interim financial statements of the Company are presented together to the extent they are identical and are hereinafter referred as the "Unaudited consolidated interim financial statements of the Trust and of the Company".

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

## 4. Summary of significant accounting policies

### (a) Basis of preparation

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

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

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

HKICPA has issued a few amendments to HKFRSs and one new interpretation that are first effective for the current accounting period of the Groups. Of these, the following developments are relevant to the Trust's and the Company's unaudited consolidated interim financial statements:

— Amendments to HKFRS 10, HKFRS 12 and HKAS 27, *Investment Entities*
— HKAS 32, *Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities*
— Amendments to HKAS 36, *Recoverable Amount Disclosures for Non-financial Assets*
— HK(IFRIC) — Interpretation 21, *Levies*

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

## (b) Subsidiaries

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

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

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

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

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

### (c) Goodwill

Goodwill represents the excess of:

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

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

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

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

### (d) Fixed assets, depreciation and amortisation

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

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

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

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

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

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

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

| | Years |
|---|---|
| Cable tunnels | 100 |
| Buildings | 60 |
| Ash lagoon and gas pipeline | 60 |
| Transmission and distribution equipment, overhead lines and cables | 60 |
| Generating plant and machinery | 35 |
| Gas turbines and gas turbine combined cycle | 30 |
| Mechanical meters | 30 |
| Photovoltaic systems | 25 |
| Wind turbines | 20 |
| Electronic meters, microwave and optical fibre equipment and trunk 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.

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

## (e) Leased assets and operating lease charges

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

## (e) Leased assets and operating lease charges *(Continued)*

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

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

## (f) Impairment of assets

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

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

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

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

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

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

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

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

  Impairment losses are written off against the corresponding assets directly.

# 4. Summary of significant accounting policies *(Continued)*

## (f) 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:

— fixed assets; and
— goodwill.

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

— Calculation of recoverable amount

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

— Recognition of impairment losses

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

— Reversals of impairment losses

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

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

## (g) Short term employee benefits

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

## (h) Retirement scheme obligations

### *(i) Defined benefit retirement scheme obligations*

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

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

# 4. Summary of significant accounting policies *(Continued)*

## (h) Retirement scheme obligations *(Continued)*

### *(i) Defined benefit retirement scheme obligations* (Continued)

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

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

### *(ii) Contributions to defined contribution retirement schemes*

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

## (i) Inventories

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

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

## (j) Trade and other receivables

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

## (k) Interest-bearing borrowings

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

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

## (l) Trade and other payables

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

## (m) Derivative financial instruments

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

## (n) Hedging

### *(i) Fair value hedges*

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

### *(ii) Cash flow hedges*

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

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

## (n) Hedging *(Continued)*

### *(ii) Cash flow hedges* (Continued)

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

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

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

## (o) Revenue recognition

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

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

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

### *(ii) Fuel Clause Recovery Account*

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

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

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

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

### *(iii) Income recognition*

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

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

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

### (p) Translation of foreign currencies

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

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

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

### (q) Cash and cash equivalents

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

### (r) Income tax

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

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

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

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

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

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

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

## (s) Borrowing costs

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

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

## (t) Financial guarantees issued, provisions and contingent liabilities

### *(i) Financial guarantees issued*

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

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

## 4. Summary of significant accounting policies *(Continued)*

### (t) Financial guarantees issued, provisions and contingent liabilities *(Continued)*

#### *(ii) Other provisions and contingent liabilities*

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

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

### (u) Related parties

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

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

(2) has significant influence over the Groups; or

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

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

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

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

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

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

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

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

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

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

### (v) Segment reporting

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

## 5. Turnover

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

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

## 6. Segment reporting

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

## 7. Profit before taxation

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

## 8. Income tax

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

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

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Groups are exempt from any income tax in these jurisdictions.

## 9. Scheme of Control transfers

The Scheme of Control transfers are mid-year notional transfers. The actual Scheme of Control transfers can only be determined in accordance with the Scheme of Control at the year end. Notional Scheme of Control transfers during the period represent transfer to the following:

| | Six months ended 30 June 2014 $ million |
|---|---|
| Tariff Stabilisation Fund | 366 |
| Rate Reduction Reserve | — |
| Smart Power Fund | 5 |
| | 371 |

## 10. Earnings per Share Stapled Unit/share of the Company

The calculation of basic and diluted earnings per Share Stapled Unit/share of the Company are based on the profit for the period attributable to the holders of Share Stapled Units/shares of the Company of $967 million for the six months ended 30 June 2014 and 8,836,200,000 Shares Stapled Units/ordinary shares of the Company in issue as if the Shares Stapled Units/ordinary shares of the Company have been issued throughout the period.

## 11. Fixed assets

| $ million | Site formation and buildings | Plant, machinery and equipment | Fixtures, fittings and motor vehicles | Assets under construction | Sub-total | Interests in leasehold land held for own use under finance leases | Total |
|---|---|---|---|---|---|---|---|
| Net book value at 1 January 2014 | – | – | – | – | – | – | – |
| Additions upon business combination *(see note 12)* | 16,148 | 45,891 | 281 | 3,073 | 65,393 | 6,844 | 72,237 |
| Additions | – | 49 | 3 | 526 | 578 | – | 578 |
| Transfers between categories | 300 | 401 | 5 | (706) | – | – | – |
| Disposals | – | (35) | – | – | (35) | – | (35) |
| Depreciation/amortisation | (213) | (971) | (40) | – | (1,224) | (82) | (1,306) |
| Net book value at 30 June 2014 | 16,235 | 45,335 | 249 | 2,893 | 64,712 | 6,762 | 71,474 |
| Cost | 16,448 | 46,306 | 289 | 2,893 | 65,936 | 6,844 | 72,780 |
| Accumulated depreciation and amortisation | (213) | (971) | (40) | – | (1,224) | (82) | (1,306) |
| Net book value at 30 June 2014 | 16,235 | 45,335 | 249 | 2,893 | 64,712 | 6,762 | 71,474 |

## 12. Business combination

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

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

| | $ million |
|---|---|
| **Purchase consideration** | |
| Cash consideration | 32,026 |
| Issuance of 4,409,299,999 Share Stapled Units to Quickview Limited ("Quickview") *(see note 20(b))* | 24,031 |
| | 56,057 |

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

| | $ million |
|---|---|
| **Assets** | |
| Fixed Assets | 72,237 |
| Net employee retirement benefit scheme assets | 132 |
| Net derivative financial instruments | 278 |
| Inventories | 848 |
| Trade and other receivables | 1,141 |
| Bank deposits and cash | 1,148 |
| | 75,784 |
| **Liabilities** | |
| Loan from Power Assets | (27,445) |
| Medium term notes | (11,500) |
| Trade and other payables | (2,313) |
| Fuel Clause Recovery Account | (101) |
| Current tax payable | (186) |
| Customers' deposits | (1,910) |
| Deferred tax liabilities | (9,776) |
| Tariff Stabilisation Fund | (119) |
| | (53,350) |
| **Total identifiable net assets acquired** | 22,434 |
| **Goodwill on acquisition** | 33,623 |
| **Analysis of cash flows on acquisition:** | |
| Cash consideration | 32,026 |
| Cash and cash equivalents acquired | (1,148) |
| **Net cash outflow** | 30,878 |

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

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

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

## 12. Business combination *(Continued)*

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

## 13. Deferred expenses

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

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

## 14. Trade and other receivables

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

| | **30 June 2014 $ million** | 31 December 2013 $ million |
|---|---|---|
| Current and within 1 month | **905** | — |
| 1 to 3 months | **31** | — |
| More than 3 months but less than 12 months | **10** | — |
| Trade debtors | **946** | — |
| Other receivables | **676** | — |
| | **1,622** | — |
| Derivative financial instruments — held as cash flow/fair value hedging instruments | **1** | — |
| Deposits and prepayments | **20** | — |
| | **1,643** | — |

Electricity bills issued to domestic, small industrial, commercial and miscellaneous customers for electricity supplies are due upon presentation whereas maximum demand customers are allowed a credit period of 16 working days. If settlements by maximum demand customers are received after the credit period, a surcharge of 5% can be added to the electricity bills.

## 15. Bank deposits and cash

| | 30 June 2014 $ million | 31 December 2013 $ million |
|---|---|---|
| Deposits with banks and other financial institutions with 3 months or less to maturity when placed | 3,536 | — |
| Cash at bank and in hand | 39 | — |
| Cash and cash equivalents in the condensed consolidated cash flow statement | 3,575 | — |

## 16. Trade and other payables

| | 30 June 2014 $ million | 31 December 2013 $ million |
|---|---|---|
| Due within 1 month or on demand | 660 | 63 |
| Due after 1 month but within 3 months | 211 | — |
| Due after 3 months but within 12 months | 1,151 | — |
| Creditors measured at amortised cost | 2,022 | 63 |
| Derivative financial instruments | | |
| — held as cash flow/fair value hedging instruments | 1 | — |
| | 2,023 | 63 |

## 17. Non-current bank loans and other interest-bearing borrowings

| | 30 June 2014 $ million | 31 December 2013 $ million |
|---|---|---|
| Bank loans | 36,698 | — |
| Hong Kong dollar medium term notes | 5,481 | — |
| United States dollar medium term notes | 6,056 | — |
| | 11,537 | — |
| Total bank loans and other interest-bearing borrowings | 48,235 | — |
| Current portion | (1,000) | — |
| Non-current portion | 47,235 | — |

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

On 6 February 2014, approximately $27,445 million was drawn down by HK Electric for the repayment of loan and loan capital from Power Assets and approximately $8,503 million was drawn down by the Company for the redemption of the promissory note issued by Treasure Business Limited in favour of Power Assets in partial settlement of the acquisition consideration. The maturity dates of these facilities are three years from the date of the first drawdown.

## 18. Derivative financial instruments

| | 30 June 2014 $ million | 31 December 2013 $ million |
|---|---|---|
| Derivative financial instruments used for hedging: | | |
| — Cross currency swaps | 230 | — |
| — Interest rate swaps | (55) | — |
| | 175 | — |
| Represented by: | | |
| Derivative financial instruments assets | 311 | — |
| Derivative financial instruments liabilities | (136) | — |
| | 175 | — |

## 19. Scheme of Control Fund and Reserve

The Tariff Stabilisation Fund, Rate Reduction Reserve and Smart Power Fund of the Groups' major subsidiary, HK Electric, are collectively referred to as Scheme of Control Fund and Reserve. The respective balances at the end of the period/year are:

| | 30 June 2014 $ million | 31 December 2013 $ million |
|---|---|---|
| Tariff Stabilisation Fund | 485 | — |
| Rate Reduction Reserve | — | — |
| Smart Power Fund *(see note (a) below)* | 5 | — |
| | 490 | — |

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

## 20. Share capital of the Company

| | 30 June 2014 Number of Shares | Nominal value $ |
|---|---|---|
| **Authorised:** | | |
| **Ordinary shares of $0.0005 each** | | |
| At 1 January 2014 | 760,000,000 | 380,000 |
| Increase during the period *(see note (a) below)* | 19,240,000,000 | 9,620,000 |
| At 30 June 2014 | 20,000,000,000 | 10,000,000 |
| **Preference shares of $0.0005 each** | | |
| At 1 January 2014 | 760,000,000 | 380,000 |
| Increase during the period *(see note (a) below)* | 19,240,000,000 | 9,620,000 |
| At 30 June 2014 | 20,000,000,000 | 10,000,000 |
| **Issued and fully paid:** | | |
| **Ordinary shares of $0.0005 each** | | |
| At 1 January 2014 | 2 | — |
| Re-designated as preference share *(see note (a) below)* | (1) | — |
| Issue of ordinary shares as part of purchase consideration of HK Electric *(see note (b) below)* | 4,409,299,999 | 2,204,650 |
| Issue of ordinary shares pursuant to global offering *(see note (c) below)* | 4,426,900,000 | 2,213,450 |
| At 30 June 2014 | 8,836,200,000 | 4,418,100 |
| **Preference shares of $0.0005 each** | | |
| At 1 January 2014 | — | — |
| Re-designated as preference share *(see note (a) below)* | 1 | — |
| Issue of preference shares as part of purchase consideration of HK Electric *(see note (b) below)* | 4,409,299,999 | 2,204,650 |
| Issue of preference shares pursuant to global offering *(see note (c) below)* | 4,426,900,000 | 2,213,450 |
| At 30 June 2014 | 8,836,200,000 | 4,418,100 |

| | 31 December 2013 | |
|---|---|---|
| | Number of Shares | Nominal value $ |
| Authorised: | | |
| Ordinary shares of $0.0005 each | | |
| At 23 September 2013 (date of incorporation) | 760,000,000 | 380,000 |
| At 31 December 2013 | 760,000,000 | 380,000 |
| Issued and fully paid: | | |
| Ordinary shares of $0.0005 each | | |
| At 23 September 2013 (date of incorporation) | 1 | — |
| On 4 December 2013 | 1 | — |
| At 31 December 2013 | 2 | — |

(a) On 1 January 2014, resolutions of the Company were passed to change the share capital structure of the Company by increasing the authorised share capital of the Company from $380,000 to $20,000,000, of which 20,000,000,000 shares, including one issued share held in the name of Quickview, were designated as ordinary shares with a par value of $0.0005 each, and the remaining 20,000,000,000 shares, including the other issued share held in the name of Quickview, were designated as preference shares with a par value of $0.0005 each, in each case with the rights, preferences, privileges and restrictions as set out in the Company's amended and restated Memorandum and Articles of Association.

(b) On 29 January 2014, 4,409,299,999 Share Stapled Units were issued at $5.45 each to Quickview, at the direction of Power Assets, as part of consideration for the acquisition of HK Electric (see note 12).

(c) On the 29 January 2014, 4,426,900,000 Share Stapled Units were issued at $5.45 pursuant to global offering.

## 21. Fair value measurement

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

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

## 21. Fair value measurement *(Continued)*

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

— Level 3 valuations: Fair values measured using significant unobservable inputs

### (a) Recurring fair value measurements

| | Level 2 | |
|---|---|---|
| | **30 June 2014 $ million** | 31 December 2013 $ million |
| **Financial assets** | | |
| Derivative financial instruments: | | |
| — Cross currency swaps | 311 | — |
| — Forward foreign exchange contracts | 1 | — |
| | 312 | — |
| **Financial liabilities** | | |
| Derivative financial instruments: | | |
| — Cross currency swaps | 81 | — |
| — Interest rate swaps | 55 | — |
| — Forward foreign exchange contracts | 1 | — |
| Bank loans and other interest-bearing borrowings subject to fair value hedges | 8,772 | — |
| | 8,909 | — |

### (b) 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 30 June 2014.

### (c) Valuation techniques and inputs in level 2 fair value measurements

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

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

## 22. Interim distribution/dividend

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

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

## 22. Interim distribution/dividend *(Continued)*

(a) Pursuant to clause 1.1 of the Trust Deed, "Adjustments" includes, but not limited to (i) transfers to/from the Tariff Stabilisation Fund and the Rate Reduction Reserve under the Scheme of Control; (ii) unrealised revaluation gains/losses, including impairment provisions and reversals of impairment provisions; (iii) impairment of goodwill/recognition of negative goodwill; (iv) material non-cash gains/losses; (v) costs of any public offering of Share Stapled Units that are expensed through the consolidated statement of profit or loss but are funded by proceeds from the issuance of such Share Stapled Units; (vi) depreciation and amortisation; (vii) tax charges as shown in the consolidated statement of profit or loss; and (viii) net finance income/costs as shown in the consolidated statement of profit or loss.

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

(c) The distributions received by the Trustee-Manager from the Company will be derived from the Group Distributable Income which is referred as audited consolidated profit attributable to the holders of Share Stapled Units for the relevant financial year or distribution period, after making adjustments in respect of items as set out in the Trust Deed.

(d) Interim distribution/dividend per Share Stapled Unit/ordinary share of the Company of 16.53 cents for the period from the Listing Date to 30 June 2014 is calculated based on the interim distribution of $1,461 million for the period and the number of Shares Stapled Units/ordinary shares of the Company of 8,836,200,000 as at 30 June 2014.

## 23. Capital commitments

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

| | **30 June 2014 $ million** | 31 December 2013 $ million |
|---|---|---|
| Capital expenditure for fixed assets authorised and contracted for | **963** | — |
| Capital expenditure for fixed assets authorised but not contracted for | **8,119** | — |

## 24. Material related party transactions

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

### (a) Holder of Share Stapled Units

#### *(i) On-sale of gas from Power Assets to the Groups*

During the period, the aggregate amounts of fees paid by the Groups to Guangdong Dapeng LNG Company Limited ("Guangdong Dapeng") in discharge of obligations owing by Power Assets for the purchase of natural gas from Guangdong Dapeng pursuant to gas sales contract entered into by Power Assets with Guangdong Dapeng (the "Gas Supply Contract") and on-sold to the Groups at cost were approximately $145 million. The amounts paid were based on gas price which were determined based on the gas price formula under the Gas Supply Contract.

A novation deed dated 1 April 2014 was entered into between Power Assets, HK Electric and Guangdong Dapeng, pursuant to which the Gas Supply Contract was novated by Power Assets to HK Electric. As a result, with effect from the same date, the natural gas supplied by Guangdong Dapeng under the Gas Supply Contract as so novated is purchased by the Groups directly.

#### *(ii) Support service charge recovered from Power Assets group*

Other operating costs included support service charge recovered from Power Assets group amounting to $18 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.

## UNAUDITED STATEMENT OF COMPREHENSIVE INCOME OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

*For the six months ended 30 June 2014*

*(Expressed in Hong Kong dollars)*

| | *Note* | 2014<br>$ |
|---|---|---|
| **Revenue** | | — |
| Administrative expenses | | — |
| **Profit before taxation** | *4* | — |
| Income tax | *5* | — |
| **Profit and total comprehensive income for the period** | | — |

The notes on pages 54 to 56 form part of these unaudited interim financial statements.

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

*At 30 June 2014*

*(Expressed in Hong Kong dollars)*

| | Note | (Unaudited) 30 June 2014 $ | (Audited) 31 December 2013 $ |
|---|---|---|---|
| **Current assets** | | | |
| Amount due from immediate holding company | | 1 | 1 |
| **Net assets** | | 1 | 1 |
| **Capital and reserves** | | | |
| Share capital | 6 | 1 | 1 |
| Reserves | | — | — |
| **Total equity** | | 1 | 1 |

The notes on pages 54 to 56 form part of these unaudited interim financial statements.

## UNAUDITED STATEMENT OF CHANGES IN EQUITY OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

*For the six months ended 30 June 2014*
*(Expressed in Hong Kong dollars)*

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

The notes on pages 54 to 56 form part of these unaudited interim financial statements.

# UNAUDITED CONDENSED CASH FLOW STATEMENT OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

*For the six months ended 30 June 2014*

*(Expressed in Hong Kong dollars)*

| | 2014 |
|---|---|
| | $ |
| Net cash generated from operating activities | — |
| Net cash used in investing 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 30 June | — |

The notes on pages 54 to 56 form part of these unaudited interim financial statements.

*(Expressed in Hong Kong dollars)*

## 1. Review of unaudited interim financial statements

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

## 2. General information

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

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

## 3. Basis of preparation and presentation

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

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

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

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

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

In accordance with the Trust Deed, a distributions statement shall be included in the financial statements of the Company. As the details of the distribution has already been presented in note 22 to the unaudited consolidated interim financial statements of the Trust and HK Electric Investments Limited on page 47, no distributions statement is therefore presented in this unaudited interim financial statements.

## 4. Profit before taxation

All expenses of the Company which were incurred for the administering of the Trust of $110,000 for the period ended 30 June 2014 have been borne by HK Electric Investments Limited, which has waived its right of recovery thereof.

Except for the above, the Company did not incur any administrative expenses during the period.

## 5. Income tax

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

## 6. Share capital

| | **30 June 2014** | | 31 December 2013 | |
|---|---|---|---|---|
| | **Number of shares** | **$** | Number of shares | $ |
| Number of shares can be issued as set out in the Articles of Association of the Company: | | | | |
| Ordinary Shares | **1,000,000** | | 1,000,000 | |
| Issued and fully paid: | | | | |
| Ordinary Shares | **1** | **1** | 1 | 1 |

## 6. Share capital *(Continued)*

New Companies Ordinance (Cap. 622) has come into effect on 3 March 2014. Nominal value, share premium and the requirement for authorised share capital are abolished under the new Companies Ordinance.

There were no movements in the share capital of the Company during the period.

## 7. 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.

# CORPORATE GOVERNANCE

## Corporate Governance Practices

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

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

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

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

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

# CORPORATE GOVERNANCE *(Continued)*

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

## Boards of Directors

Each of the Boards, led by the Chairman, is responsible for the 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 Company's management is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer.

As at 30 June 2014, each of the Boards consisted of a total of twelve Directors, comprising six Executive Directors, two Non-executive Directors and four Independent Non-executive Directors. All Directors are required to retire from office by rotation and are subject to re-election at the annual general meeting once every three years pursuant to the Trust Deed and the articles of association of the Company.

The positions of the Chairman and the Chief Executive Officer of the Company are held by separate individuals. The Trustee-Manager does not appoint a Chief Executive Officer due to its specific and limited role to administer the Trust. The Chairman is responsible for providing leadership to, and overseeing the functioning and effective running of, the Boards to ensure that each of Boards acts in the best interests of the Trust Group. In addition to Board meetings, the Chairman regularly schedules two meetings annually with Non-executive Directors without the presence of Executive Directors. The Chief Executive Officer, working with the executive management team of each division, 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 Boards meet at least four times a year. Additional Board meetings will be held when warranted. Directors also participate in the consideration and approval of matters of the Trustee-Manager and the Company by way of written resolutions circulated to Directors together with supporting explanatory write-up, coupled with briefings from the Chief Executive Officer or the Company Secretary as required.

The Company Secretary is responsible to the Boards for ensuring that the Board procedures are followed and for ensuring that the Boards are briefed on all legislative, regulatory and corporate governance developments and that the Boards have regard to them when making decisions. The Company Secretary is also directly responsible for the Trustee-Manager's and the Trust Group's compliance with all obligations of the Listing Rules, Codes on Takeovers and Mergers and Share Buy-backs, Companies Ordinance, SFO and other related laws, rules and regulations.

## Model Code for Securities Transactions by Directors

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 period from the Listing Date to 30 June 2014.

Senior managers, other nominated managers and staff who, because of their respective positions in the Company, are likely to be in possession of inside information in relation to HKEI or its securities are also required to comply with the Model Code and/or restrictions in dealing in HKEI's securities.

## Change of Information of Directors

The change in the information of Directors since the publication of the 2013 annual report and up to 28 July 2014 (the latest practicable date prior to the printing of this interim report) is set out below pursuant to Rule 13.51B(1) of the Listing Rules:

| Name of Director | |
|---|---|
| Ronald Joseph Arculli | Retired as an Independent Non-executive Director of SCMP Group Limited |

Save for the information disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

## Internal Control

The Trustee-Manager Board has overall responsibility for the system of internal control of the Trust and the Trustee-Manager and reviews its effectiveness through the Trustee-Manager Audit Committee to ensure that policies and procedures in place for the identification and management of risks are adequate.

The Company Board has overall responsibility for the system of internal control of the Group and reviews its effectiveness through the Company Audit Committee to ensure that policies and procedures in place for the identification and management of risks are adequate.

The Internal Audit Department of the Group provides independent assurance as to the existence and effectiveness of the risk management activities and controls in the Group's business operations. Staff members of the Internal Audit 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, Internal Audit Department prepares its yearly audit plan which is reviewed and approved by the Trustee-Manager Audit Committee and the Company Audit Committee. The scope of work performed by Internal Audit Department includes financial and operations reviews, recurring and unscheduled audits, risk management, fraud investigation, process effectiveness and efficiency review and compliance review on company policies, laws and regulations.

## Remuneration Committee

The Remuneration Committee of the Company comprises three members, two of whom are Independent Non-executive Directors. It is chaired by Mr. Donald Jeffrey Roberts and the other members are Mr. Fok Kin Ning, Canning and Mr. Fong Chi Wai, Alex.

The Remuneration Committee reports directly to the Company Board and its principal responsibilities include the review and consideration of the Group's policy for remuneration of Directors and senior management, and the determination of their individual remuneration packages. The terms of reference of the Remuneration Committee are published on the Company's and the HKEx's websites.

## Trustee-Manager Audit Committee and Company Audit Committee

Each of the Trustee-Manager Audit Committee and the Company Audit Committee comprises two Independent Non-executive Directors and one Non-executive Director. It is chaired by Mr. Donald Jeffrey Roberts and the other members are Mr. Ronald Joseph Arculli and Mr. Lee Lan Yee, Francis.

The Trustee-Manager Audit Committee reports directly to the Trustee-Manager Board and its principal responsibilities are to assist the Trustee-Manager Board in fulfilling its audit duties through the review and supervision of the financial reporting system and internal control system of the Trust and the Trustee-Manager, to review the financial information of the Trust and the Trustee-Manager and to consider issues relating to the external auditor and their appointment.

The Company Audit Committee reports directly to the Company Board and its principal responsibilities are to assist the Company Board in fulfilling its audit duties through the review and supervision of the financial reporting system and internal control system of the Group, to review the financial information of the Company and to consider issues relating to the external auditor and their appointment.

The Committees also meet regularly with the external auditor to discuss the audit process and accounting issues. The terms of reference of the Trustee-Manager Audit Committee and the Company Audit Committee are published on the Company's and the HKEx's websites.

## Communication with Holders of Share Stapled Units

The Trustee-Manager and the Company use 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 emailing or writing to 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.

The Company Board has adopted a communication policy which provided a framework to promote effective communication with Holders of Share Stapled Units.

## Status of Novation of the Dapeng Gas Supply Contract to the Group

As disclosed in the prospectus dated 16 January 2014 issued by HKEI, it was the intention of Power Assets and the Group that, once the consent of Guangdong Dapeng LNG Company Limited ("Guangdong Dapeng") is obtained and the novation deed between Power Assets, HK Electric and Guangdong Dapeng becomes effective, the gas sales contract entered into between Power Assets and Guangdong Dapeng dated 30 April 2004 (as amended) ("Dapeng Gas Supply Contract") would be novated by Power Assets to the Group. Such novation deed was entered into on 1 April 2014, and the novation of the Dapeng Gas Supply Contract was completed and became effective on the same date.

## Directors' Interests and Short Positions in Share Stapled Units, Underlying Share Stapled Units and Debentures

As at 30 June 2014, 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 executive 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 of HKEI

| Name of Director | Capacity | Nature of Interests | Number of SSUs Held | Total | Approximate % of Issued SSUs |
|---|---|---|---|---|---|
| Fok Kin Ning, Canning | Interest of controlled corporation | Corporate | 2,000,000 | 2,000,000 | 0.02% |

Save as disclosed above, as at 30 June 2014, 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.

## Interests and Short Positions of Holders of Share Stapled Units

As at 30 June 2014, 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 of HKEI

| Name | Capacity | Number of SSUs Held | Approximate % of Issued SSUs |
|---|---|---|---|
| Power Assets Holdings Limited | Interest of controlled corporation | 4,409,300,000 *(Note 1)* | 49.90% |
| Hyford Limited | Interest of controlled corporations | 4,707,370,218 *(Notes 1 and 2)* | 53.27% |
| Cheung Kong Infrastructure (BVI) Limited | Interest of controlled corporations | 4,707,370,218 *(Note 2)* | 53.27% |
| Cheung Kong Infrastructure Holdings Limited | Interest of controlled corporations | 4,707,370,218 *(Note 2)* | 53.27% |
| Hutchison Infrastructure Holdings Limited | Interest of controlled corporations | 4,707,370,218 *(Note 3)* | 53.27% |
| Hutchison International Limited | Interest of controlled corporations | 4,707,370,218 *(Note 3)* | 53.27% |
| Hutchison Whampoa Limited | Interest of controlled corporations | 4,707,370,218 *(Note 3)* | 53.27% |
| Cheung Kong (Holdings) Limited | Interest of controlled corporations | 4,707,370,218 *(Note 4)* | 53.27% |

| Name | Capacity | Number of SSUs Held | Approximate % of Issued SSUs |
|---|---|---|---|
| Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust | Trustee | 4,707,370,218 *(Note 5)* | 53.27% |
| Li Ka-Shing Unity Trustee Corporation Limited as trustee of The Li Ka-Shing Unity Discretionary Trust | Trustee & beneficiary of a trust | 4,707,370,218 *(Note 6)* | 53.27% |
| Li Ka-Shing Unity Trustcorp Limited as trustee of another discretionary trust | Trustee & beneficiary of a trust | 4,707,370,218 *(Note 6)* | 53.27% |
| Li Ka-shing | Founder of discretionary trusts & interest of controlled corporations | 4,715,240,218 *(Notes 6 and 7)* | 53.36% |

## Other Persons

### Long Positions in Share Stapled Units of HKEI

| Name | Capacity | Number of SSUs Held | Approximate % of Issued SSUs |
|---|---|---|---|
| 國家電網公司 | Interest of controlled corporation | 1,767,240,000 *(Note 8)* | 20.00% |
| 國網國際發展有限公司 | Interest of controlled corporation | 1,767,240,000 *(Note 8)* | 20.00% |
| State Grid International Development Limited | Beneficial owner | 1,767,240,000 *(Note 8)* | 20.00% |

*Notes:*

*(1) Hyford Limited ("Hyford") is deemed to be interested in 4,707,370,218 SSUs which interests are duplicated in the 4,409,300,000 SSUs in which Power Assets is interested, as Hyford 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 4,707,370,218 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 4,707,370,218 SSUs as referred to in Note (2) above as it holds more than one-third of the issued share capital 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) Cheung Kong (Holdings) Limited ("CKH") is deemed to be interested in the 4,707,370,218 SSUs as referred to in Note (3) above as certain subsidiaries of CKH hold more than one-third of the issued share capital of HWL.*

(5) *Li Ka-Shing Unity Trustee Company Limited ("TUT1") as trustee of The Li Ka-Shing Unity Trust ("UT1") is deemed to be interested in those SSUs described in Note (4) above as TUT1 as trustee of UT1 and its related companies in which TUT1 as trustee of UT1 is entitled to exercise or control the exercise of one-third or more of the voting power at their general meetings hold more than one-third of the issued share capital of CKH.*

(6) *By virtue of the SFO, each of Mr. Li Ka-shing, being the settlor and may being regarded as a founder of each of The Li Ka-Shing Unity Discretionary Trust ("DT1") and another discretionary trust ("DT2") for the purpose of the SFO, Li Ka-Shing Unity Trustee Corporation Limited ("TDT1") as trustee of DT1 and Li Ka-Shing Unity Trustcorp Limited ("TDT2") as trustee of DT2 is deemed to be interested in the same block of SSUs TUT1 as trustee of UT1 is deemed to be interested in as referred to in Note (5) above as all issued and outstanding units in UT1 are held by TDT1 as trustee of DT1 and by TDT2 as trustee of DT2. More than one-third of the issued share capital of TUT1 and of the trustees of the said discretionary trusts are owned by Li Ka-Shing Unity Holdings Limited ("Unity Holdco"). Mr. Li Ka-shing owns one-third of the issued share capital of Unity Holdco.*

(7) *Li Ka Shing Foundation Limited ("LKSF") and a wholly-owned subsidiary of Li Ka Shing (Overseas) Foundation ("LKSOF") hold a total of 7,870,000 SSUs. By virtue of the terms of the constituent documents of LKSF and LKSOF, Mr. Li Ka-shing 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 and LKSOF respectively.*

(8) *State Grid International Development Limited ("SGIDL") is a direct wholly-owned subsidiary of 國網國際發展有限公司 ("國網") and an indirect wholly-owned subsidiary of 國家電網公司 ("國家電網"), and the interests of SGIDL and 國網 of 1,767,240,000 SSUs each are duplicated in the 1,767,240,000 SSUs held by 國家電網.*

Save as disclosed above, as at 30 June 2014, 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.

# OTHER INFORMATION

## Interim Distribution

The Trustee-Manager Board has declared an interim distribution by the Trust for 2014 of HK16.53 cents per Share Stapled Unit. The distribution will be payable on 15 August 2014 to Holders of Share Stapled Units whose names appear in the Share Stapled Units Register at the close of business on Wednesday, 6 August 2014, being the record date for determination of entitlement to the interim distribution. To qualify for the interim distribution, all transfers accompanied by the relevant Share Stapled Unit certificates should be lodged with the Share Stapled Units Registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Wednesday, 6 August 2014.

## Purchase, Sale or Redemption of Share Stapled Units

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

None of the Trust, the Trustee-Manager, the Company nor any of their subsidiaries purchased, sold or redeemed any of issued Share Stapled Units during the period from the Listing Date to 30 June 2014.

# GLOSSARY

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

| Term(s) | Definition |
|---|---|
| "Boards" or "Boards of Directors" | Trustee-Manager Board and Company Board |
| "CKI" | Cheung Kong Infrastructure Holdings Limited, a company incorporated in Bermuda with limited liability, which shares 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 |
| "Group" | The Company and its subsidiaries |
| "HK Electric" | The Hongkong Electric Company, Limited (香港電燈有限公司), a company incorporated in Hong Kong with limited liability on 24 January 1889 and an indirect wholly-owned subsidiary of the Company |
| "HKEI" | The Trust and the Company |

| Term(s) | Definition |
|---|---|
| "HKEx" | Hong Kong Exchanges and Clearing Limited |
| "HKFRSs" | A collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants |
| "Holder(s) of Share Stapled Units" | Person(s) who hold Share Stapled Units issued by HKEI |
| "Listing Date" | 29 January 2014, being the date of listing of Share Stapled Units jointly issued by the Trust and the Company on the Main Board of the Stock Exchange |
| "Listing Rules" | Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time |
| "Model Code" | Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules |
| "Power Assets" | Power Assets Holdings Limited, a company incorporated in Hong Kong with limited liability, which shares are listed on the Main Board of the Stock Exchange (stock code: 6) |
| "SFO" | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time |

| Term(s) | Definition |
|---|---|
| "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:<br><br>(a) a unit in the Trust;<br><br>(b) the beneficial interest in a specifically identified ordinary share linked to the unit and held by the Trustee-Manager as legal owner (in its capacity as trustee-manager of the Trust); and<br><br>(c) a specifically identified preference share of the Company stapled to the unit. |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Trust" | HK Electric Investments (港燈電力投資), as constituted pursuant to the Trust Deed under the laws of Hong Kong |
| "Trust Deed" | The trust deed dated 1 January 2014 constituting the Trust, entered into between the Trustee-Manager and the Company |
| "Trust Group" | The Trust and the Group |

# GLOSSARY *(Continued)*

| Term(s) | Definition |
|---|---|
| "Trustee-Manager" | HK Electric Investments Manager Limited (港燈電力投資管理人有限公司), a company incorporated in Hong Kong with limited liability on 25 September 2013 and an indirect wholly-owned subsidiary of Power Assets, in its capacity as trustee-manager of the Trust |
| "Trustee-Manager Audit Committee" | Audit committee of the Trustee-Manager |
| "Trustee-Manager Board" | Board of directors of the Trustee-Manager |